ACN 008 101 979

Valence Industries Limited
(previously Strategic Graphite Limited)
Interim Financial Statements

for the half-year ended 31 December 2014
to be read in conjunction with the 30 June 2014 Annual Report

Competent Persons Statement
Valence Industries confirms that it is not aware of any new information or data that materially affects the information included in this half year report and that all material assumptions and technical parameters underpinning the estimates in this half year report continue to apply and have not materially changed since the announcements previously released as “Valence Doubles Existing ROM Stockpiles” (6/8/14), “Uley Graphite Grade Increases to 11.7%” (17/11/14), “Maiden High Grade Graphite Ore Reserve” (17/12/2014) and “VXL Feasibility Study Expansion and Adv Manufacturing” (2/1/15).

Contents

This Interim Report covers Valence Industries Limited ("Valence" or the "Company") as a Group consisting of Valence Industries Limited and its subsidiaries, collectively referred to as the "Group". The financial report is presented in the Australian currency.

Valence is a company limited by shares, incorporated and domiciled in Australia.

Registered Office	Level 1, 67 Greenhill Road Wayville SA 5034
Principal place of Business	Ground Floor, 60 Hindmarsh Square Adelaide SA 5000
Website	www.valenceindustries.com

Directors' Report

The Directors of Valence Industries Limited present their Report together with the financial statements of the consolidated entity, being Valence Industries ("Valence" or "the Company") and its controlled entities ("the Group") for the half year ended 31 December 2014 and the Independent Review Report thereon.

DIRECTORS

The following persons were directors of Valence during the period.

- Graham Spurling - Chairman
- Christopher Darby - Managing Director & CEO
- Glenister Lamont - Non-executive Director
- Ian Schache - Non-executive Director
- Ian Pattison - Non-executive Director (appointed 10 December 2014)

Company Secretary
- Jaroslaw Kopias

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The half year to 31 December 2014 has been a significant period for Valence Industries. The Company has become Australia's only graphite production company having achieved a number of critical milestones including release of a maiden Ore Reserve, government permits for operations, commencement of stockpile processing at the Uley Graphite™ mine and delivery of a Feasibility Study for a significant expansion of the Company's graphite product manufacturing in South Australia. There were no lost time injuries at the Uley Graphite™ operations through the Phase I refurbishment and pre-commissioning phases.

The comparative period to 31 December 2013 was prior to the listing of Valence on ASX. The Group has seen a significant increase in activity as noted below and reflected in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Uley Operations

Opening of Uley Graphite™ Mine and Commissioning of Phase I Plant
The Uley Graphite™ mine was formally opened on 25 November 2014 and has received strong community and government support.

Commissioning and initial production using pre-processed fines stockpiles commenced on 25 December 2014 after the Company received regulatory approvals from the South Australian government. New laboratory facilities were also commissioned to allow the Company to meet operational and customer requirements for quality certification. Full commissioning of the Uley Phase I plant is scheduled to be completed by the September quarter 2015 with first export shipments also scheduled for this period.

Maiden high grade Ore Reserve delivered
During the half year the Company delivered its maiden graphite Ore Reserve at the Uley Graphite™ site of 2,035,000 tonnes at an average grade of 12.9% gC (graphitic Carbon), for 261,000 contained tonnes of graphite. The in-situ average resource grade significantly increased over previously reported figures. This is attributable, in part, to the very high grade Arterial Flake™ graphite contained in the pegmatitic intrusions as announced on 9 October 2014.

In August 2014 the Company announced that it had increased the Mineral Resource of stockpiled material from 74,000 tonnes to 174,000 tonnes at an average grade of 6.23% graphitic carbon for 10,800 contained tonnes of graphite.

Further drilling aiming to upgrade Uley resources and reserves also commenced during the period at the Uley Pit 2 Extension.

Feasibility Study for expanded operations delivered
On 31 December 2014 Valence Industries delivered its Feasibility Study for expansion of existing operations and for further advanced product handling and manufacturing treatment of its flake graphite products, with a summary released to the ASX on 2 January 2015. The Feasibility Study defined an advanced manufacturing program with two key aspects: the expansion of flake graphite concentrate production at the Uley Graphite™ site, and an advanced product manufacturing and high purity and

micronisation facility to be established at the port of Adelaide (Phase III), with total graphite production expected to reach 64,000 tonnes per annum.

Safety & Environment
Valence Industries received approval for its Program for Environment Protection and Rehabilitation (**PEPR**) on 23 December 2014 allowing commissioning to commence. The Company also achieved an excellent safety record with no lost time injury at its Uley Graphite™ operations.

Our People
In the half year Valence Industries ramped-up its recruitment of personnel required for our operations. This incurred significant cost ahead of grant of approvals for production. The Company now has a qualified team of site operations personnel who live on the Eyre Peninsula within commuting distance from the Uley plant.

Valence Industries' commitment to Port Lincoln and the Eyre Peninsula has also extended to engagement with a significant number of local and regional contractors.

Our Customers
Valence Industries has increased customer commitments across a range of industries and regions in line with the commencement of operations at the Uley Graphite™ mine.

Product qualification in the graphite market is an essential precursor to the confirmation of larger scale product supply contracts. The process of qualification has involved shipment of samples to 15 new customers engaged in a range of industries from refractories to advanced engineering. As production rates are progressively increased the qualification program is structured to lead to new sales contracts in addition to conversion of MOUs that contemplate more than 80,000 tonnes of graphite sales over 3 years.

Valence Industries has a market development strategy involving active engagement with European, Asia Pacific and North American customers and multiple industries. This global reach and industry diversity is designed to achieve optimum prices for the high quality flake graphite produced by Valence Industries and to manage the Company's exposure to any particular market segment or region.

The Company has customer orders for scheduled delivery of 8,000 tonnes, equivalent to the full first year of production from the current plant, as production volumes are increased progressively to the 14,000 tpa name plate capacity of the current plant by third quarter calendar 2015. First shipments to customers are expected to occur in the first quarter of calendar 2015.

Finance and Corporate
The net loss for the Group, from the six months to 31 December 2014, was $3,733,272 (2013: $1,786,880) after providing for income tax – an increase of $1,946,392 to the corresponding period.

The key contributor to the increased loss for the year was an overall increase in activities and commencement of works in readiness for production. Recruitment and pre-commissioning ahead of permitting incurred expenses of over $1.0M. During the prior period to December 2013 the Company had limited operations as preparations were made for the Initial Public Offering (IPO) on 6 January 2014.

Valence Industries had $8.3 million cash on hand as at 31 December 2014, an increase of $1.5 million from 30 June 2014.

As part of the Company's obligations under the Uley Graphite™ PEPR approved on 23 December 2014, a rehabilitation bond of $1.709M was lodged. A term deposit held as security against that bond has been classified as restricted cash in the Consolidated Statement of Financial Position and therefore as a cash outflow.

Payment for plant and laboratory programs as part of the pre-commissioning, construction testing and installation of equipment, particularly in conjunction with the primary processing circuit, amounted to $4.4 million.

Completion of Placement and SPP
In September 2014 Valence Industries issued 17,142,844 shares to Institutional and sophisticated investors for a placement to raise $12.0 million (before costs) at an issue price of $0.70 per share (Placement).

A Share Purchase Plan was also offered to all eligible shareholders in Australia and New Zealand at a price of $0.70 per share (SPP). That SPP was designed to allow all shareholders to participate in new securities in Valence Industries on the same terms as the offer to applicants under the placement. The SPP closed on 31 October 2014 raising a further $687,500.

Project Finance
Valence Industries has received multiple term sheets for project finance for the proposed expansion of flake graphite production at the Uley Graphite™ site, and an advanced product manufacturing and high purity and micronisation facility to be established at the port of Adelaide, with total graphite production expected to reach 64,000 tonnes per annum.

Negotiations are progressing with multiple international parties, and Valence Industries expects to conclude the financing arrangements by April 2015. The finance facilities are expected to also provide for working capital requirements over the 2015-2016 construction & commissioning periods.

Appointment of Director
The Company appointed Ian Pattison as a Director on 10 December 2014. Mr Pattison is a solicitor and chartered accountant and has deep experience in capital markets and is a director of Chimaera Capital Limited.

Events arising since the end of the reporting period
On 2 January 2015 Valence Industries announced its Feasibility Study for expansion of its existing operations and for further advanced product handling and manufacturing treatment of its flake graphite products. The Feasibility Study defined an advanced manufacturing program with two key aspects: the expansion of base flake graphite concentrate production at the Uley Graphite™ site, and a combined advanced product manufacturing and handling and high purity and micronisation facility to be established at the port of Adelaide.

On 19 February 2015 shareholders approved the issue of 4.0 million unlisted options exercisable at $1.10 per share to the Managing Director with various performance conditions and a further 1.5 million unlisted options to non-executive directors at a General Meeting of the Company.

In the opinion of the Directors there are no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 4 of this financial report and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

Christopher Darby

Managing Director and CEO
13 March 2015

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF VALENCE INDUSTRIES LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Valence Industries Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 13 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2014

	Notes	31 December 2014 $	31 December 2013 $
Other income		4,989	-
Corporate expenses	2	(1,968,211)	(1,030,225)
Commercialisation expenses	2	(618,918)	-
Pre-commissioning expenses	2	(1,004,726)	-
Total operating loss		**(3,586,866)**	**(1,030,225)**
Interest revenue		151,611	-
Interest expense		(818)	(11,986)
Foreign exchange loss		(18,679)	-
Capital raising costs		-	(392,411)
Net financing income		**132,114**	**(404,397)**
Loss before tax		(3,454,752)	(1,434,622)
Income tax expense		(278,620)	(352,258)
Loss for the reporting period attributable to owners of the parent entity		(3,733,272)	(1,786,880)
Other comprehensive income		-	-
Total comprehensive loss for the period attributable to owners of the parent entity		(3,733,272)	(1,786,880)
Loss per share from continuing operations			
Basic and diluted loss – cents per share	3	2.07	1.57

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position
As at 31 December 2014

	Notes	31 December 2014 $	30 June 2014 $
ASSETS			
Current assets			
Cash and cash equivalents		8,323,054	6,853,383
Trade and other receivables		759,916	291,962
Inventory		6,280	-
Total current assets		9,089,250	7,145,345
Non-current assets			
Term deposits (restricted cash)	4	1,708,776	-
Development expenditure	5	2,326,201	-
Exploration and evaluation expenditure	6	845,476	356,763
Plant and equipment	7	7,345,637	1,874,982
Total non-current assets		12,226,090	2,231,745
TOTAL ASSETS		21,315,340	9,377,090
LIABILITIES			
Current liabilities			
Trade and other payables		3,624,287	672,887
Employee provisions		61,508	1,878
Borrowings		20,606	20,606
Total current liabilities		3,706,401	695,371
Non-current Liabilities			
Borrowings		30,909	41,212
Provisions	8	535,575	-
Total non-current liabilities		566,484	41,212
TOTAL LIABILITIES		4,272,885	736,583
NET ASSETS		17,042,455	8,640,507
EQUITY			
Issued capital	9	26,033,944	13,898,624
Reserves		1,096,180	1,096,180
Accumulated losses		(10,087,669)	(6,354,297)
TOTAL EQUITY		17,042,455	8,640,507

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity
For the half year ended 31 December 2014

	Share capital $	Option / Rights reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2014	**13,898,624**	**1,096,180**	**(6,354,297)**	**8,640,507**
Issue of shares	12,687,522	-	-	12,687,522
Issue of shares upon exercise of options	97,899	-	-	97,899
Issue costs (net of tax)	(650,101)	-	-	(650,101)
Transactions with owners	12,135,320	-	-	12,135,320
Comprehensive income:				
Total loss for the reporting period	-	-	(3,733,372)	(3,733,372)
Total other comprehensive income for the reporting period	-	-	-	-
Balance 31 December 2014	**26,033,944**	**1,096,180**	**(10,087,669)**	**17,042,455**

	Share capital $	Option / Rights reserve $	Accumulated Losses $	Total equity $
Balance at 1 July 2013	**3,228,050**	**-**	**(3,392,368)**	**(164,318)**
Issue of shares	6,983,272	-	-	6,983,272
Fair value of options issued	-	766,180	-	766,180
Fair value of performance rights issued	-	453,750	-	453,750
Transactions with owners	6,983,272	1,219,930	-	8,203,202
Comprehensive income:				
Total loss for the reporting period	-	-	(1,786,880)	(1,786,880)
Total other comprehensive income for the reporting period	-	-	-	-
Balance 31 December 2013	**10,211,322**	**1,219,930**	**(5,179,248)**	**6,252,004**

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows
For the half year ended 31 December 2014

	31 December 2014 $	31 December 2013 $
Operating activities		
Payments to suppliers and employees	(3,121,683)	(294,439)
Interest paid	(818)	(11,986)
Interest received	180,830	-
Net cash used in operating activities	(2,941,671)	(306,425)
Investing activities		
Payments for plant and equipment	(4,449,234)	-
Payments for capitalised exploration expenditure	(115,273)	(21,339)
Payments for capitalised development expenditure	(1,161,773)	-
Investment in restricted term deposits	(1,708,776)	-
Net cash used in investing activities	(7,435,056)	(21,339)
Financing activities		
Proceeds from issue of share capital	12,785,421	7,734,735
Capital raising costs	(928,720)	(548,600)
Drawdown of Loan	-	69,770
Repayment of Loan	(10,303)	(352,150)
Net cash from financing activities	11,846,398	6,903,755
Net change in cash and cash equivalents	1,469,671	6,575,991
Cash and cash equivalents, beginning of reporting period	6,853,383	5,029
Cash and cash equivalents, end of period	8,323,054	6,581,020

This statement should be read in conjunction with the notes to the financial statements.

Notes to the financial statements
For the period ended 31 December 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Nature of operations

Valence Industries' principal activity is the manufacture of high grade flake graphite products and the mining of and exploration for graphite deposits in South Australia.

b) General information and basis of preparation

The interim consolidated financial statements (the interim financial statements) of the Group are for the six months ended 31 December 2014 and are presented in Australian dollars($), which is the functional currency of the Group. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 *Interim Financial Reporting.* They do not include all of the information required in annual financial statements in accordance with AIFRS, and should be read in conjunction with the financial statements of the Group for the year ended 30 June 2014 and any public announcements made by the Group during the half-year in accordance with the continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the board of directors on 13 March 2015.

c) Significant accounting Policies

The significant accounting policies that have been used in the preparation of these interim financial statements are summarised below.

The interim financial statements have been prepared using the measurement bases specified by the Australian Accounting Standards for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2014, except for the application of the following standards as of 1 July 2014:

AASB 1031: Materiality
AASB 1055: Budgetary Reporting
AASB 2013-1, Amendments to AASB 1049 – Relocation of Budgetary Reporting Requirements
AASB 2013-4, Novation of Derivatives and Continuation of Hedge Accounting
AASB 2013-5, Investment Entities
AASB 2013-9, Conceptual Framework, Materiality and Financial Instruments
AASB 2014-2, Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements

AASB 2014-1, Amendments to Australian Accounting Standards Part A, B and C
These standards make changes to a number of existing Australian Accounting Standards and are not expected to result in a material change to the manner in which the Group's financial result is determined or upon the extent of disclosures included in future financial reports.

Management has reviewed the new requirements of the above standards and has concluded that there is no effect on the classification or presentation of balances.

d) Change in Presentation

During the interim period, management have changed the presentation of the profit and loss within the Consolidated Statement of Profit or Loss and Other Comprehensive Income from a Nature of Expenses to the Function of Expenses within the entity. This has been undertaken based on management's assessment that this format provides information that is reliable and more relevant for when the consolidated entity commences production.

As required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial period.

e) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends of economic data, obtained both externally and within the Group.

i) Key estimates

Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Decommissioning provision

Estimates and assumptions of the appropriate discount rate at which to discount the liability, the timing of cash flows, the application of relevant environmental legislation and the future expected costs of decommissioning are all used in determining the carrying value of the decommissioning provision. The carrying amount of the provision is set out in note 8.

ii) Key judgements – exploration and evaluation expenditure

Exploration and evaluation costs have been capitalised on the basis that the consolidated entity will commence commercial production from any newly discovered deposits in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources.

Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest.

Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

2. EXPENSES

December 2014	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	622,966	240,322	500,138	1,363,426
Depreciation	28,232	-	-	28,232
Advanced products research	-	128,769	-	128,769
Other	1,317,013	249,827	504,588	2,071,428
Total	1,968,211	618,918	1,004,726	3,591,855

December 2013	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	845,731	-	-	845,731
Depreciation	1,791	-	-	1,791
Other	182,703	-	-	182,703
Total	1,030,225	-	-	1,030,225

Commercialisation expenses include sales and marketing and other expenses directed towards the development of value-added products and associated markets. Pre-commissioning expenses include costs of establishing operational readiness at Uley and pre-production testing of the Phase I plant.

3. EARNINGS PER SHARE

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	6 months to December 2014	6 months to December 2013
Weighted average number of shares used in basic earnings per share	180,022,461	113,700,589
Loss per share (cents)	2.07	1.57

In accordance with AASB 133 'Earnings per Share', there are no dilutive securities. The comparative loss per share has been restated from 0.89 cents to 1.54 cents to reflect a share consolidation completed on 19 November 2013.

4. TERM DEPOSITS (RESTRICTED CASH)

	31 December 2014 $	30 June 2014 $
Opening balance	-	-
Rehabilitation bond – MLs 5561 & 5562	1,708,776	-
Closing balance	1,708,776	-

Pursuant to the Company's obligations under the Uley Graphite™ Program for Environment Protection and Rehabilitation (PEPR) approved on 23 December 2014 a rehabilitation bond of $1.709M was lodged. A term deposit is held as security against the bond.

5. DEVELOPMENT EXPENDITURE

	31 December 2014 $	30 June 2014 $
Opening balance	-	-
Ore Reserve and Resource definition	1,374,356	-
Decommissioning asset	535,575	-
Other development expenditure	416,270	-
Closing balance	2,326,201	-

6. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2014 $	30 June 2014 $
Opening balance	356,763	192,129
Expenditure on exploration during the period	488,713	164,634
Closing balance	845,476	356,763

7. PLANT AND EQUIPMENT

December 2014	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office / IT equipment $	Software $	Intangible $	Total $
Gross carrying amount							
Opening balance	146,623	1,675,027	91,649	9,242	51,000	-	1,973,541
Additions	227,880	5,065,736	104,602	78,102	20,717	1,850	5,498,887
Balance 31 December 2014	374,503	6,740,763	196,251	87,344	71,717	1,850	7,472,428
Depreciation and impairment							
Opening balance	(73,904)	-	(11,130)	(4,373)	(9,152)	-	(98,559)
Depreciation	(3,595)	-	(8,996)	(4,635)	(11,006)	-	(28,232)
Balance 31 December 2014	(77,499)	-	(20,126)	(9,008)	(20,158)	-	(126,791)
Carrying amount 31 December 2014	297,004	6,740,763	176,125	78,336	51,559	1,850	7,345,637

June 2014	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office / IT equipment $	Software $	Total $
Gross carrying amount						
Opening balance	72,802	-	9,219	3,697	-	85,718
Additions	73,821	1,675,027	82,430	5,545	51,000	1,887,823
Balance 30 June 2014	146,623	1,675,027	91,649	9,242	51,000	1,973,541
Depreciation and impairment						
Opening balance	(69,374)	-	(9,219)	(3,697)	-	(82,290)
Depreciation	(4,530)	-	(1,911)	(676)	(9,152)	(16,269)
Balance 30 June 2014	(73,904)	-	(11,130)	(4,373)	(9,152)	(98,559)
Carrying amount 30 June 2014	72,719	1,675,027	80,519	4,869	41,848	1,874,982

8. PROVISIONS

Decommissioning provision – non-current

	31 December 2014 $	30 June 2014 $
Opening balance	-	-
Present value of expected future decommissioning costs	535,575	-
Closing balance	535,575	-

The provision represents the present value of estimated future decommissioning costs of the Uley Graphite™ site which at the reporting date was restricted to removal of the Phase I processing plant and associated infrastructure.

9. ISSUED CAPITAL

	Number of shares	31 December 2014 $
(a) Issued and paid up capital		
Fully paid ordinary shares	186,681,979	26,033,006

(b) Movements in fully paid shares	Number	$
Opening balance as 30 June 2014	168,165,350	13,898,624
Placement – September 2014	17,142,844	11,999,992
Share Purchase Plan – November 2014	982,187	687,530
Issue of shares upon exercise of options	391,598	97,899
Capital raising costs (net of tax)	-	(651,101)
Balance as 31 December 2014	186,681,979	26,032,944

10. OPERATING SEGMENTS

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources have concluded that at this time there are no separately identifiable segments.

11. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last reporting date.

12. RELATED PARTIES

Other than disclosed below, arrangements with related parties continue to be in place and are consistent with those disclosed in the Group's Annual Report for the year ended 30 June 2014.

In accordance with his existing terms of appointment the remuneration for Mr Darby as Managing Director & CEO was set at $350,000 per annum (inclusive of superannuation) with effect from 1 October 2014.

Logmaor Services Pty Ltd, a business of which Glenister Lamont is a Director was paid consulting fees during the period totalling $8,250. Services provided by this entity relate to technical services provided by Mr Lamont. The total amount of fees due to Logmaor Services Pty Ltd as at 31 December 2014 was $8,250.

13. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

On 2 January 2015 Valence Industries announced its Feasibility Study for expansion of its existing operations and for further advanced product handling and manufacturing treatment of its flake graphite products. The Feasibility Study defined an advanced manufacturing program with two key aspects: the expansion of base flake graphite concentrate production at the Uley Graphite™ site, and a combined advanced product manufacturing and handling and high purity and micronisation facility to be established at the port of Adelaide.

On 19 February 2015 shareholders approved the issue of 4.0 million unlisted options exercisable at $1.10 per share to the Managing Director with various performance conditions and a further 1.5 million unlisted options to non-executive directors at a General Meeting of the Company.

In the opinion of the Directors there are no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

14. GOING CONCERN BASIS OF ACCOUNTING

The interim financial statements have been prepared on the basis of a going concern. During the six months ended 31 December 2014 the consolidated group recorded a net cash outflow from operating and investing activities of $10,376,727 and an incurred an operating loss of $3,733,272.

The forward looking cash projections highlight that the consolidated entity is reliant on the completion of further capital raisings and/or the raising of alternate finance for continued operations including exploration and further development of the Uley project, as well as working capital. The Directors believe the consolidated group will be able to successfully source additional capital to meet its cash needs.

If additional financial resources are not obtained, the going concern basis may not be appropriate, with the result that the consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the interim financial report. No allowance for such circumstances has been made in the interim financial report.

Directors' Declaration

In the opinion of the Directors of Valence Industries Limited:

a) the financial statements and notes of Valence Industries Limited are in accordance with the *Corporations Act 2001,* including:

   i. giving a true and fair view of its financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

   ii. complying with Accounting Standard 134 Interim Financial Reporting and the *Corporations Regulations 2001*; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts when they become due and payable.

Signed in accordance with a resolution of the Directors:

Christopher Darby
Managing Director and CEO

Adelaide
13 March 2015

Grant Thornton

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF VALENCE INDUSTRIES LIMITED

We have reviewed the accompanying half-year financial report of Valence Industries Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of Valence Industries Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Valence Industries Limited financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

As the auditor of Valence Industries Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Valence Industries Limited is not in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding going concern

Without qualification to the conclusion expressed above, we draw attention to Note 14 to the interim financial statements. We note the interim financial statements indicate a net loss of $3,733,272 was incurred during the half year ended 31 December 2014 and the consolidated entity generated a net cash outflow of $10,376,727 from operating and investing activities. These conditions, along with other matters identified in Note 14, indicate the existence of a significant uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

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GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 13 March 2015