7 MAY 2015 **ASX: VXL & VXLO**

AUSTRALIAN SECURITIES EXCHANGE ANNOUNCEMENT & MEDIA RELEASE

PRODUCTION EXPANSION & ADVANCED MANUFACTURING STRATEGY

- Valence Industries to increase production capacity and accelerate production of high-margin advanced graphite products.
- Debt and Equity finance facilities underpin existing operations and expansion program.
  - Heads of Agreement signed with debt financiers for US$75M.
  - Share Placement completed for AU$2.1M with a renounceable Rights Issue to raise up to AU$9.4M.
- Key developments to commence over the next 9 months include:
  - Establishing new high grade graphite open pit mine (Uley Pit 2)
  - Increase graphite process capacity in 2 stages to 64,000 tonnes p.a. at Uley Graphite™ site
  - Ongoing upgrades to mineral resource
  - Establishing new Materials Handling Facility in Port Adelaide
  - Establishing new Advanced Manufacturing Facility in Adelaide

---

1. Finance Facilities

Valence Industries Limited ('Valence Industries') announced on 1 May 2015 that it has secured US$75m (A$94m) in debt finance facilities for its expansion programs. The syndicated debt finance facilities are to be provided under a binding Heads of Agreement with Chimaera Capital Management, Singapore ('Chimaera'). The terms of the debt facility provide for early drawdown of up to US$20m under an initial facility which will be repaid when the full facility is drawn.

The debt facilities envisage a series of drawdowns which, in combination with the funds from the placement and rights issue, allow the Company to undertake capital expenditure for its expansion plans, meet working capital obligations and service associated interest and financing costs. Details of the debt facilities are set out in section 5 below.

The Company's working capital will be supplemented by the equity raising announced today comprising a placement to institutional and sophisticated investors to raise A$2.1m ('Placement') and a renounceable pro rata entitlement issue to raise up to A$9.4m ('Rights Issue'). The placement and rights issue shares will be issued at A$0.29 per share, and investors in the placement and the rights issue will receive free attaching options on a 1 for 2 basis in the same class as the ASX listed VXLO options (exercisable at $0.25 on or before 31 July 2016). Further details of the capital raising are set out in section 4 below. Patersons Securities Limited is Lead Manager to the Placement and Rights Issue.

> Valence Industries CEO and Managing Director, Christopher Darby, said "*The finance facilities will support the company's plans to become a significant graphite manufacturer and will allow the company to accelerate its plans to commence production of higher value high purity graphite products. We will continue to develop and leverage our advanced manufacturing capability to deliver shareholder value by reliable supply of high quality graphite products to our sophisticated global customer base.*"

2. Production and Expansion Program

Valence Industries announced in January 2015 the expansion program confirmed in its Feasibility Study, consisting of the following key elements:

2.1 **Resource Upgrade:** finalisation of the 2015 drilling and metallurgy programs with corresponding resource upgrades for Uley Pit 2 and the extensions to Uley Pit 2;

2.2 **New Open Pit:** new mining from Uley Pit 2 at the Uley Graphite™ site including increasing tailings and water reclamation facilities;

2.3 **Processing Operations:** completion of commissioning of the existing 14,000 tpa graphite plant at the Uley Graphite™ site and then expansion in capacity to 39,000 tpa initially and then to 64,000 tpa;

2.4 **Materials Handling:** development of a sophisticated materials handling and blending facility in Adelaide to meet market demand for higher specification traditional graphite products; and

2.5 **Advanced Manufacturing:** development of advanced manufacturing facilities in Adelaide for reprocessing, refining and resizing graphite into higher-margin graphite products.

A planned review by Valence Industries following the first three months of operations at the Uley Graphite™ site identified several areas for immediate processing improvements. These include construction of expanded tailings management facilities to service both the current and proposed plants, scalable process water return systems and minor plant works. These works are scheduled for completion by mid June 2015 at a capital cost of $2.2 million. Production quality from the existing plant continues to meet or exceed expectations with high volumes of large flake graphite (+80 mesh and above) and a low proportion of smaller flake sizes and fines. Completion of the commissioning of the existing 14,000 tpa plant remains scheduled for full capacity operations in Q3 CY 2015.

Resource improvement continues with the announcement of a 50% resource upgrade on 5 May 2015. The transition of that mineral resource to an Ore Reserve is due in May 2015. Analysis of the remaining 52% of recent drill results and further drilling on extensions to Uley Pit 2 are ongoing. The drilling, metallurgy and associated resource upgrades are underway and are expected to be completed and announced progressively by September 2015 at a capital cost of $1.6 million.

New mining from Uley Pit 2 is set to commence Q4 CY 2015 to provide higher-grade ore on completion of processing of existing run of mine stockpiles.

The capital cost budget of A$50M for the expansion program as set out in the December 2014 Feasibility Study remains valid and the new finance facilities will increase this to match the increased volumes from the Advanced Manufacturing plant discussed in more detail in Section 3 below. The finance facilities outlined above will also provide for working capital and debt servicing costs during the construction and ramp up phase of the expansion program.

3. Increased Volumes in Higher Margin Graphite Products

Based on market analysis of future graphite demand, and extensive feedback from the Company's customer engagement program, Valence Industries has refined its production and sales strategy to target significantly higher production of higher value refined and reprocessed graphite products.

The production split between standard and refined graphite products has been changed from the 95/5 split contemplated in the December 2014 Feasibility Study to a 60/40 split. The advanced manufacturing process is designed to deliver higher value products via additional processing and treatment, including purification and micronisation, at the planned Adelaide facilities.

The projected revenues associated with the 95/5 production split assumed in the Feasibility Study are summarised in Table 1 (*below*).

Table 1: FEASIBILITY STUDY BASELINE PRODUCTION SPLIT 95/5						
	39,000 tonnes per annum			64,000 tonnes per annum		
Advanced Manufacturing Graphite Production (Phase III)	5%	~2,000 tpa	US$3,819 p/t	5%	~3,200 tpa	US$3,819 p/t
Standard Processing Graphite Production (Phase II)	95%	~37,000 tpa	US$1,335 p/t	95%	~60,800 tpa	US$1,335 p/t
Average Sales Price[1]		~39,000 tpa	AU$1,824 p/t		~64,000 tpa	AU$1,824 p/t
Average Margin per Tonne		~39,000 tpa	AU$1,047 p/t		~64,000 tpa	AU$1,047 p/t
Total Margin/EBIT p.a.[2]	**AU$40.8M**			**AU$67M**		

[1] USD : AUD 1:0.80
[2] 39,000 tpa x AU$1,123 = AU$43.8M & AU$1,123 x 64,000 tpa = AU$71.8M

The strategic shift towards higher value advanced manufacturing of graphite products will increase the average margin per tonne and the rate of project payback with low technological risk. This shift is consistent with the strategy contemplated in the Feasibility Study and is now being brought forward to deliver higher volumes of advanced manufacturing graphite production from as early as 2016.

Table 2: SHIFT IN PRODUCTION SPLIT from 95/5 to 60/40		
	Standard Processing Graphite Production (Phase III) % of total volume	**Advanced Manufacturing Graphite Production (Phase II) % of total volume**
Baseline Product Split	95%	5%
Current Product Split	60%	40%

The decision to shift production towards increasing volumes from the advanced manufacturing facilities is driven by a range of positive indicators, including:

- **Demand:** clear and broad customer demand for advanced graphite products with strong expressed preference to source those products from Valence Industries as a high quality and stable source of supply;
- **Earnings Impact:** the higher margin per tonne available on graphite products from the Advanced Manufacturing Facilities, consistent with Valence Industries' focus on value adding to each tonne of graphite it produces;
- **Growth Market:** the applications for graphite products from the Advanced Manufacturing Facilities are expanding rapidly and represent an exciting growth market for the Company;

- **Diversification:** the revised product split will facilitate further customer, industry and geographical diversification across a wider range of product lines, while maintaining a core level of production of high grade large flake (+80 mesh and above) in the standard graphite product categories.

The key elements of this strategic shift in production split towards increased volumes from the Advanced Manufacturing Facilities are summarised in Table 3 (*below*).

Table 3: REVISED PRODUCTION STRATEGY **CURRENT PRODUCTION SPLIT 60/40**			
	39,000 tonnes per annum		
Advanced Manufacturing Graphite Production (Phase III)	40%	15,600 tpa	US$3,819 p/t
Standard Processing Graphite Production (Phase II)	60%	23,400 tpa	US$1,335 p/t
Average Sales Price[1]	100%	~39,000 tpa	AU$2,911 p/t
Margin per Tonne[2]	100%	~39,000 tpa	AU$1,941 p/t

[1] *USD : AUD 1:0.80*
[2] *Margin per tonne derived from Feasibility Study to be verified in detailed engineering and design program*

The expansion program is scheduled to deliver a total combined output capacity of 39,000 tpa commencing in 2016 with output tonnages from the Advanced Manufacturing Facilities increasing progressively to reach the 40% of total volumes over three years to 2019.

The decision regarding resource allocation between further increasing total graphite output volumes to 64,000tpa (currently scheduled for 2017–2018) relative to a further increase in output from the Advanced Manufacturing Facilities will be kept under review, based on market developments and customer preferences. The staged ramp up in production volumes is designed to maximise the company's return on equity.

Final engineering and designs for the new mining program and for the capacity increase to 39,000 tonnes at the Uley Graphite™ site are expected to be completed by September 2015 for construction commencing in late 2015. The design and approvals for the new Materials Handling Facilities and Advanced Manufacturing Facilities are scheduled for completion in December 2015 for construction in 2016.

1)	Further resource upgrade for Uley Pit 2 and Uley Pit 2 extension finalised	Q3 2015
2)	Uley Pit 2 mining program commences	Q4 2015
3)	Increased Processing Capacity to 39,000 tpa	2016
4)	New Materials Handling facilities operational	2016
5)	New Advanced Manufacturing production	2016 – 2019

Final engineering and design for the new mining program and for the capacity increase to 39,000 tonnes at the Uley Graphite™ site are expected to be completed for construction commencing in 2015 and for the new Materials Handling Facilities and Advanced Manufacturing Facilities for construction commencing in 2016.

The company's focus on high value advanced manufacturing also continues through Valence Industries' work with the Australian Graphene Research Centre, in conjunction with the University of Adelaide, with the aim of accelerating commercialisation of graphene - which is a potential revenue source in 2015.

4. Placement and Rights Issue

The Company has received firm commitments from institutional, professional and sophisticated investors for a Placement of 7,117,665 fully paid ordinary shares at an issue price of $0.29 per share to raise $2.1 million (**Placement**).

The issue price reflects a 19.7% discount to the Company's 5 day volume weighted average price immediately prior to announcement of the offer.

The Placement will be made to institutional, sophisticated and professional investors under the Company's 15% placement capacity under Listing Rule 7.1 and consequently shareholder approval is not required for the Placement.

Valence Industries is also undertaking a renounceable Rights Issue of one (1) new share for every six (6) shares held at an issue price of 29 cents per share. Valence Industries intends to seek underwriting support for the Rights Issue.

Subscribers to the Placement and the Rights Issue will also receive one (1) free attaching listed option for every two (2) shares subscribed, exercisable at 25 cents on or before 31 July 2016 (subject to the adjustment formula in Listing Rule 6.22).

The shares will rank equally with the Company's existing ordinary shares and the attaching listed options will rank equally with the Company's existing class of listed options.

Shareholders with an address in Australia or New Zealand on the Company's register on 18 May 2015 will be eligible to participate in the Rights Issue ('Eligible Shareholders').

Valence Industries' Directors reserve the right to place the remaining shortfall at their discretion within three months after the close of the offer. Valence Industries will endeavour to allocate shortfall first to shareholders and employees of the Company.

The funds raised from the Placement and Rights Issue will be applied towards:

- Completion of 2015 drilling, assay and metallurgy program
- Construction of scalable tailings facilities and process water return systems
- Completion of existing plant commissioning
- Preliminary engineering and design for production expansion
- Costs of the Placement, Rights Issue and First Debt Facility
- Working capital requirements

Eligible shareholders' entitlements pursuant to this Rights Issue are renounceable and accordingly, they may:

- take up their rights in full and apply for additional new shares.
- take up their rights in full or in part;
- purchase additional rights on ASX;
- sell all or part of their rights on ASX; or
- do nothing, in which case their rights will lapse.

The proposed timetable for the Rights Issue is as follows:

EVENT	DATE
Announcement of Rights Issue – announcement of Rights Issue	Thursday 7 May 2015
Lodgement of Prospectus – Prospectus lodged with ASIC and ASX and ASX Appendix 3B lodged with ASX	Thursday 7 May 2015
Notice to Shareholders – notice sent to Shareholders containing information required by Appendix 3B	Wednesday 13 May 2015
Ex date	Thursday 14 May 2015
Rights trading commences – the date on which Shares commence trading without the entitlement to participate in the Rights Issue and Rights trading commences	Thursday 14 May 2015
Record date – the date for determining entitlements of Shareholders to participate in the Rights Issue	7:00pm (AEST) Monday 18 May 2015
Prospectus sent to Shareholders – dispatch of Prospectus and Entitlement and Acceptance Forms – Rights Issue opens for acceptances	Thursday 21 May 2015
Last day of Rights trading	Thursday 4 June 2015
Securities quoted on a deferred settlement basis	Friday 5 June 2015
Last date to extend Closing Date	Tuesday 9 June 2015
Closing Date – The last day for receipt of acceptance forms	5:00pm (AEST) Friday 12 June 2015
Shortfall notification date	Wednesday 17 June 2015
Issued date – Allotment of New Shares. Deferred settlement trading ends	Friday 19 June 2015
Expected commencement of normal trading in New Shares (and New Options, if admitted to quotation) on ASX	Monday 22 June 2015

Valence Industries reserves the right to amend this timetable subject to the ASX Listing Rules.

Existing option holders will need to exercise their options and be a registered holder of shares at the close of business on 18 May 2015 ('Record Date') if they wish to participate in the Rights Issue.

Valence Industries has decided it is unreasonable to make the offer to shareholders who have a registered address in a country outside of Australia or New Zealand, having regard to the number of shareholders in such places, the number and value of the new shares they would be offered and the substantial costs of complying with the legal and regulatory requirements in those jurisdictions.

Full details of the Rights Issue will be set out in a Prospectus, which will be lodged by the Company with the Australian Securities and Investments Commission ("ASIC") and the Australian Securities Exchange ("ASX") today.

5. Debt Finance Facilities

The debt finance comprises two distinct packages able to be drawn down in tranches to match Valence Industries capital allocation program:

- First debt facility of $US20 Million (AU$25 Million) ('First Debt Facility');
- Second debt facility of $US75 Million (AU$94 Million) ('Second Debt Facility')) which will also repay the First Debt Facility.

The term of each of the debt facilities is currently set at 48 months, although consideration is being given by Valence Industries to extending that term to 60 months. The applicable interest rates for the Facilities will be subject to prevailing interest rates at the time of drawdown, although the Company expects that the total financing charges for the respective facilities are not expected to exceed:

- 20% p.a. on the First Debt Facility; and
- 12.5% p.a. on the Second Debt Facility.

Equity warrants will also be issued as part of the debt facilities. The issue of warrants may be subject to shareholder approval. A summary of important terms is set out in section 7 below.

The debt facilities are subject to conditions precedent that need to be satisfied or waived by the financiers. At this time the conditions precedent have not been met or waived. The conditions include conditions related to due diligence, execution of the formal documentation, the obtaining of all necessary shareholder and regulatory approvals, consents or waivers, no deterioration in market conditions or the financial position of the Company, completion of commissioning of the existing plant and the Company securing customer sales sufficient to repay each facility. Valence Industries expects to satisfy those conditions precedent by August 2015 (or earlier) and December 2015 respectively.

6. Application of Funds raised

The funds from the debt facilities, the Placement and Rights Issue will be applied to accelerate the Company's production expansion program and the shift to higher volumes of advanced graphite manufacturing including as required:

- Completion of 2015 drilling, assay and metallurgy program
- Construction of scalable tailings facilities and process water return systems
- Existing plant upgrades and commissioning capital
- Engineering and design for production expansion
- Commence mining from Uley Pit 2
- Debt service charges (interest and fees)
- Construction and commissioning of expanded processing & manufacturing facilities
- Costs and fees of placement, rights issue and debt
- General working capital requirements

7. Summary of Terms for Debt Facilities

Term	Description
Applicable interest Rate	The interest rates applicable on each of the facilities will be subject to the prevailing rates available in the debt capital markets at the time of closing under each stage of the facilities.
Early repayment	Yes, in full or in part. In amounts of at least US$5 million. If prepaid in first twelve months (of either facility) then make whole provisions will apply. Amounts prepaid will not be available for redrawing. For prepayment made on dates not falling on an interest payment date, the Borrower will compensate for any break cost incurred.
Fees	Facilities Lead Arranger Fee of 3.5%, a 1% Fee for Facility Administration (i.e., facility admin and management, security trustee etc.) and a 1.5% Advisory Fee.
Key Conditions Precedent	Conditions include conditions related to due diligence, execution of the formal documentation, the obtaining of all necessary shareholder and regulatory approvals, consents or waivers, no deterioration in market conditions or the financial position of the Company, completion of commissioning of the existing plant and the Company securing customer sales sufficient to repay each facility.
Market Flex	Applies
Nature of Facility	Principal Amortising Notes (PAN). Direct senior loans to Valence Industries.
Security	First ranking charges over all assets and normal security arrangements consistent with financing of this nature.
Warrant Exercise Date	48 months from the date of drawdown for each PAN facility
Warrant Strike Price	The strike price of the warrants shall be equal to a 10% discount to the VWAP price over the ten trading days immediately prior to 30 April 2015. (VWAP currently calculated to be 35.8 cents)
Warrants	These are options issued to the Syndicate members in an amount of 15% of the amounts drawn and calculated based on the strike price.

For further information, please contact:

Investor enquiries:

Christopher S. Darby
CEO & Managing Director
info@valenceindustries.com
+61 8 8215 6400

Media enquiries:

Rebecca Lawson
Media & Capital Partners
rebecca.lawson@mcpartners.com.au
+61 433 216 269

Forward Looking Statements

All statements other than statements of historical fact included in this announcement including, without limitation, statements regarding future plans and objectives of Valence Industries Limited (Valence Industries) are forward-looking statements. When used in this announcement, forward-looking statements can be identified by words such as 'may', 'could', 'believes', 'estimates', 'targets', 'expects' or 'intends' and other similar words that involve risks and uncertainties. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions regarding future events and actions that, as at the date of this announcement, are expected to take place. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the company, its directors and management of Valence Industries, that could cause Valence Industries' actual results to differ materially from the results expressed or anticipated in these statements.

Valence Industries cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements. Valence Industries does not undertake to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events or any other factors affect the information contained in this announcement, except where required by applicable law.

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 announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as "50% Increase in Uley Graphite Resource" (5/5/15).

Manufacturing Our Carbon Future ™

Strategic accelerated program for vertically integrated production and manufacturing of standard and advanced flake graphite products

Uley Pit 2: New Mining Program
New mining at Uley Pit 2 set for Q4 CY 2015. Mining is scheduled to provide high grade ore to coincide with completion of processing existing ROM stockpiles. Increased ore grade and resource size will deliver production efficiencies in existing and expanded mineral process plants.

- Mining 2015
- Ore Reserve
- High Grades
- Free Dig
- ML Granted
- PEPR Granted

Mineral Processing: Expanded Capacity
Progressive increase in processing capacity at the Uley Graphite™ site. The staged increase in production output is linked to the sales strategy and is designed to optimise return on equity. The expansion program delivers flexibility in production capacity and is staged over 4 years.

- 14,000tpa 2015
- 39,000tpa 2016
- 64,000tpa 17-18

Material Handling: Increased Specialisation
Specialist materials handling facility for blending, sizing, packaging, logistics and warehousing of standard and advanced graphite products. Provides value adding close to port of export with maximum agility to shift graphite product lines and respond rapidly to customer requirements.

- 14,000tpa 2015
- 39,000tpa 2016
- 64,000tpa 17-18

Advanced Manufacturing: Higher Value Products
Reprocessing, refining and resizing of standard graphite products to manufacture high value advanced graphite products. Enables Valence Industries to supply identified customer demand for advanced graphite applications. Customer feedback indicates valence Industries is seen as a high quality and reliable source of supply.

- 1,000tpa 16-17
- 5,500tpa 2018
- 15,600tpa 2019

VALENCE INDUSTRIES