



ASIA PACIFIC | EUROPE | NORTH AMERICA

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ASX: VXL & VXLO

AUSTRALIAN STOCK EXCHANGE ANNOUNCEMENT & MEDIA RELEASE

FINANCE UPDATE

- Modified expansion program reduces capital requirements
- Key debt due diligence milestones passed as process nears completion
- First draw down of up to US\$20m expected under Initial Facility

Valence Industries Limited (the 'Company' or 'Valence Industries') is pleased to provide an update on the Company's syndicated finance facilities and the associated expansion program.

Staged Expansion Program

The Company recently announced a revision to its planned expansion program for its Uley Graphite™ facilities (*ASX Announcement, 21 September 2015*). Pursuant to this plan, the Company intends to improve existing graphite processing at its Uley Graphite™ plant in South Australia with additional grinding and screening capacity.

These enhancements will generate an increased level of higher grade product output, reduced processing costs and will have the added benefit of accelerating, subject to finance, the increase in overall graphite output capacity from 14,000 tonnes per annum to a target in excess of 21,000 tpa. The required capex for these plant upgrades for a more than 50% increase in output capacity is modest and is not expected to exceed a current estimate of A\$7m subject to final design detail.

Based on the significant planned increase in capacity from the existing plant, Valence Industries has determined that the expansion program envisaged in its December 2014 Feasibility Study can be partly achieved, but with the benefits of substantial reductions in capital requirements, debt finance facilities and project risk and targeting a more rapid build up in production.

Syndicated Finance Facilities

As a result of the reduction in capex noted above, the Company intends to reduce its overall debt facilities from the planned level of US\$75m to no more than US\$40m in the foreseeable future. The draw down under the Initial Facility will be for an amount up to US\$20m.

The syndicated finance members have completed the key technical due diligence for the Initial Facility with the delivery of independent experts reports on: (1) the existing mineral resource and mine plan; and (2) the existing plant, metallurgy, tailings and plant improvements. In addition the syndicated finance members have undertaken a substantial review of the nature and scope of Valence Industries' engagement with customers including:

- (a) All formal arrangements entered into by the Company including Purchase Orders waiting to be filled, term Sales Contracts and multiple Memoranda of Understanding;
- (b) Completed customer qualifications, those further qualifications to be completed after shipping of final trial orders by the end of the year and still further pending qualifications; and
- (c) An in-depth study of the current status and the future expectations of the global graphite market across the full range of the Company's products.

Completion of the due diligence and closing under the Initial Facility is expected imminently and documentation for that Initial Facility has commenced.



Currently the Company's short term financing requirements are being met via the secured bridging facility issued under the syndicated finance facilities (*ASX Announcement, 1 July 2015*). This bridging facility has been increased to AUD\$5.0 million with AUD\$4.5m now drawn by Valence Industries to meet its current requirements.

The Company is committed to funding its expansion program primarily through the syndicated finance facilities. Completing this financing through a staged approach ensures that Valence Industries' capital requirements are properly met and structured within the Company's expected production profile and repayment capability.

Operations & Sales Program

Processed graphite above 95.5% purity has been transported from site to Valence Industries' warehouse in Adelaide.

Stock levels in each of the Company's product grades will continue to be progressively built up to match existing customer orders and export shipments will then follow. Programs for qualifying additional customers are ongoing, and the level of customer interest being experienced by Valence Industries continues to grow.

The engineering program for enhancements to the existing plant is progressing well and will be implemented upon financial close of the Initial Facility. Full commissioning of expanded production together with associated process improvements is planned to be available from Q2 CY 2016.

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Forward Looking Statements

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