



**VALENCE
INDUSTRIES**

ASIA PACIFIC | EUROPE | NORTH AMERICA

ASX: VXL & VXLO QUARTER ENDING 31 March 2016

Valence Industries Quarterly Activity Report



Valence Industries – Uley Graphite Phase I Plant Operations (2015)

Valence Industries owns the Uley Graphite facilities near Port Lincoln, South Australia.

Quarter Highlights

Operations

- No production onsite during the quarter.
- Limited marketing activities and qualification trials have continued to keep product qualification up to date with key target customers using production stocks.
- Trial qualifications successfully completed in Japan for **HEATPRO™** Graphite products for thermal management applications.

Corporate

- The Company announced on 4 March 2016 a proposed 9 for 1 non-renounceable rights issue at 1 cent per share, to raise up to \$18 million. Each new share subscribed will carry an attaching 1-for-2 free option exercisable at 1.5 cents on or before 31 December 2017.
- The Company is in the process of finalising agreements with creditors and in relation to the partial underwriting of the rights issue, and expects to announce further details shortly.



Current Operations

PRODUCTION

No production took place during the quarter.

As announced on 2 December 2015, the Company has suspended processing activities at its Uley Graphite site near Port Lincoln, South Australia. The decision was made to preserve the Company's financial resources until a viable, long-term funding solution was achieved.

Graphite sample preparation and metallurgical test work continued on site during the quarter in support of sales and marketing efforts and to provide information to potential investors.

As a result of the suspension of processing activities at Uley, further redundancies took place on site and in corporate office in Adelaide with only lab, marketing and caretaker staff remaining.

The Company's immediate focus continues to be on rebuilding its capital and to re-establishing itself as a quality graphite producer.

SALES & MARKETING

Sales and marketing activities continue with trial qualifications successfully completed in Japan for **HEATPRO™** Graphite products for thermal management applications. These qualifications were facilitated by RASA Corp with the customer requesting trial order pricing. RASA Corp is a distributor for Valence Products in Japan. Also, successful lab qualifications for polymers were completed by a domestic polymer manufacturer in the SA region with next steps to move to trial orders in late 2016.

Ongoing qualifications of traditional flake graphite products for lubricants, petroleum exploration, and agriculture under the brand names **StratGraff™** and **GraffPlus™** continue with expected results by the third quarter for North America and European customers. Qualifications for three **StratGraff™** Graphite coarse grade products were successfully completed by a major foils manufacturer with trial orders to be received and shipped once the plant upgrade is complete.

Domestic interest in Valence graphite products continues to grow with focus on polymers, lubricants, and agriculture markets including R&D activities in South and Western Australia.

Follow up qualifications of **HEATPRO™** Graphite products using current inventory are planned with refractory customers. These activities are intended to maintain product qualifications with key customers to shorten the sales cycle when the planned plant improvements are complete and production can recommence.





EXPLORATION

During the reporting period, there were no exploration or production activities undertaken and no exploration or production is planned for the June 2016 quarter.

Tenement Listing

TENEMENT NUMBER	TENEMENT NAME	BENEFICIAL INTEREST ¹	CHANGES DURING THE QUARTER
ML 5561	Uley Graphite Mining Licence 1	100%	No change
ML 5562	Uley Graphite Mining Licence 2	100%	No change
RL 66	Uley Graphite Retention Licence 1	100%	No change
RL 67	Uley Graphite Retention Licence 2	100%	No change
EL 4778	Uley South Exploration Licence	100%	No change

Finance and Corporate

On 4 March 2016 the company issued a Corporate Update.

The Company has continued to actively investigate a number of potential corporate transactions, possible offers for the company and both debt and equity capital raising options.

The Company's financial position includes secured debt of approximately \$6.3 million and unsecured creditors of approximately \$6.0 million, incurred primarily while the plant was operational last year. The Company appreciates the support of its creditors, however the existence of outstanding debt and creditors is an impediment to obtaining the implementation funding required by the Company to rectify the issues at Uley and return the plant to production.

To enable the Company to move forward, the Company needs to recapitalise its balance sheet, address its outstanding creditors, and secure working capital to stabilise its financial position.

After considering the strategic and financing options available to the Company, the Board determined the best way forward is an equity issue in the form of a conditional rights issue, to be equitable to all shareholders and give current shareholders to first opportunity to recapitalise the Company and support their existing investment.

Patersons Securities Limited has been appointed to advise the Company, and as Lead Manager and Underwriter to a 9 for 1 issue at 1 cents per share to raise up to \$18 million. Each new share subscribed will carry an attaching 1-for-2 free option exercisable at 1.5 cents on or before 31 December 2017.

The rights issue, which is proposed to be partially and conditionally underwritten, will see priority given to secured debt and working capital, with funds raised over that amount allocated to payment of unsecured creditors.

The Rights Issue will have a number of conditions precedent, including that to the extent that the unsecured creditors are not fully repaid from the rights issue, their outstanding balance is converted into ordinary shares at 1 cent per share. The Company will be seeking the support of creditors to put the financing plan in place.

Under new management, the Company has developed a coherent capex and production plan, in conjunction with external consultants, to rectify the past production issues and increase capacity by 50% to more than 21,000 tpa within 12 months, with a 15+ year mine life.



The Rights Issue will allow the Company to re-capitalise its balance sheet and remove all current debt and creditors, and be in a much stronger position to negotiate best possible terms for the balance of funding required to complete the plant rectification and upgrades, required to bring the Uley graphite operation into commercial production. This will require an additional \$7m in capex and up to \$5m in working capital to re-commence production and sales.

The directors of the Company recognise that board renewal is required and will commence a process to seek qualified replacement directors following completion of the equity recapitalisation with the intention of allowing the new Board to oversee the implementation of the plant modifications and upgrades to return to production.

Subsequent Events

Since the announcement of the Rights Issue, significant negotiations have occurred with both the secured creditors and unsecured creditors.

The secured creditor has confirmed that the \$6.3million debt will repay the secured debt facility.

Considerable progress has been achieved with unsecured creditors, with the majority of unsecured creditors (by value) providing the company with "in principal" support for the rights issue. In particular, this provides for the issue of shares to unsecured creditors at 1 cents per share to the extent they are not fully repaid from the proceeds of the Rights Issue.

Discussions with unsecured creditors continue, and the Company expects to provide further information on the Rights Issue in due course.

Capital Structure

Shares: 199,016,214

Listed options: 73,402,418

Unlisted options: 9,000,000

Board of Directors & Officers

Graham Spurling, AM
Non-executive Chairman

Robert Mencil
Managing Director

Glenister Lamont
Non-executive Director

Ian Pattison
Non-executive Director

Christopher Whiteley
Chief Marketing Officer

Jaroslav (Jarek) Kopias
Company Secretary

For further information, please contact:

Robert Mencil
Managing Director
Valence Industries

Jaroslav (Jarek) Kopias
Company Secretary
Valence Industries

info@valenceindustries.com
+61 8 8418 8564

**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 “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) “VXL Feasibility Study Expansion and Adv Manufacturing” (2/1/15), “50% Increase in Uley Graphite Resource” (5/5/15), “Major Increase to Graphite Ore Reserve and Mine Life” (14/5/15) and “High Grade Graphite Mineralisation Continuity at Uley” (24/8/15).

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.



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Valence Industries Limited

ABN

41 008 101 979

Quarter ended ("current quarter")

31 March 2016

Consolidated statement of cash flows

		Current quarter	Year to date
		\$A'000	(9 months) \$A'000
Cash flows related to operating activities			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration & evaluation	-	(119)
	(b) development	(1)	(1,009)
	(c) production	(206)	(2,483)
	(d) administration	(461)	(2,970)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	1	33
1.5	Interest and other costs of finance paid	(12)	(33)
1.6	Income taxes paid	-	-
1.7	Other (provide details if material)	-	-
		(679)	(6,591)
Net Operating Cash Flows			
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(247)
1.9	Proceeds from sale of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	29	74
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (provide details if material)	-	-
		29	(173)
Net investing cash flows			
1.13	Total operating and investing cash flows (carried forward)	(650)	(6,754)



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(650)	(6,754)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
	Proceeds from subscriptions received		
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	236	4,861
1.17	Repayment of borrowings	(50)	(60)
1.18	Dividends paid	-	-
1.19	Other (share issue expenses)	-	(117)
	Other (movement in restricted cash – bond)	-	629
	Net financing cash flows	186	5,313
	Net increase (decrease) in cash held	(464)	(1,441)
1.20	Cash at beginning of quarter/year to date	612	1,589
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	148	148

Note: Cash balance excludes \$1.709 million held against a bank guarantee for obligations under the approved PEPR for Uley Graphite operations which is treated as Restricted Cash in the Company's financial statements.

Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	50
1.24	Aggregate amount of loans to the parties included in item 1.10	-
1.25	Explanation necessary for an understanding of the transactions	
	Directors' fees, superannuation and consulting fees paid to entities associated with Directors. No non-executive director fees were paid during the quarter.	

Non-cash financing and investing activities

- 2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	5,447	5,447
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	300
Total	300

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	148	612
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other 30 to 90 day term deposits	-	-
Total: cash at end of quarter (item 1.22)	148	612

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	Not applicable		
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Not applicable		



Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference securities (description)				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	*Ordinary securities VXL	199,016,214	199,016,214		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	*Convertible debt securities (description)				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				



7.7	Options <i>(description and conversion factor)</i>			<i>Exercise price</i>	<i>Expiry date</i>
	VXLO	73,402,418	73,402,418	25.00 cents	31 July 16
	VXLAM	3,500,000 (vested)	-	25.00 cents	31 July 16
	VXLAP	4,000,000 (unvested)	-	110.00 cents	31 July 17 (KPI based)
	VXLAP	1,500,000 (vested)	-	110.00 cents	31 July 17
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				



Compliance statement

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: _____ Date: 29 April 2016

Company secretary

Print name: Jaroslaw (Jarek) Kopias

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards:** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.