

# Valence Industries Half Year Report to 31 December 2014

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Adelaide, Australia (ABN Newswire) - The half year to 31 December 2014 has been a significant period for Valence Industries (ASX:VXL). 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.

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.

To view the full report, please visit:

<http://media.abnnewswire.net/media/en/docs/ASX-VXL-848064.pdf>

### **About Valence Industries:**

[Valence Industries Ltd.](#) (ASX:VXL) is an industrial manufacturing company producing high grade flake graphite products for distribution and sale to global markets. Valence Industries owns established processing facilities and infrastructure to manufacture a wide range of graphite product lines for multiple applications and multiple industries. Valence Industries produces and sells its graphite products from its Uley Graphite facilities in regional South Australia for delivery to diversified markets for graphite in the Asia Pacific, Europe and North America.

### **Contact:**

Valence Industries  
Corporate Headquarters  
Investor Relations  
T: +61-8-8418-8564  
E: [info@valenceindustries.com](mailto:info@valenceindustries.com)  
[www.valenceindustries.com](http://www.valenceindustries.com)

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