

Valence Industries: March 2015 Quarterly Activities Report and Appendix 5B

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Perth, Australia (ABN Newswire) - Graphite producer, [Valence Industries Ltd.](#) (ASX:VXL) (OTCMKTS:VLQCF) (Valence Industries or the Company) is Australia's only graphite production company with the Uley Graphite™ mine in Port Lincoln, South Australia.

Valence Industries strategy is to be a leading global graphite production company and manufacturer of advanced, highmargin graphite related products. This strategy underpins the Company's current operations and its current and future programs for expansion.

Quarter Highlights

- First Uley Graphite™ new production export shipment to overseas customers
- Uley Graphite™ production ramps up as key commissioning milestones achieved
- First 1,500 tonnes of run-of-mine stockpiles processed
- 6 new customer sales contracts for supply of more than 8,000t of graphite
- 9 new customer qualifications completed in Q1 CY 2015
- Confirmation of high-grade graphite mineralisation from Uley Pit 2 JORC 2012 Ore Reserve and through extension with grades ranging from 10% to up to 45%
- Negotiations with financiers for four-part expansion program reach advanced stage
- Cash at end of Q1 CY 2015 at A\$3.0 million

Uley Graphite™ Operations

FLAKE GRAPHITE EXPORTS

During the quarter ended 31 March 2015, Valence Industries exported its first flake graphite following significant progress made in the commissioning phase at the Uley Graphite™ operation in Port Lincoln, South Australia.

On 26 March 2015, the first flake graphite for export to customers was loaded onto trucks at the Uley Graphite™ operation and left Port Lincoln for the Valence Industries' Port Adelaide logistics and handling facility in preparation for export.

Subsequent to the reporting period, on 14 April, the 20t of flake graphite were shipped from Port Adelaide to customers in the Asia Pacific. In accordance with confidentiality obligations, the Company does not disclose the names of customers

FLAKE GRAPHITE PRODUCTION

The reporting period was the first full quarter of operational commissioning for the Uley Graphite™ operation, which successfully processed the first 1,500t of run-of-mine stockpiled material.

As part of the PEPR requirements notified in late December Valence Industries has been undertaking a redesign of the water management and return systems including the tailings storage facilities at the site. These requirements have not allowed the plant to be run as planned and have limited production. The construction of the redesigned water management and water return systems is now being addressed as a key part of the commissioning program.

The existing facilities are being integrated into the new water management system together with other modifications based on the initial plant operating experience and are not currently processing. The water processing is expected to be operational late June, allowing graphite production rates to be increased in stages up to Q3 CY 2015 and are then programmed to run up to the scheduled full 24/7 targeted rate of 14,000 tonnes per annum (tpa) in line with the Company's current schedule.

Customers

NEW SALES CONTRACTS

Valence Industries continued to increase its customer numbers, and during the reporting period, secured contracts for volumes equivalent to 100% of graphite to be produced in the first year of production.

In the reporting period, the Company signed six new customer sales contracts for the supply of more than 8,000t of graphite. The contracts are for graphite concentrates across all sizes (+35 to -300 Mesh) and purities (90% to 95%). The new customers are located in Europe and Asia Pacific, and are in the refractory and foundry industries. Shipments against these orders are scheduled to be made during Q2 and Q3 CY 2015.

In addition to these new sales contracts, Valence Industries has four memoranda of understanding for volumes exceeding 29,000tpa over periods ranging from two to three years. Negotiations are ongoing to convert these into sales contracts and this process is being timed to coincide with the ramp up of production. The customers come from a wide range of sectors - heavy industry (refractories, foundries and lubricants) through to advanced technologies (batteries and electronics) as well as bio-medical applications.

Average pricing across the full range of flake graphite products produced by the Uley Graphite™ operation and which will be supplied under the signed MoUs and the existing sales contracts is expected to be ~A\$1,669 per tonne. That average price is determined over a full year of production. The price will fluctuate in any given quarter and is also achieved when the existing processing facilities are commissioned and running at its full production rate.

QUALIFICATIONS

In the reporting period, nine new customers were qualified. The qualification process is a key part of the sales program, and allows customers to test Valence Industries' graphite - produced in commercial quantities from the Phase I Uley Graphite™ operation - for their own requirements.

The nine new qualified customers will receive flake graphite concentrate from production during 2015. Following a successful qualification process, these nine customers are positioned to be converted into binding sales contracts and receive flake graphite from increased output in 2016. In addition, a further six customers have received production samples of Uley Graphite™ and are currently conducting their internal qualification process. At the end of the reporting period, Valence Industries had 15 customers in the qualification process.

Exploration

During the reporting period, Valence Industries successfully completed the first stage of the extensional drilling campaign at the Uley Graphite™ site. The campaign is focused on the Uley Pit 2 Extension - located immediately south of the planned Uley Pit 2 mining area.

Assays received indicate mineralisation in the extension area is strongly consistent with the Uley Pit 2 Ore Reserve. The results also confirmed the dip, strike continuity and near surface mineralisation of the Uley Graphite™ lodes to the north and south of Uley Pit 2. The results returned significant intersections with very high graphite grades ranging from 10% to up to 45%.

The drill results will be used to update the current JORC Ore Reserve of 2,035,000 tonnes at an average grade of 12.9% graphitic carbon (gC) containing 261,000t of graphite. The first aspect of that update is scheduled to be released mid-May 2015 with two further updates set to follow.

Outlook

Valence Industries is nearing the final stages of discussions with financiers for its next stage of expansion.

This expansion program comprises:

1. Open pit mining of Uley Pit 2 to commence in Q4 CY 2015
2. Expansion of the existing Uley facility to incrementally increase output to 39,000tpa in CY 2016 and then to 64,000tpa in 2018-19
3. Development of a new Advanced Materials Handling Facility located in Adelaide, scheduled for operation in CY 2016
4. Development of a new Advanced Manufacturing Facility to commence in CY 2016

The feasibility study released on 2 January 2015 contemplated a schedule with mining from Uley Pit 2 in late 2015 and for expanded production capacity at the Uley Graphite™ site during early 2016. This program is being refined and expanded production capacity at the Uley Graphite™ site is now scheduled later in 2016 while preparation for new mining from Uley Pit 2 is still being planned to occur later in 2015. Finalisation of the current finance package will allow the Company to progress the detailed engineering, design and construction for the expansion program including for the advanced product handling facilities and the advanced manufacturing facilities near Adelaide. The Company will keep shareholders updated on any material developments.

Finance and Corporate

CASH STATEMENT AND CAPITAL MOVEMENTS

Valence Industries had \$3.04 million cash on hand as at 31 March 2015. Expenditure on exploration activities during the quarter amounted to \$597,000.

During the quarter, 5,500,000 unlisted options were issued to Directors as approved by shareholders at a general meeting of the company held on 19 February 2015.

Details of the options are included in Appendix 5B in link below:
<http://media.abnnewswire.net/media/en/docs/ASX-VXL-855567.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.

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