

Valence Industries Limited Production Update

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Perth, Australia (ABN Newswire) - [Valence Industries Ltd.](#) (ASX:VXL) provides the following update on graphite production at its Uley Graphite(TM) site in South Australia.

Highlights:

- Commissioning and ramp up of production continues with concentrate grades of up to 94% achieved with high proportions of large flake sizes
- Production testing has identified process bottlenecks which when removed will improve grades, reduce processing costs and which are planned to increase production capacity by more than 50%
- Plant process improvement and enhancement plan will require only modest capex and are to be implemented on close of Initial Finance Facility
- In addition operational and cost consolidation will underpin efficiencies across the business

Since commencing the commissioning and ramp up of production in June 2015 at the Uley Graphite(TM) plant, the Company has achieved a number of milestones:

- Delivered production graphite concentrate grades of up to 94% with consistent output still required
- Achieved plant capacity of 20 tonnes per hour (tph) feed-in rate with continuous operation over weekly operating periods still required
- Successful completion of Tailings Storage Facility (TSF) as a key part of the process system.

PROCESS IMPROVEMENTS AND ENHANCEMENTS

As part of the commissioning and ramp up phase the Company has continued to commit significant resources to testwork and maximising production and quality from the Uley Graphite(TM) plant and has engaged experienced external technical consultants in that process. During recent production runs, the Company's external consultants concluded that the existing plant's capacity and quality may be significantly enhanced to levels that exceed its original name plate levels. Moreover the process improvements and enhancements will be able to be implemented by the Company's external specialist consultants within the limits of the Initial Facility and completed by April 2016.

In particular Uley Graphite(TM) plant testwork has confirmed and duplicated the Company's independent laboratory testing that additional grinding of coarser graphite concentrate currently produced at the site resulted in improved concentrate purity across all mesh sizes (see Figure 1, in link below).

It is expected the enhancements will accelerate the Company's production expansion programs by several months, with production capacity planned to increase by more than 50% to a level in excess of 20,000 tonnes per annum whilst achieving product purity and detailed specifications to meet current customers' requirements in respect of the Company's HeatPRO(TM) StratGRAFF(TM) products including:

- (a) Concentrate grade of more than 90%, targeting specifically 90% to 95% for specific customer requirements; and
- (b) At a mesh size distribution ranging from finer flake of -200 mesh to extra coarse flake of +35 mesh.

The Company continues to progress additional product qualifications with prospective customers for various graphite grades focusing on its key target applications in thermal management (the Company's HeatPRO(TM) brand) and in lubricants, drilling fluids, expandable graphites, fire retardants and foils (the Company's StratGRAFF(TM) brand).

NEW RESOURCE ESTIMATES & MINING PROGRAM

The Company will continue to work on updating the mineral resource and reserve estimate for Uley Pit 2 following recently announced drilling results (ASX announcement 24/8/2015). The highly encouraging results from drilling have the potential to increase the Uley Graphite(TM) operation's resource tonnes and, due to the shallow nature of the deposit, has the potential to generate lower cost reserves.

Company plans to release an updated JORC 2014 mineral resource and reserve estimate in Q1 CY2016. This will follow the upgrades, which have already been released this year and generate a further detailed technical analysis, which is likely to give rise to an update of the mine plan.

Consistent with the scheduling of process improvements the Company is considering deferring the planned commencement of mining activities at Uley Pit 2 until Q1 CY2016 so that new ore is only mined as needed to feed the plant.

PRODUCTION CHANGES & OVERHEAD COST REDUCTION PROGRAM

To allow for work to be carried out for the process improvement program, the existing Uley Graphite(TM) plant will be operated at 50% of nameplate capacity until April 2016. Valence Industries is confident that all existing and potential customer specifications will be satisfied with the reduced production rate, and the Company is continuing to work with customers to match production to customer delivery requirements.

These changes have also seen Valence Industries implement a cost reduction program at both the Uley Graphite(TM) site and the corporate office in Adelaide, South Australia. Valence Industries has reduced workforce numbers by 60% and, together with corporate and plant operating efficiencies, the initiative is expected to deliver significant monthly cost savings.

Valence Industries will retain key staff required for current production and process improvement, and will further review workforce structure as production increases to full capacity as it completes the process changes scheduled in April 2016.

CUSTOMER QUALIFICATIONS & EXPORTS

Since June 2015, approximately 250 tonnes of graphite concentrate has been produced with the first concentrate shipments to occur following additional screening to match customer specifications. Further qualifications with new customers in Europe and the Americas is continuing with those to join existing customers scheduled to receive production this year, with the focus on key target applications in thermal management (branded HeatPRO(TM)) and in lubricants, drilling fluids, expandable graphites, fire retardants and foils (branded StratGRAFF(TM)).

The Company plans to commence trucking of graphite produced in the past three months to the warehouse in Adelaide within the next four to six weeks. Export shipping will occur once a minimum level of inventory of the Company's graphite products has been built up. This is required before regular exports to customers can commence, which is anticipated in the latter half of Q4 CY 2015. This modification to the export timeline accommodates for the production adjustment outlined above.

Managing Director and Chief Executive, Christopher Darby commented:

"The focus of the Company going forward remains on the production and supply of premium grade graphite products at a consistent purity range from 90% to 95%. The operational changes we are implementing at the plant level and across the business will facilitate greater value to our business and shareholders and deliver early increases to our Phase II expansion program for improved output capacity."

To view figures, please visit:

<http://media.abnnewswire.net/media/en/docs/ASX-VXL-880096.pdf>

About Valence Industries Ltd:

[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:

Christopher S. Darby, CEO & Managing Director
[Valence Industries Ltd.](#)
Corporate Headquarters Investor Relations
T: +61-8-8418-8564
E: info@valenceindustries.com
www.valenceindustries.com

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