

Valence Industries Ltd. September 2015 Quarterly Activities Report and Appendix 5B

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Perth, Australia (ABN Newswire) - [Valence Industries Ltd.](#) (ASX:VXL) is Australia's only operating graphite company. Valence Industries currently mines and processes flake graphite products from its Uley Graphite facilities near Port Lincoln, South Australia for supply to customers globally.

Quarter Highlights

Operations

- Commissioning completed at Uley Graphite processing plant
 - o Concentrate grades of up to 96% achieved on an intermittent basis
 - o Completion of Tailings Storage Facility
 - o Trucking commenced for transporting processed graphite above 92% from Uley operation to warehouse in Adelaide
- Required process plant improvements identified
 - o Additional grinding and screening capacity needed to maintain consistent level of higher grade product output
 - o Modest capital expenditure estimate of \$7m, subject to final design detail
 - o Completion expected May 2016
- Part revision of expansion strategy
 - o Following installation of additional grinding and screen capacity, Uley processing plant capacity set to increase from current 14,000tpa to 21,000tpa by August 2016

Finance Facility

- Completion of key technical due diligence for Initial Facility
- Reduction of overall debt facilities from planned level of US\$75m to US\$40m
 - o Draw down under Initial Facility will be up to US\$20m
- Bridging Facility increased to A\$5m, with \$4.5m currently drawn to meet current requirements

Graphite Sales

- Binding three-year, multi-product graphite sales contract signed with new customer
- Contract with Asia Pacific based customer provides for sales in excess of US\$50m over next three years

Corporate

- New Managing Director Robert Mencil appointed, effective 1 December 2015
 - Cost reduction program implemented
- ### Current Operations

PRODUCTION

During the reporting period, the Uley Graphite operation achieved plant capacity of 21 tonnes per hour (tph)

feed-in rate, and production graphite grades of up to 96% LOI (loss on ignition) were reached, however continuous and consistent output over weekly operating periods are still required. During the quarter, approximately 250 tonnes of graphite concentrate was produced. Transportation of concentrate above 92% has commenced from the Uley site to the Company's warehouse in Adelaide. Stock levels will continue to be progressively built up to match existing customer orders, with commercial export shipments to then follow.

Subsequent to the reporting period, the plant throughput rate at Uley has been reduced in the short-term. The plant is currently generating approximately 2 tonnes per day (tpd) of 92%-96% LOI product. This product is being used to meet sales and marketing requirements and to build stocks for initial commercial sales.

PROCESSING IMPROVEMENTS

An assessment of the Uley production facility by independent engineers Orway Mineral Consultants and internal engineers has identified bottleneck issues preventing the continuous production of high-grade graphite concentrate. At nameplate capacity of 21tph, installed secondary grinding, screening and bagging capacity were found to be undersized. A remediation plan has been developed to remove the bottlenecks, which when completed, will increase production capacity to 21,000 tonnes per annum, ramping up from between April to August 2016.

In recognition of the temporarily reduced processing rate, the Company has delayed any further mining activities at Uley Pit 2 until Q1 CY2016.

COMPLETION OF TAILINGS STORAGE FACILITY

During the reporting period, the deposit of tailings from the graphite processing stage was transferred from the process water ponds to the completed tailings storage facility.

EXPLORATION

During the reporting period, Valence Industries advised of further high-grade graphite drilling results from the targeted extensional drill campaign at the Uley Graphite operation.

The campaign is focused on the Uley Pit 2 area and was designed to confirm the dip and continuity of the Uley Graphite lodes. It will also provide data for a detailed mining schedule.

The latest assays confirm that near-surface mineralisation extends across the strike length of the resource area in a southerly direction and within the Exploration Target Area, and indicates a reduced volume of pre-stripping overburden removal prior to mining activities.

Notable near-surface intersections include:

Hole_ID	Width (m)	Graphitic Carbon Grade (gC%)	From (m)	To (m)
MD641	2.0	28.8%	7.0	9.0
MD642	5.4	13.0%	11.8	17.2
MD654	5.6	11.1%	5.1	10.7

In addition, an initial review of current resource and reserves at Uley Pit 2 was completed during the reporting period and early analysis suggests the significant potential to generate lower cost, near surface reserves.

The review along with the latest assays will form part of an updated Uley Pit 2 mineral resource and reserve estimate, which, in line with recent updates to Valence's activities schedule, is planned for release in Q1 CY2016.

Expenditure on exploration activities amounted to \$118,000 and \$944,000 on development activities during the quarter.

Sales & Marketing

Valence Industries signed a binding three-year graphite sales contract with a new, Asia Pacific-based

customer. The contract provides for sales in excess of US\$50 million during the period, with benchmark pricing under the sales contract exceeding the Company's weighted average price of US\$1,335 per tonne and includes take or pay provisions.

The customer, which cannot be disclosed due to contract confidentiality clauses, will purchase graphite for use in a wide range of industries including aluminium, steel, metallurgical, chemical, refractory, construction and expandable graphite products.

Delivery of the graphite is timed to match production from Valence Industries' existing Uley Graphite operation. First commercial sales are expected Q1 2016, once planned inventory build is complete.

Finance and Corporate

As a result of the lower capital expenditure required for the part expansion of production, Valence Industries advised of its intention to reduce its overall syndicated debt facilities from the previously planned level of US\$75 million to no more than US\$40 million. The draw down under the Initial Facility will be for an amount of up to US\$20 million.

During the reporting period, key technical due diligence for the Initial Facility was completed. Discussions are ongoing regarding the completion of the remaining due diligence with no major issues arising. Valence Industries acknowledges that this process has taken longer than expected and the exclusivity period with the financier has lapsed. If talks with the debt provider are delayed further, the Company is considering alternate funding options to ensure development plans for the Uley operation are not further delayed.

The Company's short-term financing requirements are currently being met through the secured bridging facility issued under the syndicated finance facilities. The bridging facility has been increased to A\$5 million, with \$A4.5m now drawn down by Valence Industries to meet current requirements.

CAPITAL STRUCTURE

The Company carried out a renounceable rights issue of one new share for every six shares held at an issue price of \$0.29 per share which raised \$0.88m. During the quarter 167 listed options were exercised at \$0.25.

Further, 2,062,500 shares were issued to Rio Tinto Exploration Pty Ltd with respect to concluding legacy royalties.

OVERHEAD COST REDUCTION PROGRAM

As part of remediation works to the Uley production facility, Valence Industries implemented an overhead cost reduction program during the quarter to reflect the lower throughput rate at the processing plant and to reduce site operating costs and cash outflows at both Uley and at the corporate office in Adelaide.

Under the program, the Company reduced workforce numbers by 60% and, together with corporate and plant operating efficiencies, the initiative is expected to deliver \$265,000 monthly cost savings.

Valence Industries has retained key staff required to operate the Uley production facility at the lower feed-in rate and will, in the short-term, implement new onsite organisational structure and manning levels.

The Company will further review the workforce structure as production ramps up to the increased capacity of 21,000tpa in 2016.

To view the full report, please visit:

<http://media.abnnewswire.net/media/en/docs/ASX-VXL-888853.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.

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