VALENCE INDUSTRIES LTD

RESEARCH NOTE

PATERSONS
THE AUSTRALIAN STOCKBROKER

Near Production Leveraged Graphite Play

Investment Highlights

Valence Industries Limited (VXL) is on the cusp of production from its Uley Graphite mine in South Australia. In Phase 1, VXL aims to process and sell 8,200t of graphite from existing stockpiles. Additionally, VXL aims to attract long term customers for offtake which will partly fund the modest capex requirements of $34m needed to increase production to the Phase 2 run rate of 50,000tpa. This will involve the construction of a new processing plant and open pit. Based on the expected average price of the Uley material (US$1,400/t), the project is expected to generate ~$40mpa in EBITDA for 10 years. We are initiating coverage of VXL with a Speculative Buy rating and a target price of $0.65/sh.

- **Established Mine and Good Infrastructure**: The Uley Graphite mine was last in production in the early 1990's, however, a sharp decline in world graphite prices and an increase in freight prices caused the mine to cease production in 1993. With increases to the graphite price the mine once again appears to be a viable proposition. The mine has an established processing plant, workshop, electricity, water, administration and laborartory buildings. The project is 22km on sealed road from the town of Port Lincoln.

- **Phase 1 Processing to Commence Shortly**: Phase 1 production is expected to commence in Mar Q and will produce circa 8,200t of graphite from existing surface stockpiles. Based on the estimated average graphite price of US$1,400/t, this is expected to generate circa $6m in EBITDA for capex of $2.8m. As part of Phase 1, VXL is looking to build strong customer relationships by delivering on existing Letters of Intent. This will be the key to achieving attractive offtake arrangements to fund Phase 2.

- **Phase 2 Modest Capex Requirements**: The estimated capex requirements for Phase 2 are modest. VXL aims to fund the estimated $34m for Phase 2 through a combination of offtake, contract factoring, royalty and debt finance. Previous expressions of interest have been received to provide circa $30m in offtake capex funding. The funding of Phase 2 is a key catalyst for VXL.

- **Valuation of $0.65/sh**: We estimate the Phase 2 project would realise US$70mpa in revenues and EBTIDA of US$40mpa for at least 10 years. This is significant, compared to the existing market capitalisation of $32.1m.

- **Strong Management Team:** VXL has a strong management team which is headed up by Managing Director/CEO, Christopher S. Darby. Mr Darby is a globally experienced Director and Executive of graphite mining and processing operations. He has extensive experience in engineering, processing and marketing and sales of industrial minerals to customers across Asia Pacific, Europe and North America.

- **Active Newsflow in 2014**: VXL has an active 2014 at the Uley Graphite project. VXL aims to commence processing of the stockpiles shortly with the completion of the BFS for Phase 2 due in March Q 2014. The key event is obtaining funding for Phase 2, which is expected to occur in the June Q 2014

9 January 2014		
12mth Rating		**SPEC BUY**
Price	A$	0.215
Target Price	A$	0.65
12m Total Return	%	195%
RIC: **VXL.AX**		BBG: **VXL AU**
Shares o/s	m	149.2
Free Float	%	80
Market Cap.	A$m	32.1
Net Debt (Cash)	A$m	(6.6)
Net Debt/Equity	%	na
3m Av. D. T'over	A$m	na
52wk High/Low	A$	0.185/0.22
2yr adj. beta		na
Valuation:		
Methodology		DCF
Value per share	A$	0.65

Analyst: **Simon Tonkin**
Phone: **(+61 8) 9225 2816**
Email: **stonkin@psl.com.au**

Disclosure: Patersons Securities Limited acted as Lead Manager and Underwriter to a Share Placement and Rights Issue that raised $6.7m at $0.20/sh in December 2013. It received a fee for this service.

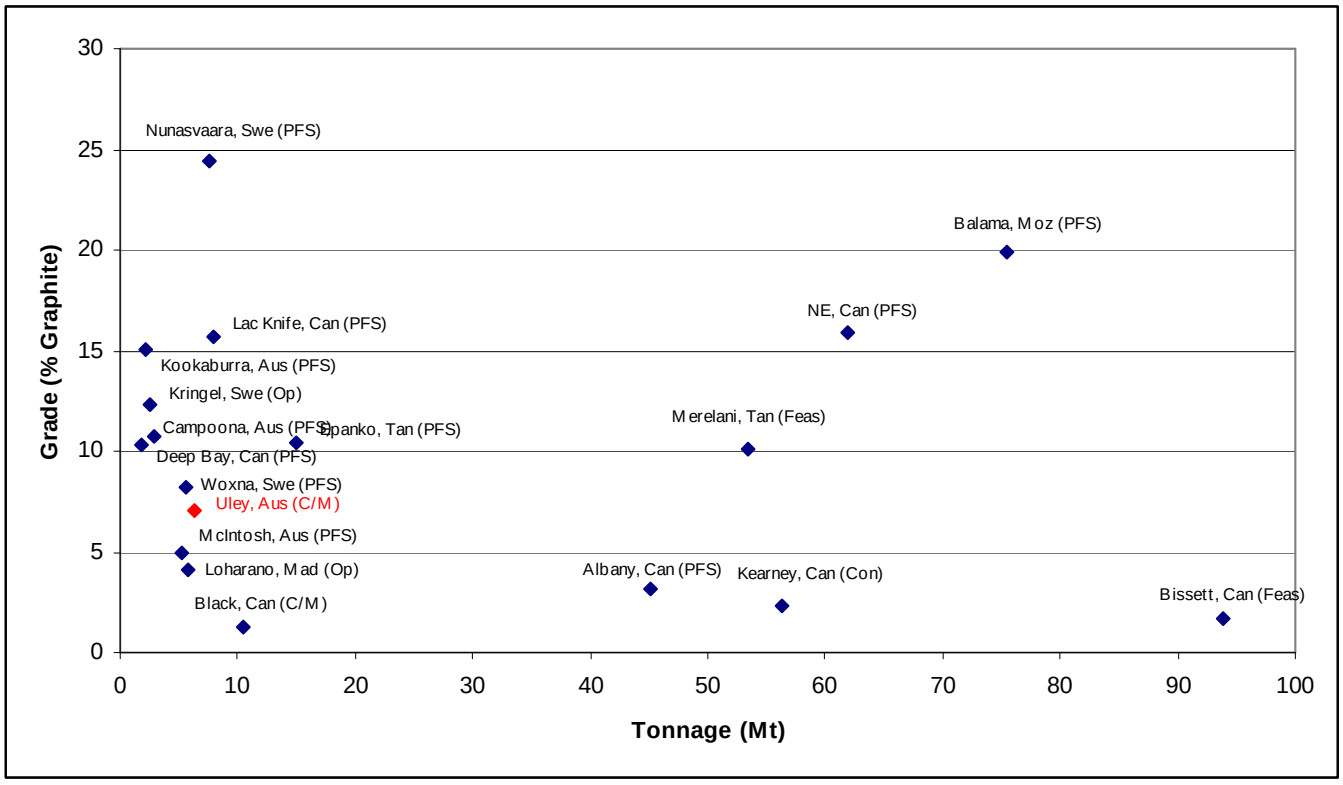
Investment Highlights

We are initiating coverage of Valence Resources (VXL) with a **Speculative Buy** rating and price target of $0.65/sh. VXL recently relisted with a focus on restarting production from its 100% owned Uley Graphite mine in South Australia. As part of the listing, the Company raised $6.7m by way of a share placement which will be used to convert stockpiles (8,200t contained graphite) to revenue and progress engineering and metallurgy studies to increase production to circa 50,000tpa+.

Uley Graphite Project; Established Mine and Infrastructure: The Uley mine has been worked intermittently since the late 1920's. However, a sharp decline in world graphite prices in 1992 and an increase in freight prices caused the mine to cease production in 1993. When in operation, the existing plant was capable of producing up to 14,000tpa, rating the Uley graphite project as one of the largest flake deposits in the world at the time. The project has extensive infrastructure including existing plant, workshops, electricity, roads, water, administration and laborartoy buildings.

Graphite Market Heating Up: Graphite demand is surging in response to a number of "green energy" initiatives including lithium ion batteries, fuel cells, solar energy, semi conductors and nuclear energy. Many of these applications have the potential to consume more graphite than all current uses combined (1.2-1.5Mtpa). There has been a remarkable run up in graphite prices since China (the largest supplier) placed a 20% export tax on the commodity in 2011, which has prompted a rush of junior exploration companies to acquire graphite properties or dust off old geology reports. Prices have since been tempered, however, the underlying average growth rate in price is expected to be around 15%pa. In Figure 1, we display graphite projects below 100Mt with the Uley mine resource of 6.4Mt sufficient to support a 10 year mine life at VXL's targeted production rate of 50,000tpa. In addition, there is good scope for future expansion to 60,000tpa. Coffey estimates VXL's tenments have potential for 25 to 150Mt at 6 to 9% average grade.

Figure 1: Global Graphite Projects Resource (Mt) vs Grade (% Graphite) Selected Projects



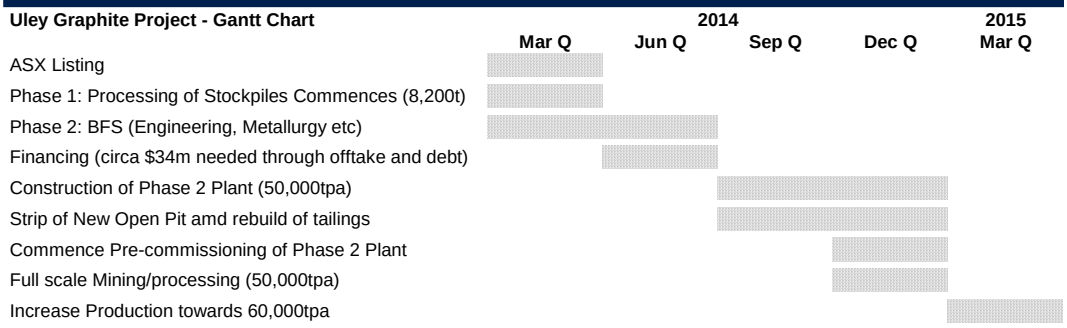
Source: Patersons Securities Limited

Modest Capital Requirements for Phase 2: The capital requirement of $34m for Phase 2 is modest when compared to most start-up gold and base metals projects. Obtaining the required funding would be a key milestone for the Company and it is likely this would re-rate the stock. The funds should allow the project to generate in the order of US$70mpa with EBITDA in the order of US$40mpa for 10 years. We calculate an NPV for the Phase 2 project of $87m. We have used a discount rate of 12%, which we believe is conservative and as the project is de-risked we would adjust this rate accordingly. The Phase 2 project has a very attractive IRR of 48%.

Strong Management Team: VXL has a strong management team which is headed up by Managing Director/CEO, Christopher S. Darby. Mr Darby is a globally experienced Director and Executive of graphite mining and processing operations. He has extensive experience in engineering, processing and marketing and sales of industrial minerals to customers across Asia Pacific, Europe and North America. David J. Salari is Chief Operating Officer and is reputably highly capable metallurgical engineer with more than 30 years mining and minerals processing experience including engineering and manufacturing graphite processing plant and equipment. He has been recognised for timely delivery of solutions that increase production and sales in the industrial minerals sectors.

Active Newsflow: VXL has an active 2014 planned at the Uley Graphite project. In Figure 2, we outline VXL's activities over the next 12-15 months. The Company aims to commence processing Phase 1 as well as complete a BFS into Phase 2 in March Q 2014. The key event is securing the $34m needed to allow the expansion to 50,000tpa which is expected to occur in June Q 2014. VXL will also examine increasing production to 60,000tpa as part of the BFS.

Figure 2: Uley Graphite Project Schedule



Source: Patersons Securities Limited/Valence Industries Limited

Valuation

We have conducted a sum-of-parts valuation for VXL. The result of our analysis is a Net Asset Value (NAV) of $0.65/sh for the Company (Figure 3). This is based on scoping study (2013) estimates for Phase 2 with the BFS numbers due out in the March Q. The key for VXL is attracting a strong customer base that will support the Phase 2 offtake (contract factoring), royalty and debt facilities. VXL aims to fund the estimated $34m in capex for Phase 2 through a combination of offtake (contract factoring), royalty and debt finance. Previous expressions of interest have been received to provide circa $30m in offtake capex funding. In our model, we have assumed that VXL successfully completes an offtake (contract factoring) arrangement on the basis of the sales agreements for its product on commercial terms.

Figure 3: Valence Industries – Sum-Of-Parts Valuation

Sum-Of-Parts Valuation	US$m	A$m	A$/sh
Uley Graphite Mine Phase 2 (@12%)	$78	$87	0.57
Stockpiles (Phase 1)	$5.0	$6	0.04
Cash	$5.9	$6.6	0.04
Unpaid Capital	$0.0	$0.0	0.00
Debt	0	0	0
Net Asset Value (NAV)	**$89**	**$99**	**0.65**

Source: Patersons Securities Limited

We have determined an NPV for the Uley Graphite project of $87m at a 12% discount rate. We consider this discount rate is conservative and as the project continues to be de-risked we will adjust this rate accordingly. Our valuation of Uley is based on a 10 year mine life at 50,000tpa production rate. The project has an attractive IRR of 48% given the modest capital requirements of US$34m for the plant. Margins are forecast to be excellent with operating costs of ~US$600/t compared to the estimated price of US$1,400/t. Sustaining capital is estimated at $3.9mpa for the open pit. We estimate the value of the Phase 1 stockpiles at $6m. VXL also aims to examine moving production to 60,000tpa which would further improve the economics.

Financially Attractive Project

The financials appear particularly attractive when compared to the current market capitalisation of the Company, with sales revenues of US$70mpa and EBITDA of US$40mpa over the life of the project. This is significant considering the current market capitalisation is ~$30m.

Capital Structure

VXL has $6.6m in cash as part of the recent capital raising and will be used to fund Phase 1 as well as studies into Phase 2. The Company has 117.1m shares on issue with an additional 32.1m escrowed shares (January 2016). These restricted shares are to the former parent (Strategic Energy Resources) and former director shares and underwriter options. VXL has a total of 69.2m options exercisable at 25c on or before 31 July 2016. This includes the 36.8m options listed under VXLO (Figure 4).

Figure 4: Valence Industries Capital Structure

Capital Structure	Shares (m)	%	Market Cap at 20c Issue Price ($m)	Options (m)
Quoted On Listing	117.1	78%	23.4	53.0
Escrowed	32.1	22%	6.4	16.2
Total Issued	**149.2**	**100%**	**29.8**	**69.2**
Unlisted Securities	*2.75*			*6.5*

Source: Valence Industries Limited

There are also 2.75m in unlisted securities and 6.5m Director/Employee options which are subject to the following milestones:

2.75m Shares and 12m Options to be issued to the Managing Director & CEO in four equal tranches subject to specific performance hurdles:

(i) Admission to Official List of ASX by 31 March 2014

(ii) Delivery of first 11,000t of graphite from the Uley Project by 31 May 2014

(iii) Execution of definitive transaction documents for finance facility for the full scale process plant by 31 October 2014

(iv) Commissioning of the full scale process plant and completion of commissioning with 3 months operation at capacity by 30 June 2015

1.5m options to be issued to current non-executive Directors are subject to performance hurdles: 450,000 hurdle (ii), 1.05m hurdle (iv) as above.

We believe the Director and Employee shares and options are aligned with shareholders. The major catalysts for the company are hurdles (ii) and (iii) above.

VXL's largest shareholder is Strategic Energy Resources (SER), who demerged the Uley graphite project and initiated the listing of VXL. SER owns 14.6% of VXL and has a 1.5% royalty on production. Avatar Energy Pty Ltd is the second largest shareholder with 5.15%. In terms of the listed options the largest optionholders are Chimara Capital (10.6%), Colbern Fiduciary (6.55%) and HSBC Custody Nominees (5.66%).

Graphite Market Summary

The annual natural graphite market is estimated to be worth $1B and which is equivalent to 7 – 8% of the total graphite market worth $13bn, with the remainder of the market supplied by synthetic graphite. High purity (99.99% carbon) synthetic graphite is expensive and its conductivity inferior to natural flake graphite. Once additional and secure supply of natural flake graphite becomes available to end users, we could see natural flake graphite being used instead of synthetic graphite due to its relatively high conductivity and price competitiveness.

The graphite market consists of two main products:

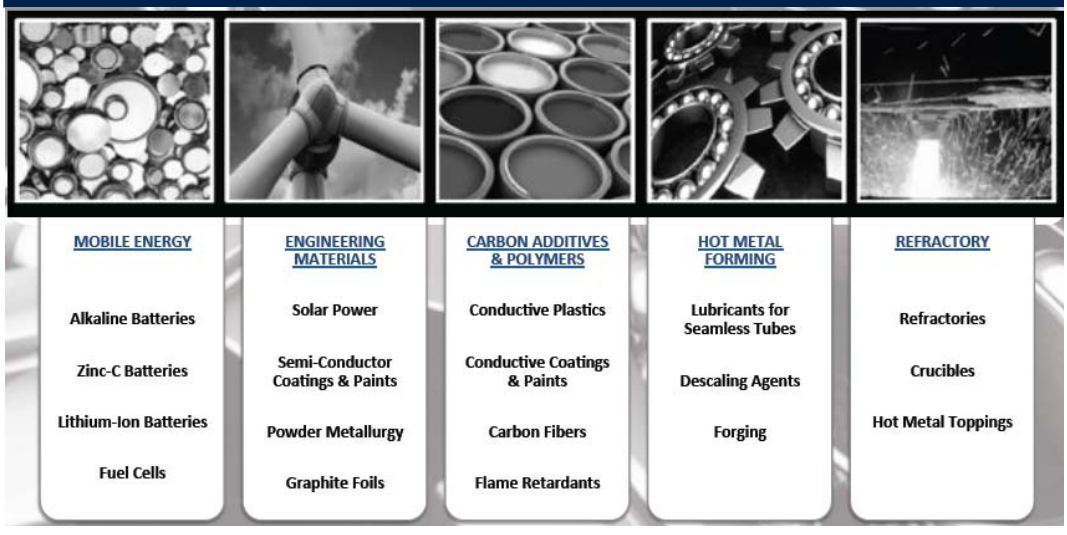
- **Amorphous Graphite (90% of market):** Microcrystalline graphite with graphite content ranging from 15 to 98%. Older and more basic technologies make use of this grade of graphite for its high melting point, resistance to thermal shock

- **Crystalline Flake Graphite (8-10% of market):** Flake graphite is classified based on the size of the crystal flakes and graded according to graphitic carbon content. Quality is determined by the carbon content and the particle size. The flake form occurs only in a few locations around the world, including Uley. Global demand for coarsely crystalline flake has increased 40% over the past 5 years with the high tech sector the main consumer.

Demand

Graphite has a wide variety of uses (Figure 5) with the largest end use being refractories (35%), which are heat-resistant materials that constitute the linings for high-temperature furnaces and reactors and other processing units. The second largest and potentially a game changer for graphite demand is mobile energy markets (25%). The production of spherical graphite for lithium ion batteries destroys around 60-70% of the flake graphite feedstock. These lithium ion batteries are also being used in electric cars. Interestingly, There is twenty times more graphite in a lithium battery when compared to amount of lithium. In the medium to longer term the Lithium-ion market is facing a huge shortfall, which is exacerbated by the lack of graphite exploration and development.

Figure 5: Graphite Uses



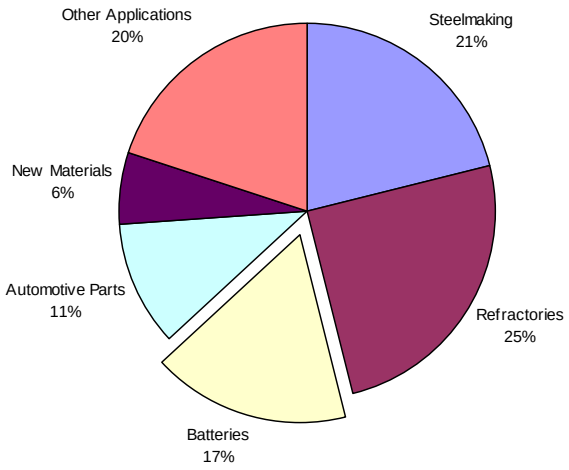
Source: Valence Industries Limited

In general the amorphous graphite is used for base market uses and the flake size increases up the growth profile. There are materials that may be able to compete with graphite in a few applications but graphite's unique combination of physical and chemical properties generally excludes the possibility of substitution by other materials at current prices. The end-users of graphite are diverse in regards to location and markets. The biggest mid and high growth industries; steel making, battery and electrode producers are

predominantly in China, South Korea and Japan, but they are also located in the US and Europe.

Figure 6, illustrates specific applications for Uley graphite.

Figure 6: Uses for Valence Industries Graphite



Source: Valence Industries Limited

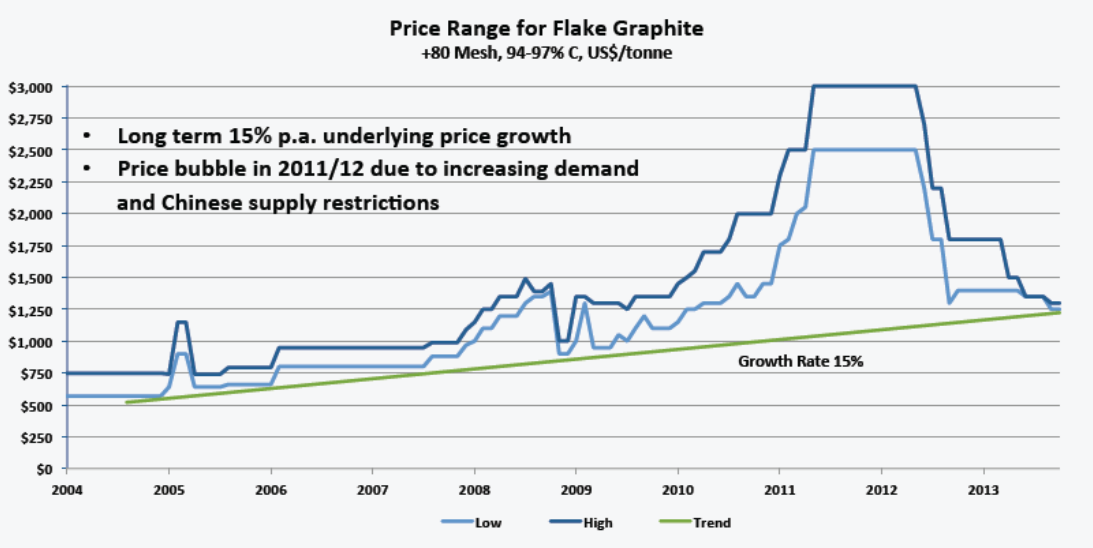
Supply

Annual production of natural graphite is estimated to be 1.2Mt. This is similar to the size of the nickel market (1.4Mt) and ten times larger than the Rare Earth Oxide market (120kt). Production comes predominantly from China (70%) and India (12%). The remaining production is distributed between Brazil, North Korea, Canada, Sri Lanka, Mexico and several countries in Europe and Africa. Of the 1.2Mt produced, it is estimated that 60% was amorphous or lump and the remaining 40% was flake. Mexico only supplies amorphous graphite, and Sri Lanka supplies lump and chippy dust varieties. China, Canada, and Brazil were, in descending order of tonnage, the major suppliers of crystalline flake and flake dust graphite. China's graphite production is expected to continue to increase by commissioning new mines and utilising some of the excess capacity available. One concern for investors is that China could dump large stockpiles of natural graphite onto the open market, resulting in a crash in price as it did in the 1980s. We see this as unlikely because China produces approximately 70% of world graphite, about 60- 70% of this supply is very fine flake or amorphous graphite. Also Chinese exports are expected to decline as they did when China imposed export duties on rare earths. China has imposed a 20% export duty on graphite in addition to the 17% Valued Added Tax and imports natural flake graphite from North Korea.

Pricing

Graphite is a closed market (ie; not traded on an exchange) whereby the producers sell their different products directly to the consumers, usually for specific applications. Carbon content and flake size are the main parameters controlling the price of graphite. Flake distribution, iron, silicon and ash content will also impact the price. Physical prices will vary according to geographic region and will take into account the quantity purchased, application, quality assurance, exact grade, credit terms, and other parameters. Flake graphite has the advantage of being sold into a wider range of markets and enjoys higher prices than amorphous or lump. As a general rule the larger the flake the higher the price. Figure 7, highlights the range of prices for Flake Graphite over the last 9 years and illustrates an underlying growth rate of 15% pa for flake graphite. It has been estimated that graphite from the Uley mine would sell for ~US$1,400/t (December 2012).

Figure 7: Price Range for Flake Graphite 2004-2013



Source: Valence Industries Limited

Commercial flake graphite products are available in a range of purities from around 80% carbon up to 99% carbon. Flake which is in the purity range of 80-98% typically represent materials which have been beneficiated using only froth floatation. Flake above 98% purity has been purified using other methods subsequent to floatation.

Uley Graphite Price

As part of the 2013 Scoping Study for the Uley Graphite project, an independent consultant conducted a global review for graphite based on applications and markets for natural flake. The study concluded that the key to achieving the highest margins possible for Uley Graphite is to provide value processes, quality control and reliability of supply. A detailed process was conducted for product definition based on the Uley Graphite. The estimated average price per tonne of processed graphite for Uley was US$1,400/t.

Background

Valence Industries Limited (formerly Strategic Graphite) recently re-listed on the ASX. VXL's key asset is the Uley Graphite Mine in South Australia. The mine successful produced graphite up until 1993 when it was placed on care and maintenance following low graphite prices. In Phase 1, VXL aims to recommence production in 2014 processing the surface stockpiles to generate immediate revenue. It is estimated that there is 8,300t of graphite in two stockpiles which would generate circa $6m. Phase 2 will examine increasing production to 50,000tpa which has an estimated capex of $34m with VXL aiming to use offtake, royalty and debt to finance.

Uley Graphite Project

The Uley Graphite Mine is located on the Eyre Peninsula in South Australia 23km west-south-west by road from the port and rural centre of Port Lincoln (Figure 8). The Uley graphite deposit is part of the Mikkira Graphite Province, known as one of the largest coarse flake graphite deposits in the world, containing disseminated, high-grade flake graphite. Uley was discovered over 100 years ago (circa 1900's). From the late 1920's to about 1950, graphite was mined intermittently from surface and underground operations. The following extensive exploration and metallurgical investigations were conducted:

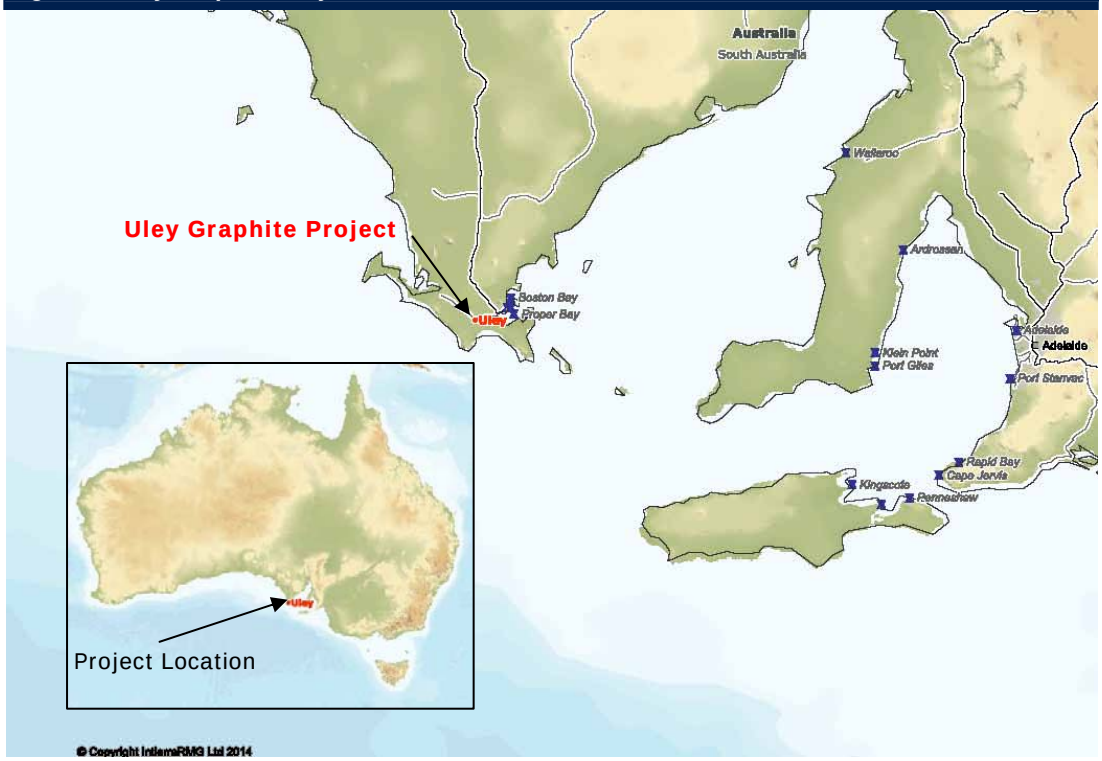
• 1980's resulted in the definition of significant quantities of coarse flake graphite, quoted at that time as potential for "387 million tonnes at 7.4% graphite".

• 1990, a pilot plant was established to conduct trial processing.

• 1992, a plant was commissioned and graphite products were successfully marketed in Australia and overseas.

• 1993, 1,025t of product had been produced and the majority sold before plant operations were suspended due to a sharp decline in world graphite prices. The operations were subsequently placed on "care and maintenance".

Figure 8: Uley Graphite Project Location



Source: Patersons Securities Limited

When in operation, the plant was capable of producing up to 14,000tpa and the aim was to progressively build up to 20,000tpa, rating the Uley graphite project one of the largest flake deposits in the world at the time.

Infrastructure In Place

The plant and infrastructure at the Uley Graphite Mine includes:

• A graphite processing facility which had a nameplate capacity of 14,000 tonnes of graphite per annum and which will be refurbished (currently underway) and used for graphite processing during the Company's Phase 1 operations;

• Existing site access and haul roads joining the sealed road to Port Lincoln and associated port infrastructure;

• Established 22kV Power lines and transformer to the processing facility and associated workshops and buildings;

• Engineering workshops, crib rooms, laboratory buildings and administration buildings;

• Established water retention ponds, tailings ponds and designated ROM and Overburden Areas;

• A standing water resource in the former open pit containing sufficient volumes of water for 90 days of processing (without recycling and longer with water re-use).

Phase 1 Processing 8,200t Graphite

In Phase 1, VXL plans to resume production from the Uley Graphite mine with the primary goal to provide product to key target customers to qualify graphite product lines and secure long term supply contracts (to fund Phase 2). The target is to process two stockpiles which are ready for processing. Stockpile 1 has circa 800t of pre-processed fines at 50% for 400t of graphite. Stockpile 2 has 78,000t of material at 10% average grade for 7,800t contained graphite. Phase 1 capital costs for recommencement are estimated at a modest $2.8m with improvements including plant refurbishment, electrical work, resource definition, site remediation, tailings ponds, water reclamation ponds, stockpiles surveys and metallurgy. Operating costs (Phase 1) are estimated at $3m. Revenues of $11.5m are estimated to be achieved based on an estimated average price of US$1,400/t, based on the various mesh sizes within the Uley orebody. This provides circa $6m net to VXL.

Phase 2 Targeting 50,000-60,000tpa

The key to Phase 2 is securing the estimated $34m in capital to cover the construction of a new graphite processing plant ($34m) to achieve a rate of 50,000tpa. The funding is expected to be achieved through a combination of offtake contract factoring finance, royalty finance or straight debt finance and from cash flows from Phase 1 production and marketing of graphite. A scoping study was completed in 2013, which examined a 10 year mine life at 50,000tpa based on the current JORC resource of 6.6Mt at 8.7%. This has the potential to generate US$70mpa in revenues. Operating costs are estimated at circa $600/t which is expected to generate US$40mpa EBITDA for 10 years. A DFS is expected to be completed in early 2014 outlining the full economics of the project.

Marketing

The Graphite market is a closed market and suppliers must deliver customers product at the precise specifications they require. There are a large number of markets and applications with sub-applications that use natural flake graphite. The scoping study (2013) identified a range of diverse markets for Uley graphite. Those markets are diverse in terms of regions and they are diverse in terms of product applications and usage. Applications include for refractories, crucibles, foundries, pencils, foils and foils and electronics. As well as high tech applications ranging from batteries through to graphite lubricants. This diversity has the potential to assist VXL in managing its risks of exposure to specific regional or end use factors for the graphite it proposes to sell.

The prices paid for flake graphite are negotiated directly between the supplier company and the end user customer. Publicly published data on such pricing is therefore limited as both the seller and the buyer consider such information to be commercial-in-confidence. The scoping study (2013) estimated the pricing applicable to the identified graphite product was US$1,400/t (as at 31 December 2012) and is based on the various mesh sizes from the Uley orebody (Figure 9).

Figure 9: Uley Graphite Project Location

Source	Price Range Across all Mesh Sizes & Purities ($USD)	Weighted Average Price Across all Grades ($USD)	Measure
Uley Graphite – Main Road Open Pit	890 to 2,500	1,400	per tonne

Source: Valence Industries Limited

Thus far VXL has secured Letters of Intent for 5,500t of Graphite with an indicative value of US$7.7m. As discussed earlier VXL is targeting medium and long term contracts to match customer demand (3-5 year contracts), which will assist in justifying the expansion to 50,000tpa.

Geology

The Uley Graphite project is situated within the area known as the Mikkira Graphite Province. Graphite mineralisation occurs over a significant area in the south and east of the Eyre Peninsula, with the majority of historical production coming from the Uley Mine. Within the Mikkira Graphite Province, disseminated flake graphite is widely distributed in the Proterozoic age metasedimentary rocks of the Hutchison Group. Within that Group, the target horizon is the Cook Gap Schist, which occurs stratigraphically between the Upper and Lower Middleback Iron Formations. The Cook Gap Formation is characterized by the presence of graphitic schist, biotite--garnet gneisses and possible banded iron formation. At the base of the Hutchison Group, the Warrow Quartzite and Katunga Dolomite Formations occur. The basement is undifferentiated ortho- and paragneiss of Achaean age. Quartz--rich, metasomatised pegmatites that developed during high grade metamorphism are encountered throughout the rock stratigraphy.

Resources & Metallurgy

A JORC (2013) resource of 6.4Mt at 7.1% graphitic carbon has been determined at a new open pit (Main Road Pit #1) with 574,000t of contained graphite and a low strip ratio of 3:1 (Figure 10). This will be used as the basis for undertaking the 50,000tpa operation for 10 years (Phase 2). Metallurgical studies support high grade flake graphite at recoveries in excess of 94%. There are stockpiles of 74,454t at an average grade of 11.42% graphitic carbon, these are earmarked to be processed as part of Phase 1. Furthermore, the deposit is near surface to 125m, making exploiting the open pit a low cost earthmoving exercise.

Figure 10: Uley Graphite Project Resource (JORC 2013) Table

Resource	Mt	Grade (% Graphitic Carbon)	Contained Graphite
Main Road Open Pit #1 (Indicated)	1.9	10.7	203,300
Main Road Open Pit #1 (Inferred)	4.5	5.5	249,300
Total	**6.4**	**7.1**	**452,600**
Stockpiles (Phase 1)	0.074	11.4	8,503

Source: Valence Industries Limited

Exploration Upside

VXL has identified extensive exploration areas prospective for graphite to the south of Uley. These targets are expected to be tested further and expanded once the project reaches Phase 2 production levels. Coffey has provided an exploration target of 25 to 150Mt at a grade of 6-9%.

Risks

The main risks for VXL are 1) achieving the funding to move into Phase 2 production 2) the resource (further drilling required) and 3) Graphite pricing. We outline these and other factors below. Investors should be aware that there are other risks that may not be listed here:

Financing Risk: From time to time VXL will likely require additional funding. Based on expressions of interest received previously, VXL expects to obtain additional funding of $34 million comprised of off-take contract factoring finance, royalty finance and/or straight debt finance to finance its Phase 2 production targets. The planned plant expansion and Phase 2 would likely be delayed or may not occur if some or all of the additional funding is not available on acceptable terms or at all.

Resource Risk: VXL holds a defined Mineral Resource on its existing Mining Leases and holds other Tenements which are at various stages of exploration. There is no guarantee that the Mineral Resource can be economically exploited. Further drilling will be required to upgrade its existing resources to reserves.

Commodity Price Risk: Changes to graphite markets and prices, could have an adverse impact on the commercial viability the Company's proposed operations. However, its is expected that the graphite market will remain robust with constrained supply and increasing demand forecast for this industry.

Operational Risk: VXL's projects are exposed to material operating risks including the potential risk of sub-standard graphite qualities, mining and processing technical difficulties encountered in commissioning and operating plant and equipment, mechanical failure as well as the potential for industrial and environmental accidents.

Exchange Rate: Graphite prices are denominated in US$ currency. Fluctuations in exchange rates will impact on the A$ receipts from product sales.

Environmental Risks: Despite efforts to conduct its activities in an environmentally responsible manner, and in accordance with all applicable laws, there is a risk of an adverse environmental event occurring. Furthermore, the Company's projects are exposed to possible environmental constraints or operational conditions and regulations that may restrict the full or economic development of the resources.

Tenure and Title: The Mining Leases, Retention Leases and Exploration Lease held by VXL are subject to periodic renewal. There are no guarantees that those tenements or interests will be renewed or that Strategic Graphite will be granted further or additional rights or tenements required for the conduct of operations. Further, issue, renewal, transfer or other conditions may be imposed upon Strategic Graphite in the future. If a tenement is not renewed for any reason, Strategic Graphite may suffer significant damage through the loss of the opportunity to develop and discover any mineral resources on that tenement.

Native Title: The Company owns freehold title to the land on which the Uley Graphite Mine Leases and planned operations and processing facilities are located. There may be a number of third party interests which overlay areas within the separate Retention Leases and Exploration Licence held by the Company, including: potential Native Title claims; potential Aboriginal heritage sites; Conservation Parks; Vegetation heritage agreements; pastoral leases; and private land. Under South Australian and Commonwealth legislation, VXL may be required to obtain the consent of and pay compensation to the holders of these third party interests prior to commencing any activities on the affected areas within these Tenements. Any delay in obtaining these consents may impact on VXL's ability to carry out activities within the affected areas.

Key Personnel: VXL has a specialist team of graphite, mining and processing personnel and may be adversely affected if any of the Directors or management team leave the Company.

Board and Management

Mr Graham Spurling, Non Exec. Chairman, Director, Eng. (Mech.), Masters in Mech. Eng.

Mr Spurling is a qualified mechanical engineer and the former Managing Director and Chief Executive Officer of Mitsubishi Motors Australia. He has significant knowledge of both the foundry and battery industries directly relevant to graphite and a deep understanding and experience in global markets and with delivering productivity in manufacturing.

Mr Christopher Darby, MD & CEO, BA LLB, GAICD, GDM (AGSM)

Mr Darby is a globally experienced director particularly with governance, finance and strategic development of emerging mining, energy and infrastructure companies and projects. He holds Bachelor's Degrees in Art (Anthropology & International Politics) and Law, as well as postgraduate qualifications from the University of Sydney, Graduate School of Business (GAICD) and from the Australian Graduate School of Management (AGSM), University of New South Wales & University of Sydney (GDM(Exec)). He has worked and advised boards of public and private companies for over 19 years in the Asia Pacific, North America and Africa. He has extensive commercial, management, governance and operations experience with companies engaged in hard rock, oil, gas, energy, manufacturing, international procurement, engineering, industrial minerals and construction operations. Mr Darby has current global graphite mining, processing and markets experience as an Executive Director and Founder of the Tech Minerals Consulting Group, as Managing Director (Asia Pacific) for Mega Graphite (Australia), including on the Uley graphite mine, as CEO of Australian Graphite Limited and as General Counsel (Global) for MEGA Graphite Inc. He is the author of published articles and papers on project delivery and he frequently presents at conferences on mining, project delivery, finance and management.

David J. Salari, Chief Operating Officer BASc (Metallurgy & Material Science), P. Eng.

Mr Salari has a reputation as being highly capable metallurgical engineer with more than 30 years mining and mineral processing experience including engineering and manufacturing graphite processing plant and equipment. He is recognised for the timely delivery of solutions that increase production and sales in the industrial minerals space.

Mr Glenister Lamont, Non Exec. Director BEng Mining (Hons), MBA (IMD Switzerland) FAICD, FFin MAusIMM

Mr Lamont has worked as an engineer and manager in gold, base metal and coal mines. As General Manager for Ashton Mining Ltd, he led strategic planning and commercial implementation of business development. He was an Executive Director at UBS were he undertook financial, technical and strategic evaluation of companies and participated in many corporate transactions. Mr Lamont is a professional non executive director and consultant on investor relations.

Mr Ian Schache, Non Exec. Director

Mr Schache degrees in Mineral Processing and Economics degrees from the University of Queensland and has an extensive energy and resources background. Ian participated in all planning, approvals, funding and construction on NSW mines that took Bemax Resources (2001-2010) from an exploration junior to one of the world's four largest Mineral Sands Producers. Commissioning the Pooncarie Project (2005/2006), was the only major Australian resource project executed on schedule and on budget in this period. Ian was the Senior Vice-President & Chief Operating Officer for Tiomin Resources (2000 - 2001). Ian fulfilled Executive Operations Management roles (1985 to 2000) during Westralian Sands\Iluka's massive organic growth, with a tenfold increase in turnover, and acquisition of RGC Mineral Sands (1998) to form Iluka Resources. Ian fulfilled development engineering and plant management roles at Mount Isa Mines Ltd (1969 - 1985).

Mr Jarek Kopias Executive CFO / Company Secretary B.Com, CPA, ACIS

Mr Kopias is a Certified Practicing Accountant and Chartered Secretary with over 15 years experience in a wide range of financial and secretarial roles in the mining and resources industry. Mr Kopias worked in numerous financial roles for public and private companies, specialising in the resource sector (including 5 years at WMCs Olympic Dam operations), 5 years at oil and gas producer and explorer, Stuart Petroleum Limited.

PATERSONS
THE AUSTRALIAN STOCKBROKER

1300 582 256
patersons@psl.com.au
www.psl.com.au

Research

Rob Brierley – Head of Research	Phone:	(+61 8) 9263 1611	Email:	rbrierley@psl.com.au
Tony Farnham – Economist	Phone:	(+61 2) 9258 8973	Email:	tfarnham@psl.com.au
Andrew Quin – Research Strategy Coordinator	Phone:	(+61 8) 9263 1152	Email:	aquin@psl.com.au
Kien Trinh – Senior Quantitative Analyst	Phone:	(+61 3) 9242 4027	Email:	ktrinh@psl.com.au
Metals and Mining				
Tim McCormack – Resources Analyst	Phone:	(+61 8) 9263 1647	Email:	tmccormack@psl.com.au
Simon Tonkin – Senior Resources Analyst	Phone:	(+61 8) 9225 2816	Email:	stonkin@psl.com.au
Matthew Trivett – Research Analyst	Phone:	(+61 7) 3737 8053	Email:	mtrivett@psl.com.au
Oil and Gas				
Alexis Clark – Oil and Gas Analyst	Phone:	(+61 3) 9224 4448	Email:	aclark@psl.com.au
Industrials				
Digby Gilmour – Industrial Analyst	Phone:	(+61 8) 9263 1664	Email:	dgilmour@psl.com.au
Marcus Hamilton – Industrial Analyst	Phone:	(+61 8) 9225 2836	Email:	mhamilton@psl.com.au
Ben Kakoschke – Industrial Analyst	Phone:	(+61 3) 9242 4181	Email:	bkakoschke@psl.com.au

Institutional Dealing

Dan Bahen	Phone:	(+61 8) 9263 1274	Email:	dbahen@psl.com.au
Michael Brindal	Phone:	(+61 8) 9263 1186	Email:	mbrindal@psl.com.au
Artie Damaa	Phone:	(+61 2) 8238 6215	Email:	adamaa@psl.com.au
Paul Doherty	Phone:	(+61 3) 8803 0108	Email:	pdoherty@psl.com.au
Trent Foxe	Phone:	(+61 2) 8238 6265	Email:	tfoxe@psl.com.au
Peter Graham	Phone:	(+61 3) 9242 4129	Email:	pgraham@psl.com.au
Chris Kelly	Phone:	(+61 3) 9242 4078	Email:	ckelly@psl.com.au
Steven Kestel	Phone:	(+61 8) 9263 1631	Email:	skestel@psl.com.au
Jeremy Nugara	Phone:	(+61 3) 8803 0166	Email:	jnugara@psl.com.au
Phil Schofield	Phone:	(+61 2) 8238 6223	Email:	pschofield@psl.com.au
Josh Welch	Phone:	(+61 8) 9263 1668	Email:	jwelch@psl.com.au
Rob Willis	Phone:	(+61 7) 3737 8021	Email:	rwillis@psl.com.au
Sandy Wylie	Phone:	(+61 8) 9263 1232	Email:	swylie@psl.com.au

Patersons Securities Limited ABN 69 008 896 311 AFSL 239 052

The Authorising Licensee, Patersons Securities Limited, is a Participant of ASX Group; Participant of NSX; Participant of Chi-X Australia; Stockbrokers Association of Australia Principal Member.