

23 July 2019

QUARTERLY ACTIVITIES REPORT

Quarter ended 30 June 2019

Graphex Mining Limited (ASX: GPX) ('Graphex' or the 'Company') is pleased to provide its Quarterly Activities report for the June Quarter. During the Quarter, work continued across multiple fronts as the Company positioned itself to become Tanzania's first high quality, flake graphite mine.

HIGHLIGHTS

- Significant progress with the Tanzanian Government in providing the required legal and regulatory certainty for project financiers
- Definitive feasibility study on track for completion in the December Quarter
- Advanced discussions with end users expected to deliver binding graphite sales agreements

RESOLUTION OF KEY LEGAL AND REGULATORY ISSUES IMMINENT

During the Quarter, the Company received an official written response from Tanzania's Ministry of Minerals, which among other things, confirmed the Tanzanian Government's free carried interest is set at 16% for all Mining Licences.

In addition, the letter directed the Company to work with the Mining Commission and the Bank of Tanzania to agree on the proposed banking arrangements for development of the Chilalo Project. The letter also provided clarification on the operation of the integrity pledge and the use of mineral data and set out a clear pathway for resolution of issues associated with the local content requirements.

This follows progress in the previous Quarter which saw the release of the *Mining (Mineral Value Addition) Guidelines*, under which the export of graphite concentrate from Chilalo will be permitted, and amendments to the local content regulations which have the effect of simplifying compliance with the pre-existing local content requirements.

Based on the continued progress with the Tanzanian Government, the Company believes that the legal and regulatory certainty required by stakeholders is imminent, including that sought by financiers with whom agreements have been signed for a funding package of up to US\$80 million, which subject to satisfaction of agreed conditions, is expected to fully fund Chilalo through to production ('**Funding Package**'). For further information on the Funding Package, see ASX Announcement dated October 29, 2018.

In June, Strandline Resources Limited announced that Nedbank CIB ('**Nedbank**') had obtained credit approval to underwrite a five year, US\$26 million project finance facility for the development of its Fungoni mineral

sands project in Tanzania. Nedbank's decision followed detailed due diligence which covered legal, technical, financial, market and social fundamentals. Nedbank, whose head office is in South Africa, is one of the largest financial services groups in Africa and its willingness to provide credit approved terms for such a project finance facility in Tanzania is particularly encouraging and testament to the improved legal and regulatory environment in Tanzania.

DEFINITIVE FEASIBILITY STUDY

The Company continues to make good progress with the definitive feasibility study ('DFS') on its Chilalo Graphite Project.

Mineral Resource and Ore Reserve

An updated Mineral Resource and Ore Reserve estimate is expected in August 2019. The 2018 diamond drilling program was designed to improve confidence in and upgrade the Inferred Mineral Resources at Chilalo, and also extend the Mineral Resource at depth. The drill samples are being analysed at ALS Johannesburg, with CSA Global overseeing the laboratories' analysis and undertaking resource modelling and estimation work.

Mine planning and pit design

Completion of resource modelling will allow for mine planning work to commence. As reported in the Updated Pre-Feasibility Study¹ ('Updated PFS'), mining is expected to be a straight forward open-pit, truck and shovel operation. The Company anticipates that this remains the case for the DFS.

Geotechnical testwork on core from the 2018 diamond drilling program has been completed and modelling has confirmed the Company's geotechnical understanding of the proposed open pit, with the slope geometry of the open pit expected to be consistent with that used in the Updated PFS.

Metallurgical testwork and the process flow sheet

Metallurgical testwork based on global oxide and fresh composites is being overseen by BatteryLimits Pty Ltd and carried out by ALS Perth, the results of which are being used to update the flow sheet. This has allowed for process plant design, including development of preliminary process flow diagrams, mass balance and process design criteria.

In addition, variability testwork and petrographic analysis is being conducted to understand variability across the deposit. A 40 tonne bulk sample has also been taken from Chilalo and is in transit to SGS Lakefield in Canada. Processing of the bulk sample is expected to commence in the September quarter.

Process plant and infrastructure

GR Engineering Services has been engaged to complete the process plant and infrastructure, design, engineering, cost estimation and final DFS report compilation. Design work is in the early stages with the following work completed or currently in progress:

- Reviewing test work and confirming the process design criteria for the process plant;

¹ ASX announcement 20 September 2018. The Company confirms that it is not aware of any new information or data that materially affects the information in that announcement and that all material assumptions and technical parameters underpinning the production targets and forecast financial information based on production targets in that announcement continue to apply and have not materially changed.

- Developing process flow sheets and mass balance;
- Non-process plant infrastructure enquiries have been issued, namely camp and camp facilities management and plant buildings;
- Commenced with process plant equipment specifications and cost enquiries; and
- Chilalo site inspection resulting in plant and camp locations being confirmed and access road route determined.

Tailings storage facility

Tailings storage facility ('TSF') design consultants visited the Chilalo project area in June 2019 to oversee the digging of geotechnical test pits to assess embankment foundation conditions, select samples for analysis, and to identify material suitable for construction of the TSF wall, including whether material from pre-strip activities could be used for this purpose. Soil samples and tailings samples have been provided for analysis in order to determine the inputs for design of the TSF.

Water

Passive seismic surveying was used to identify water bore locations. Water bores were drilled on site, pump tested and a ground and surface water model developed to predict rates and impacts associated with open pit dewatering and borefield pumping. Water for the process plant will be sourced from borefields located adjacent to the river, located to the north of the Project area. An overall water balance will be prepared to confirm water treatment requirements.

STRONG PROGRESS TOWARDS BINDING SALES AGREEMENTS

The Company continues to work closely with graphite market participants as it seeks to secure binding graphite sales agreements, which is a condition to accessing the Funding Package.

Since 2015, the Company has committed a substantial amount of time and effort to China's graphite market, which accounts for the vast majority of global graphite supply and consumption. As the BFS moves towards completion in the December Quarter, the Company has sought to refine those Chinese parties that have expressed interest in purchasing Chilalo product and during the Quarter, 41 potential customers in China were identified as high priority. It is these potential customers to whom effort will be directed in the coming months as progress towards binding sales agreements continues.

In order to expand the market access for Chilalo product, Graphex has significantly increased its engagement with end users and traders in Europe and North America. This process has generated a list of 17 recommended customers, each of whom will be provided with technical data sheets for each flake size and grade, with further analytical tests to follow to confirm Chilalo product is suitable for each party's applications.

With the quality of its Chilalo product and the advanced engagement with potential customers in China, Europe and North America, the Company is confident that it will secure the graphite sales agreement required to unlock the Funding Package.

CORPORATE

Cash

As at 30 June 2019, the Company had cash of \$1.2 million. During the Quarter, the Company drew down US\$2 million (before costs) under the Interim Loan Note Facility in place with the Castlelake Funds, with US\$1 million remaining undrawn at Quarter end.

Share capital

As at 30 June 2019, the Company had 88,145,208 shares on issue and 5,645,843 unexercised unquoted options.

Capital raising

Post Quarter end, the Company completed a placement of 12,500,000 shares to professional and sophisticated investors at \$0.20 per share to raise \$2,500,000 ('**Placement**'). On completion of the Placement, the Company had 100,645,208 shares on issue.

The Funding Package, which was agreed with funds managed by global private investment firm Castlelake L.P. (the '**Castlelake Funds**'), includes up to US\$40 million of equity ('**Equity Investment**'). Notwithstanding the Placement, the Castlelake Funds have agreed that the Equity Investment (which includes a component to be raised by the Company) will be undertaken at a price equal to the lower of:

- a) A 10% discount to the 15-day VWAP of Graphex shares up to the satisfaction of the conditions precedent; and
- b) A\$0.28 per share.

Appointment of non-executive director

During the Quarter, Mr Daniel Saint Don joined the board as a non-executive director. Daniel is the appointed representative of the Castlelake Funds.

Analyst site visit

In June, analysts from Bridge Street Capital and Patersons Securities accompanied the Managing Director on a visit to Tanzania. The visit provided an opportunity for the analysts to view the Chilalo Project site and key infrastructure, including the Mtwara Port. In addition, meetings were held with the Honourable Doto Biteko, the Minister for Minerals, local government officials and local village leaders.

TENEMENT INTERESTS

Table 1 shows the Company's tenement interests as at 30 June 2019.

Table 1. Tenement interests

Tenement	Ownership	Project	Location
ML 569/2017 - Chilalo	100%	Chilalo	Tanzania
PL 11050/2017 - Chilalo	100%	Chilalo	Tanzania
PL 11034/2017 - Chilalo	100%	Chilalo	Tanzania
PL 8628/2012 - Kipendengwa	100%	Chilalo	Tanzania

Tenement	Ownership	Project	Location
PL 9929/2014 - Chikwale	100%	Chilalo	Tanzania
PL 9946/2014 - Machangaja	100%	Chilalo	Tanzania

During the Quarter, an application was lodged for a Prospecting Licence, Mbuti and in the March Quarter, an application was lodged for a Prospecting Licence, Chikwale North, both of which are located in close proximity to the Chilalo Mining Licence. These applications remain pending. Also during the Quarter, the Company surrendered two tenements, Noli and Noli SE, neither of which was considered prospective.



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Managing Director

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For more information, visit www.graphexmining.com.au.

ABOUT GRAPHEX MINING

Graphex Mining Limited (ASX:GPX) is an Australian resources company listed on the Australian Securities Exchange. Graphex owns the world-class Chilalo Graphite Project, located in south-east Tanzania (Figure 1).

Since the initial discovery of Chilalo in 2014, Graphex has adopted a clear and differentiated strategy of understanding end markets and seeking to partner with strategic investors to enable delivery of the Chilalo Project. Underpinned by a high proportion of large flake material with exceptional expansion characteristics, the Company has targeted the expandable graphite market, which among many applications, is ideally suited to the manufacture of high-value graphite foils and flame-retardant materials.

Graphex has strategically targeted these expandable graphite applications based on their attractive growth and value characteristics. The size and growth expectations of the expandable graphite market applications, the premium prices for large flake graphite in general and the suitability of Chilalo graphite for the production of expandable graphite applications has meant that the Company has prioritised supplying the expandable graphite market as the primary focus.

For more information, visit www.graphexmining.com.au.

Chilalo Large Flake Graphite Project, Located in Tanzania



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Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Graphex Mining Limited

ABN

77 610 319 769

Quarter ended ("current quarter")

30 June 2019

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(1,160)	(2,711)
(b) development	-	-
(c) production	-	-
(d) staff costs	(173)	(884)
(e) administration and corporate costs	(269)	(953)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	4
1.5 Interest and other costs of finance paid	-	(346)
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	183
1.8 Other (marketing, transaction and business development)	(162)	(957)
1.9 Net cash from / (used in) operating activities	(1,764)	(5,664)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(4)	(35)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

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Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(4)	(35)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	70
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(6)	(21)
3.5	Proceeds from borrowings	2,850	5,867
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(214)	(814)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,630	5,102

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	368	1,839
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,764)	(5,664)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(4)	(35)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,630	5,102
4.5	Effect of movement in exchange rates on cash held	(1)	(13)
4.6	Cash and cash equivalents at end of period	1,229*	1,229*

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Mining exploration entity and oil and gas exploration entity quarterly report

* On 15 July, subsequent to the end of the Quarter, the Company received subscriptions for \$2.5M of fully paid ordinary shares (before costs) which are not included in the cash and cash equivalents for the Quarter.

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	1,207	197
5.2 Call deposits	22	171
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,229*	368

* On 15 July, subsequent to the end of the Quarter, the Company received subscriptions for \$2.5M of fully paid ordinary shares (before costs) which are not included in the cash and cash equivalents for the Quarter.

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

**Current quarter
\$A'000**

105

Nil

Non-executive Directors fees and Managing Directors salary (including superannuation).

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

**Current quarter
\$A'000**

94

Nil

Mr Grant Davey, who is a non-executive Director of the Company is a Director and shareholder of Matador Capital Pty Ltd (Matador Capital). The Company makes payments to Matador Capital under a Shared Services Agreement in which Matador Capital provides office space to the Company at cost plus 2%, and technical staff to assist with the management of the Definitive Feasibility Study.

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Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	7,156	5,664
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The facilities are secured Loan Notes issued to funds managed by private equity firm Castlelake L.P. as announced 29 October 2018. The Loan Notes have a term of 2 years with an interest rate of 15% and a commitment fee on undrawn funds of 4%. The loan notes are denominated in USD and as at quarter end, the Company has issued US\$4M of the US\$5M total Loan Notes. The numbers in the table above are presented in AUD translated at the AUD/USD rate as at 30 June 2019 of 0.70.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(2,298)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(244)
9.5 Administration and corporate costs	(291)
9.6 Other (Marketing and business development)	(154)
9.7 Total estimated cash outflows	(2,987)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

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Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
Company secretary

Date: 23 July 2019

Print name: Stuart McKenzie

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.