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Analyst: Dr CK Baker, Pulse Markets

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**Graphex Mining Limited (GPX AU, \$0.25, market cap. A\$22m)**

**Capital raising of A\$2.65m reinforces balance sheet**

**Recent amendments to new Mining Act might favour graphite producers**

- GPX topped up its cash levels with a 12.05m share placement at 22c/share. This leaves the company with a comfortable \$3.3m in cash (and no debt). This allows the company plenty of room to navigate the finalisation of the agreement with the Chinese partners led by SOE CN Docking.
- Despite uncertainties driven by changes to Tanzania’s Mining Act, we were greatly comforted that the Chinese partners committed so quickly to their involvement in the project. This is a testament to (1) the quality of the project, (2) the strong demand for non-Chinese expandable graphite and (3) the belief by the Chinese in the current GPX management team to deliver a mining operation.
- Our valuation for GPX is now A\$1.05/share, estimated as follows:

<b>Graphex NAV</b>			Notes
Cashflow NPV (10%, post-tax, real)	<i>US\$m</i>	165.9	
Capex	<i>US\$m</i>	67.0	Assumes contract mining
<b>Equity NPV</b>	<b><i>US\$m</i></b>	<b>232.9</b>	
Exchange rate	<i>AUDUSD</i>	0.75	
<b>Equity NPV</b>	<b><i>A\$m</i></b>	<b>310.6</b>	
<b>Project debt</b>	<b><i>A\$m</i></b>	<b>(58.1)</b>	Reduce NPV by debt component
<b>NPV less debt</b>	<b><i>A\$m</i></b>	<b>252.5</b>	
Ownership by GPX	<i>%</i>	42%	Selldown to 42% (16% FCI to Tz Govt)
<b>Implied equity</b>	<b><i>A\$m</i></b>	<b>106.0</b>	
Cash	<i>A\$m</i>	7.0	Incl. cash from option exercise
Corporate office cost	<i>A\$m</i>	(20.0)	PV, after tax
<b>Corporate NAV</b>	<b><i>A\$m</i></b>	<b>93.0</b>	
Fully diluted shares outstanding	<i>m shares</i>	88.6	Incl. options
<b>Implied valuation per share</b>	<b><i>A\$</i></b>	<b>1.05</b>	

- In this valuation we have assumed that the Tanzanian Government exercises its right to take a 16% free carry in the project at no cost. However, recent events suggest that this might be a conservative view. See comments below.

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- Note that the number of shares includes some 3.1m 25c loyalty and other options, which are currently at the money. The cash balance also assumes exercise of these options.
- Note: The above valuation is an accounting/finance valuation based upon the company's financials and not a share price target or prediction.

**Further information regarding GPX and the Chilalo project includes the following:**

- There have been some **amendments to the draft legislation** which included significant changes to the Tanzanian Mining Act. The following paragraph might be relevant to GPX. The underlined section has been included as an amendment to the draft and has been included in the final legislation.

*10(1). In any mining operations under a mining licence or special mining licence the Government shall have not less than sixteen percent non-dilutable free carried interest shares in the capital of a mining company depending on the type of minerals and the level of investment.*

- We have long been of the view that the changes to the Tanzanian Mining Act have been opportunistically targeting those companies which have enjoyed historic tax benefits. Acacia Mining and the gold sector in general seems to have been specifically targeted.
- The new wording of the Act, together with the fact that industrial minerals (such as graphite) were excluded from the increases in royalty rates, suggests that the Government may take a more lenient view of, say, industrial minerals. Perhaps this could include graphite and the smaller mining projects. Should that be the case, there is significant upside in the GPX valuation. Time will tell.
- On 17 July, GPX announced that the Tanzanian Government is funding **key infrastructure initiatives in SE Tanzania**. These include potential access to grid-connected power supply, an expansion of the Mtwara Port facility and upgrade of the road from Nanganga to Ruangwa.
- GPX states that this could significantly improve the economics of the already attractive Chilalo project.

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