

8 August 2017

LETTER FROM THE MANAGING DIRECTOR

Dear Shareholders

I commenced writing this letter on the plane from Beijing following my recent trip to China to further advance offtake and financing discussions with our prospective partners, CN Docking. For me, flying home is always a time for reflection and I felt that a letter to our shareholders may be helpful in providing an update on the progress we are making and to provide some useful context by retracing where we've come from.

Some of you might be newcomers to the share register, whilst others may have followed our progress with the Chilalo project since the first drill hole almost three years ago.

Our initial objective was to define a high-quality resource, however our focus soon turned to a differentiated development strategy focused on the graphite market itself. That market focus has resulted in a substantial time commitment from myself and our Chinese consultants to meetings with end users, traders, investors and government agency groups in China. Whilst we have entertained interest from other jurisdictions, we have always believed that the Chinese market should be our focus, primarily because of the dominant role played by China:

- China produces approximately 90% of global expandable graphite;
- China produces 100% of the uncoated spherical graphite for lithium ion batteries; and
- China has supplied over 70% of global flake graphite for a number of decades.

Their market influence cannot be ignored.

Through consistent feedback from China, we identified what we believed to be the most compelling market opportunity for a coarse flake graphite developer or producer – supplying coarse flake graphite to China for the Expandable Graphite market.

By design, we have targeted this opportunity since releasing world-class expandability results on 27 January 2016 and have continued to refine our testwork, understanding and contacts in the Expandable Graphite industry since then. Our peer group has progressively recognised this opportunity and it is interesting that their strategies have also begun to consider expandable graphite as a flake graphite market opportunity.

I understand that investors are excited by lithium ion batteries. Having spent a substantial amount of time in China with anode material manufacturers, battery producers as well as electric vehicle manufacturers, I am also a believer. However, investors may be scratching their heads, wondering why there have been no transactions in graphite, while other battery minerals have enjoyed considerable transaction success.

Given lithium ion batteries have an undeniable upside, why haven't there been deals in graphite? We believe that there are several reasons for this:

1. Chinese supply

China has substantial reserves of fine flake graphite suitable for batteries (Battery Graphite) and China is currently supplying 100% of Battery Graphite.

2. Impending supply

Syrah Resources is capable of delivering substantial quantities of Battery Graphite, which limits near term upside for that market.

3. Substitution risk

Synthetic graphite accounts for a significant proportion of the anode materials in lithium ion batteries and is acknowledged by battery producers to be a better performer than spherical graphite produced from Battery Graphite.

Why is the Expandable Graphite market different?

The Expandable Graphite market is currently small (for that matter, so is the current market for Battery Graphite). The Expandable Graphite market size is however constrained by lack of coarse flake graphite supply. I noted above that China account for 90% of Expandable Graphite production and given they imported only 1,027 tonnes of flake graphite in 2016, this graphite must be coming from domestic Chinese sources. However, we know that Chinese flake graphite supply is becoming lower grade (higher cost) and environmental concerns are forcing the closure of open pit mines. Recent discussions in China have indicated the closure of thousands of open pit mines in Hebei and Shandong provinces alone as environmental reviews take place. These factors demonstrate the shortage of supply. The regulation-driven upside for Expandable Graphite comes from its use in flame retardants, which has become increasingly important in the building materials sector due to a number of recent high-rise building fire disasters being attributed to the use of flammable cladding.

It is easy to understand why coarse flake graphite and Expandable Graphite are on China's list of strategic commodities, further highlighting the market opportunity.

Where does this leave us with the current negotiations?

CN Docking agrees that the quality of the Chilalo project is irrefutable. The recent Tanzanian legislative changes have added some complexity to negotiations but we believe that an outcome which both supports project development and is favourable to Tanzanians can be achieved. We will work with the Tanzanian Government as we aim to become the first graphite mine in Tanzania.

These discussions will likely require additional time to the three months we had indicated when the term sheet was signed in May 2017. I anticipate being back in China in late August to further advance formal documentation for financing and offtake agreements.

The Board and I would like to thank all shareholders for your continued support and look forward to keeping you updated as we progress.

Yours Sincerely



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About Graphex

Graphex Mining Limited is an Australian exploration and development company, dedicated to advancing the world class Chilalo Graphite Project, located in south-east Tanzania. Chilalo is host to a high-grade mineral resource and has demonstrated an ability to produce a premium graphite concentrate with a substantial portion of large and jumbo flake material. Chilalo graphite possesses outstanding expandability characteristics, making it ideally suited to the rapidly growing expandable graphite market.

Graphex has an experienced board and management team with specific skills and extensive experience in African based project development, exploration, mining and processing. The Company has a long and well-established presence in Tanzania.

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