

25 October 2017

## QUARTERLY ACTIVITIES REPORT

Quarter ended 30 September 2017

### HIGHLIGHTS

#### Chilalo Graphite Project

- Product specifications achieved from due diligence testwork completed by CN Docking in 2016 demonstrated that Chilalo graphite is the coarsest flake graphite product in the world:
  - 42% above +35 mesh (500 microns)
  - 13% above +20 mesh (850 microns) – a flake size not produced by any peer group company
- Graphite prices have increased by 50% in 2017, with further upward pressure on prices expected
- Improved product specifications and higher graphite prices are expected to materially improve Chilalo's project economics
- Negotiations with CN Docking on an agreement for the joint venture development of Chilalo continue to be advanced, notwithstanding recent legislative changes in Tanzania

#### Corporate

- Closing cash balance as at 30 September 2017 of \$2.4 million
- Placement of 12,045,454 ordinary shares to sophisticated and professional investors at \$0.22 per share to raise \$2.6 million (before costs)
- Appointment of new Minister for Minerals and splitting of the former Ministry for Energy and Minerals into two separate Ministries
- Updated research from Pulse Markets and The Sophisticated Investor

## CHILALO GRAPHITE PROJECT

### Testwork results confirm market leading product

During the Quarter, CN Docking informed the Company of the exceptional testwork results achieved by the Suzhou Design and Research Institute for Non-Metallic Minerals ('Suzhou') on behalf of CN Docking Joint Investment and Development Co Ltd ('CN Docking'), a subsidiary of China National Building Materials. The testwork carried out by CN Docking was part of its technical due diligence undertaken in 2016. Table 1 shows Suzhou's results in comparison to the previously reported specifications for Chilalo product.

**Table 1. Chilalo flake size distribution**

Flake Size	Microns	Mesh	Suzhou Mass Distribution (%)	Graphex Mass Distribution (%)	Suzhou Grade (TGC %)	Graphex Grade (TGC %)
	> 850	+20	13.0	-	92.5	-
Super Jumbo	500 – 850	+35	29.0	3.7	90.7	98.7
Jumbo	300 – 500	+50	16.0	18.3	92.6	99.3
Large	180 – 300	+80	11.0	27.0	90.2	98.7
Medium	150 – 180	+100	7.0	11.6	95.8	97.4
Small	< 150	-100	24.0	39.4	94.9	97.2
<b>Total</b>			<b>100.0</b>	<b>100.0</b>		

Whilst some of the product grades are slightly lower than those achieved in Graphex's own testwork, these grades remain high and both CN Docking and Suzhou have advised they are acceptable to end users. In achieving these results, Suzhou has applied its proprietary technology and processing knowledge acquired over many years of specialising in graphite and other industrial minerals.

These results confirm that with the coarsest flake graphite product in the world, Chilalo product is market-leading and further support the Company's strategy of partnering with the Chinese, given their extensive market knowledge and proven expertise in graphite processing.

### Rising graphite prices

CN Docking has also advised the Company that since December 2016, there have been significant improvements in flake graphite pricing, with prices having increased by 50%, driven by a range of factors, including:

- Supply restrictions in the Shandong and Heilongjiang provinces due to mine closures for environmental reasons;
- China's abolition of the graphite export tax on 1 January 2017; and
- Rising costs of production in China caused by low-grade, deep mining operations.

Both CN Docking and Suzhou expect to see ongoing upward pressure on graphite prices.

For some time, the Company has been aware of serious environmental issues that have major implications for the supply of coarse flake graphite in China. Enforcement of Chinese environmental policy has seen the closure of flake graphite mines throughout China, with feedstock for the production of expandable graphite having largely dried up. This is driving higher flake graphite prices and forcing the Chinese to seek feedstock from outside China.

## **Offtake and financing**

The recent Tanzanian legislative changes have added some complexity to discussions with CN Docking and as a result, negotiations have taken longer than anticipated. Constructive negotiations on an agreement for the joint venture development of Chilalo are ongoing and the Company remains confident that an outcome which both supports project development and is favourable to Tanzanians can be achieved.

## **CORPORATE**

### **Cash**

As at 30 September 2017, the Company had cash of \$2.4 million.

In July 2017, the Company completed a placement of 12,045,454 ordinary shares to sophisticated and professional investors at \$0.22 per share to raise \$2.6 million before costs ('**Placement**').

### **Share capital**

As part of the initial public offering of Graphex shares completed in June 2016, the Company issued 55,000,000 ordinary shares and 11,666,502 Loyalty Options. As at 30 September 2017, the Company had 69,957,517 shares on issue and 6,200,308 unexercised Loyalty Options.

During the Quarter, 12,045,454 ordinary shares were issued pursuant to the Placement. Directors subscribed for 300,000 Placement shares, the issue of which is subject to shareholder approval at the upcoming annual general meeting. Including the issue of Placement shares for which directors subscribed, the Company will have 70,257,517 ordinary shares on issue.

### **Annual General Meeting**

The Company's Annual General Meeting of Shareholders will be held at 3:30 pm (WST) on Tuesday, 21 November 2017 at the Main Function Room, Celtic Club, 48 Ord Street, West Perth, Western Australia. Details of the resolutions to be put to shareholders are contained in the Notice of Meeting and Explanatory Memorandum that was lodged with the Australian Securities Exchange on 20 October 2017.

### **Appointment of new Minister for Minerals in Tanzania**

On Monday 9 October 2017, the Honorable Angellah Kairuki was appointed as the new Minister of Minerals in Tanzania. Upon her appointment, the new Minister stated that her top priority was to improve relations with investors with a view to both restoring investor confidence and ensuring that the mining sector as a whole contributes to its full capacity to Tanzania's economic growth. The new Minister also sought to confirm that the Tanzanian Government remains ready to receive prospective investors with an open mind.

The appointment of Minister Kairuki comes with the split of the Ministry of Energy and Minerals into two separate Ministries – the Ministry of Minerals and the Ministry of Energy. The Company believes this is a positive development that will allow for more timely consideration of all matters related to minerals exploration, project development and mining by the Ministry of Minerals.

### **Tanzanian legislation**

As announced on 7 July 2017 and reported in the June Quarterly Report, in July 2017, the Tanzanian Parliament passed new legislation with respect to the legal and regulatory framework governing the natural resources sector in Tanzania that included amendments to the Mining Act (the '**Amending Legislation**'). The

Amending Legislation included a range of provisions, including the ability for the Government to acquire a free carried interest of 16% in mining companies undertaking projects and requirements relating to in-country beneficiation, local content and social responsibility measures.

New regulations to support the Government's implementation of the Amending Legislation are under preparation and expected to provide clarification on key aspects of the Amending Legislation. Notwithstanding the pending regulations, the Company is heartened by the recent appointment of the Minister of Minerals and continues to engage constructively with the Government as it aims to become the first graphite mine in Tanzania.

## TENEMENT INTERESTS

Table 2 shows the Company's tenement interests as at 30 September 2017. No tenements were acquired or disposed during the September Quarter.

**Table 2. Tenement interests**

Tenement	Ownership	Project	Location
ML 569/2016 - Chilalo	100%	Chilalo	Tanzania
PL 11050/2017 - Chilalo	100%	Chilalo	Tanzania
PL 11034/2017 - Chilalo	100%	Chilalo	Tanzania
PL 6158/2009 - Kiperere East	100%	Chilalo	Tanzania
PL 8628/2012 - Kipendengwa	100%	Chilalo	Tanzania
PL 9929/2014 - Chikwale	100%	Chilalo	Tanzania
PL 9946/2014 - Machangaja	100%	Chilalo	Tanzania
PL 11892/2017 - Noli <sup>1</sup>	100%	Noli	Tanzania
PL 11921/2017 - Noli SE <sup>2</sup>	100%	Noli	Tanzania

1. PL 8628/2012 was renewed during the June Quarter and the relinquished area of that tenement is under application as PL 11892/2017.
2. PL 5447/2008 expired during the June Quarter and the area covered of that tenement is under application as PL 11921/2017.



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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](http://www.graphexmining.com.au).

