



## Graphex Mining (GPX AU, market cap A\$25m) Commentary prior to a site visit to the Chilalo project

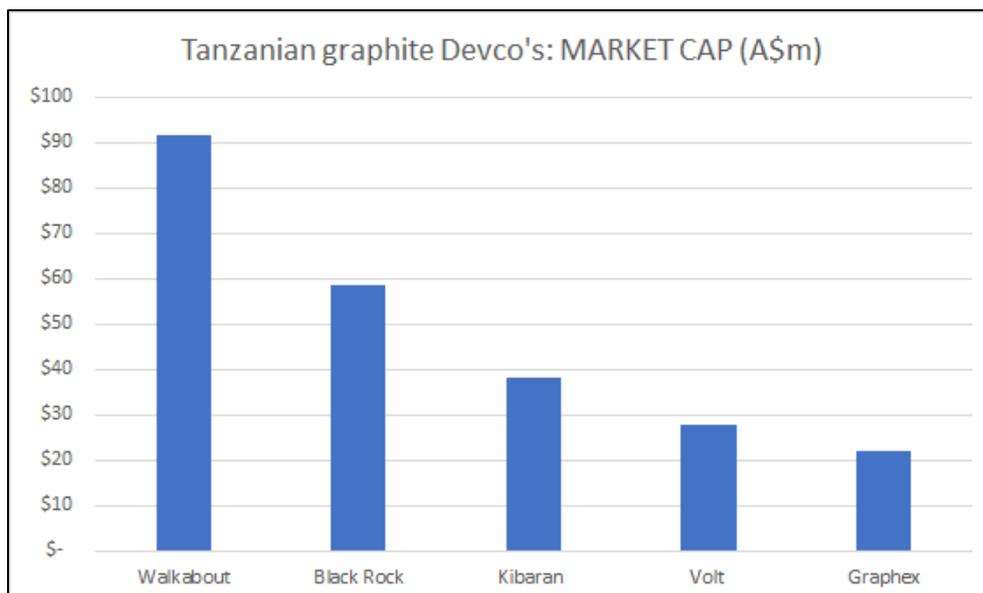
We will be undertaking a site visit to the Graphex/Chilalo graphite project next week. All mining projects in Tanzania have stalled, pending a final review of the Tanzanian Mining Act. We get the feeling that an outcome is imminent, perhaps crystallised by the resolution of the dispute between Barrick Mining (and subsidiary Acacia) and the Government of Tanzania. We will be travelling to Dodoma, Tanzania's capital, next Monday for discussions with senior bureaucrats and (hopefully) politicians.

This week's Government-led mining round table will undoubtedly see a strong push from the miners (and particularly devco's) toward an early resolution of outstanding issues. There is little doubt in our mind that Tanzania will ultimately become one of the leading producers of coarse flake graphite, with quality characteristics far surpassing deposits in other domiciles.

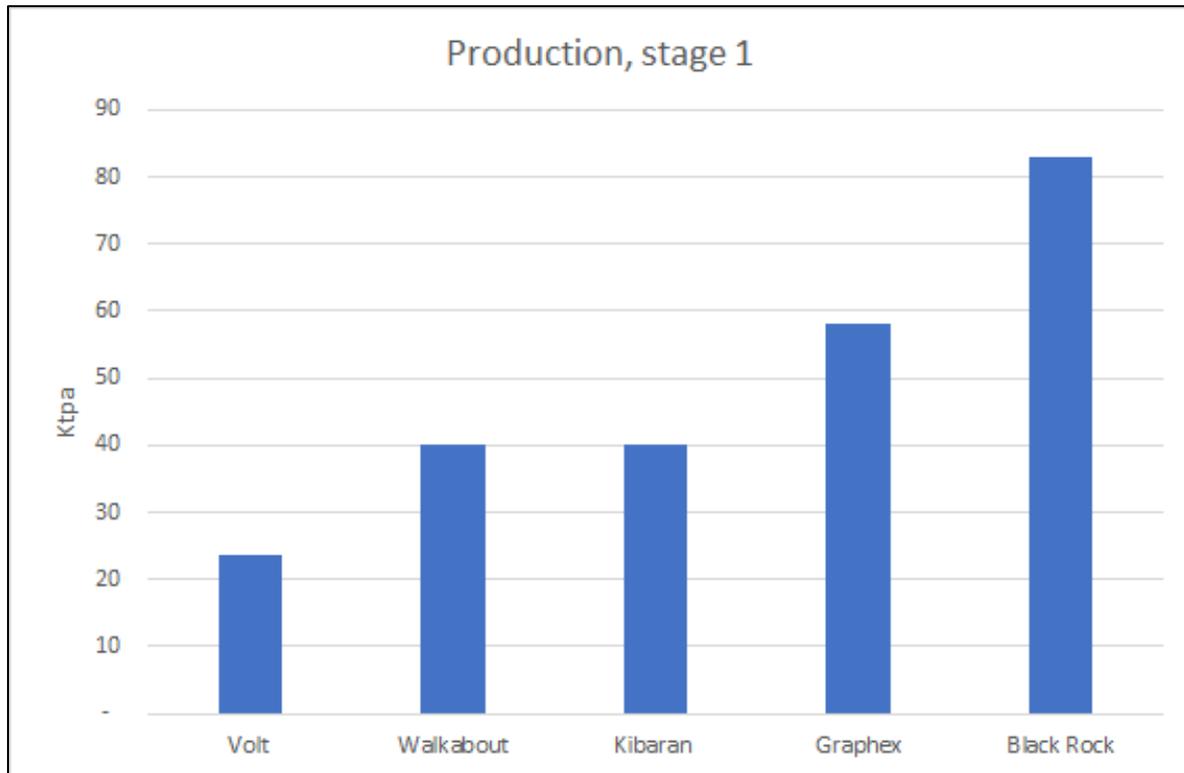
Prior to our visit we have undertaken comparatives for GPX with its graphite peers in Tanzania. What stands out is that despite the high grade and high margins on GPX's Chilalo project and the fact that GPX has a funding solution for the project, the company is one of the lowest valued by market capitalisation (at ca. A\$22m). This seems far too cheap to us, and at sub A\$0.30/share is trading at roughly 15% of our fully financed NPV per share (A\$1.69).

Importantly GPX is the only Tanzanian graphite devco which has a full funding solution. GPX is now working to complete a final DFS by 4Q19 one of the important conditions precedent for the Castlelake funding package. All other graphite devco's have completed DFS, but there are few signs of final funding outcomes.

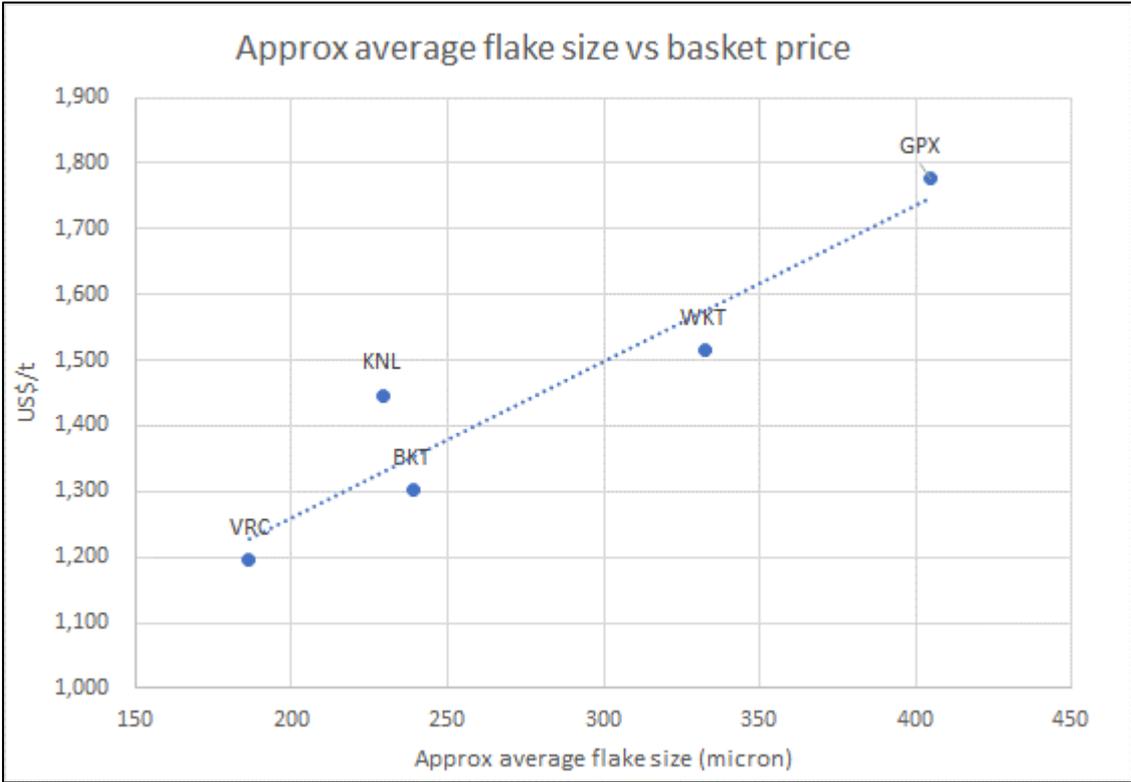
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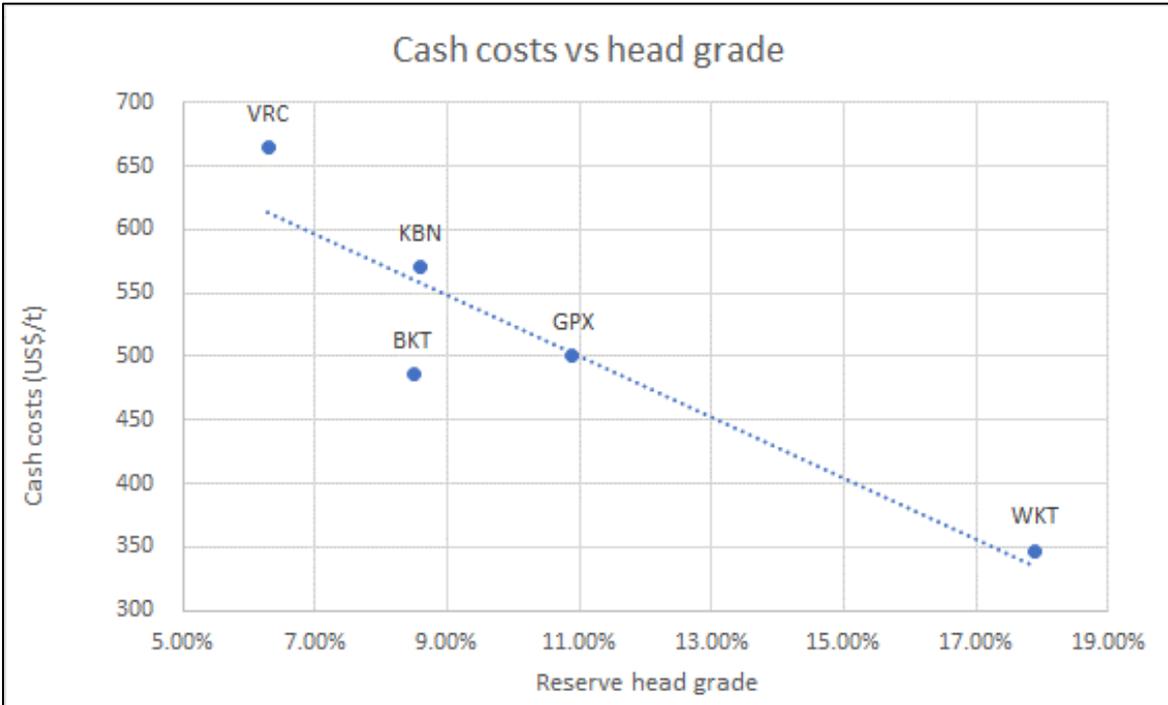
The following charts draw comparisons between GPX and its Tanzanian peer group...  
At Stage 1 production, GPX/Chilalo is forecast to deliver the second highest production levels (behind Blackrock).



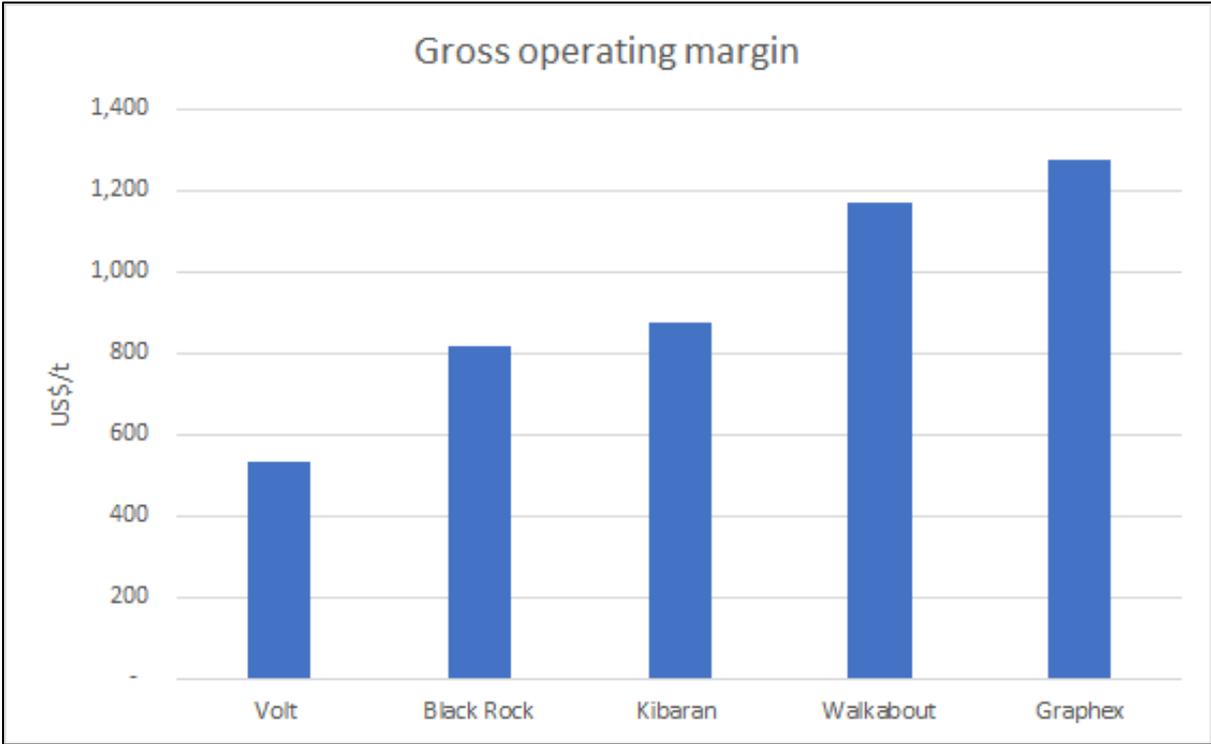
GPX/Chilalo has the largest average flake size and therefore the highest basket price.



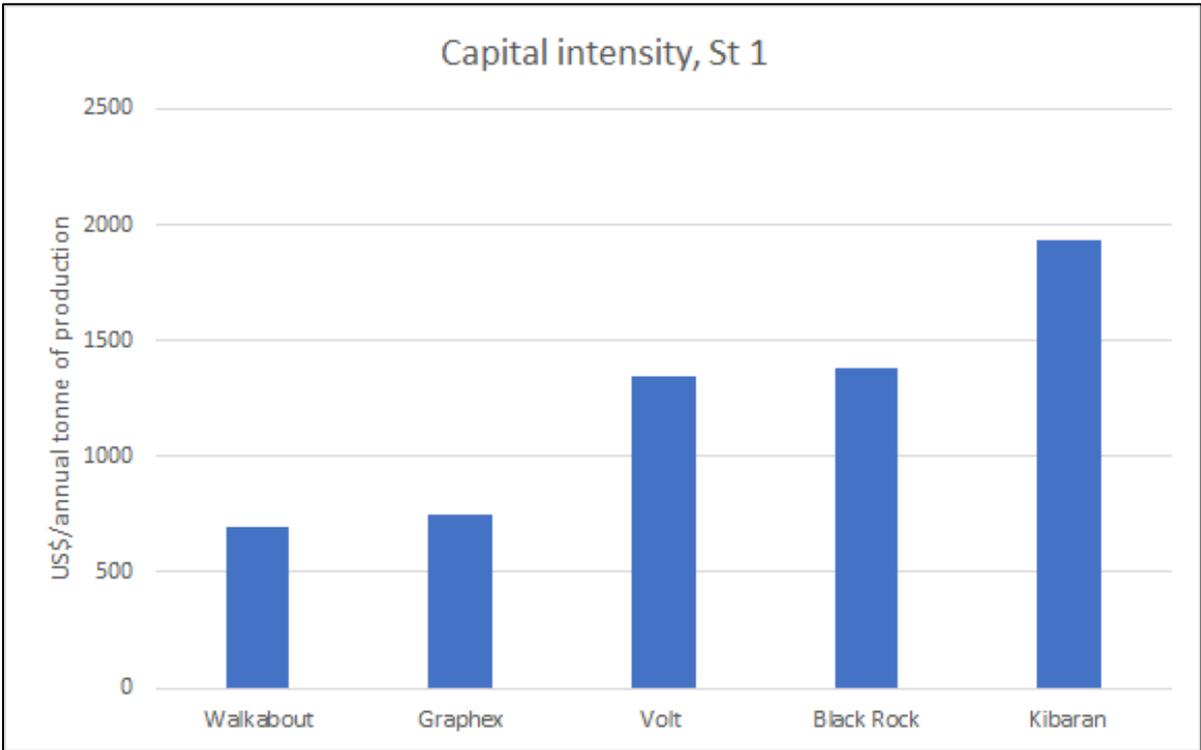
(Note: KNL's basket price looks a little high against its peer group)  
 GPX/Chilalo reserve head grade is the second highest (after Walkabout) and delivers 'mid-field' cash costs.



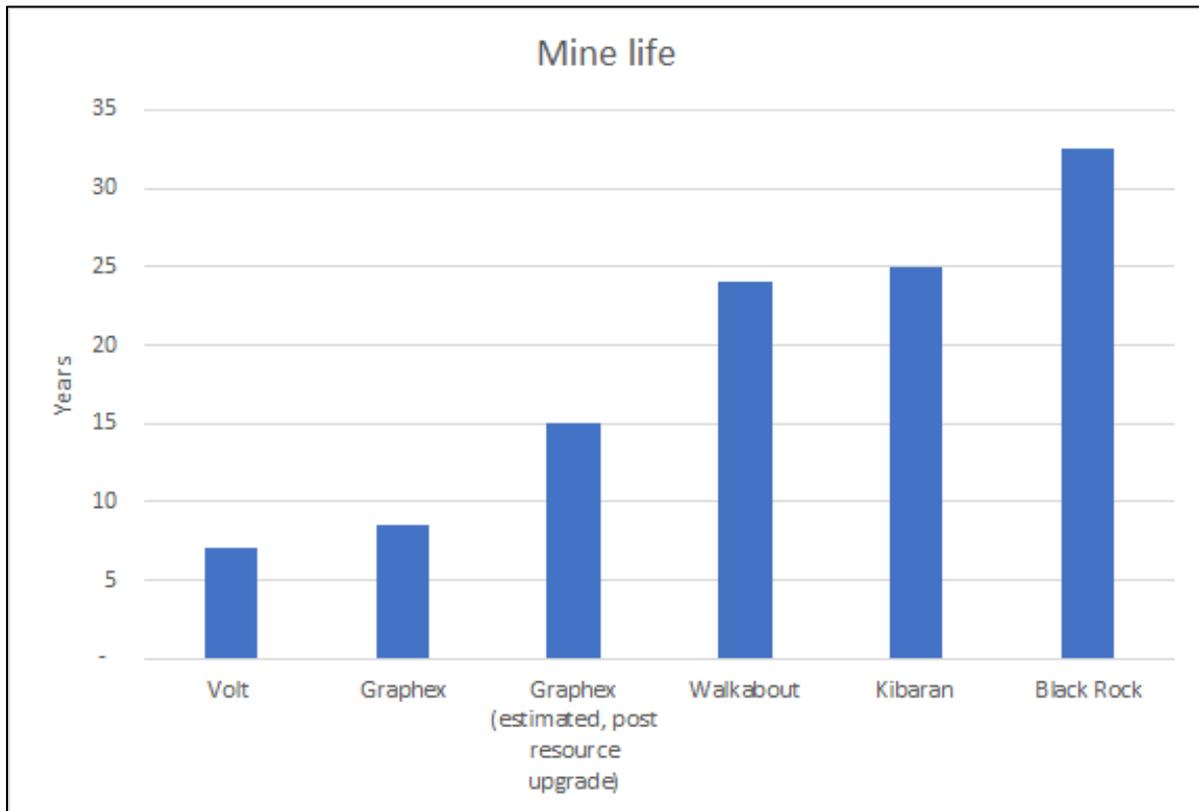
As a result of the high basket price and mid-field cash costs GPX/Chilalo's margins are the highest amongst its peers.



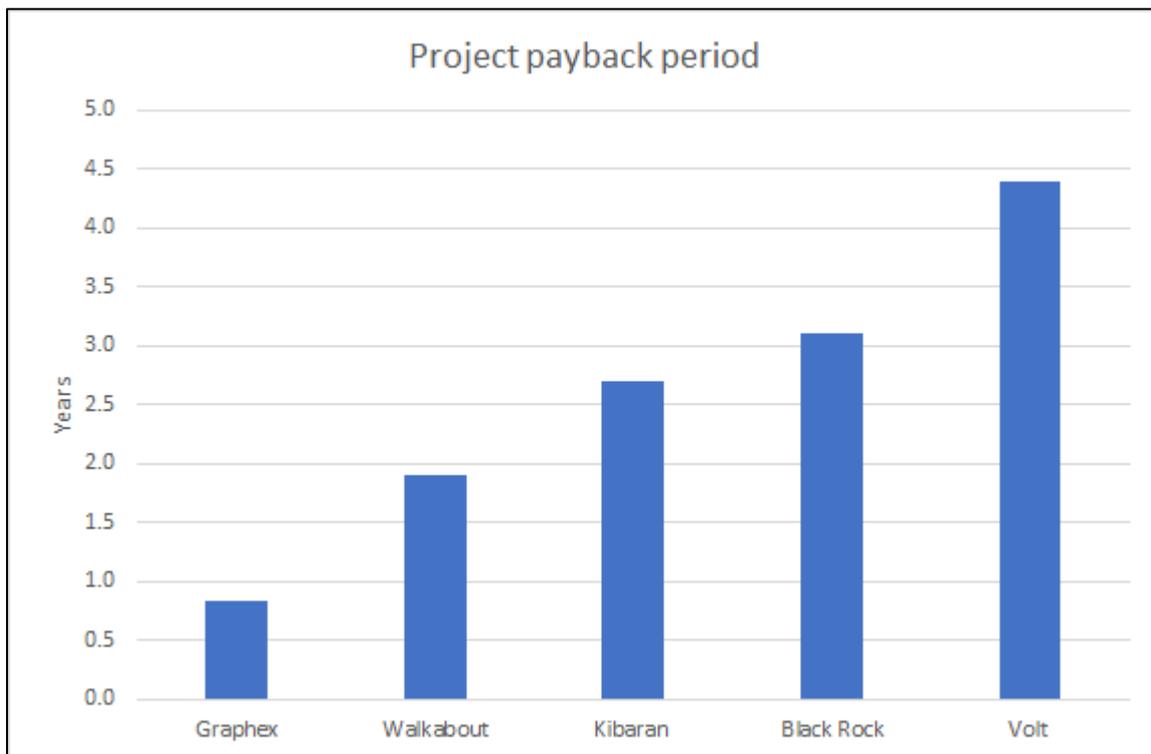
GPX/Chilalo’s capital intensity is low (with WKT) expressed on a US\$/annual tonne for production for Stage 1.



As reserves stand currently, GPX/Chilalo offers one of the shorter mine lives. The DFS is targeting 15 years (at a 108ktpa production rate) and we know the resource potential is excellent.



A combination of low capital intensity and high margins delivers the best economic returns for GPX/Chilalo (Stage 1) with a sub-1 year payback period.



Note that all projects other than Chilalo are at DFS status. GPX is aiming to complete the Chilalo DFS by 4Q19.

One area of concern within the sector relates to the quality of product offtake agreements. Several of the companies state they have “binding offtakes”. As Phil can discuss in more detail, many of these do not stand detailed scrutiny. Most offtakes quoted are condition on production, financing and often with 60 day termination notices. Surprisingly few (in fact none) have a negotiated offtake price for the product, which is normal for an offtake agreement. As we know, Phil Hoskins has been very careful not to overstate the security of Chilalo’s offtake.

**The conclusion is therefore fairly self-evident: GPX seems dramatically underpriced, with excess risk perhaps being apportioned to the completion of the DFS. To have a market cap the equivalent of Volt, a much smaller producer with significantly lower margins and a +4 year payback makes no sense to me.**

**A more detailed report, with a valuation, will be prepared following our forthcoming site visit.**

Dr CK Baker  
May 2019

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Dr Chris Baker, an authorised representative of BCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares and options in GPX. He is remunerated by BCP but is not paid a specific fee for providing this report. BCP are Corporate Advisors to GPX and receive fees from GPX for services provided. BCP, its directors and consultants may own shares and options in GPX and may, from time to time, buy and sell the securities of GPX.

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