



## Graphex Mining (GPX AU, market cap A\$19m)

### Update: Significant resource upgrade confirms a +15 year mine life is achievable

- Graphex Mining has reported a strong increase in the Chilalo resource base. Total resource tonnes have increased by some 26%.
- Importantly tonnes in the indicated category for the high grade zone have almost doubled to 10.3Mt with total contained graphite up by 73%. This is important as we expect much (if not all) the indicated resource to convert to probable reserves following completion of the bankable feasibility study. This was the case for the earlier resource/reserve statement.

		2019			2018			Change (%)		
		Million tonnes (Mt)	TGC (%)	Contained graphite (Kt)	Million tonnes (Mt)	TGC (%)	Contained graphite (Kt)	Mt	TGC	Cont. graphite
High grade zone	Indicated	10.3	10.6	1092	5.3	11.9	631	94%	-11%	73%
High grade zone	Inferred	9.8	9.3	911	11.7	9.4	1100	-16%	-1%	-17%
Total high grade resource	Indicated + Inferred	20.1	9.9	1990	16.9	10.2	1724	19%	-3%	15%
Low grade zone	Inferred	47.3	3.5	1656	36.6	3.5	1281	29%	0%	29%
Total resource		67.3	5.4	3634	53.5	5.6	2996	26%	-4%	21%

Source: GPX releases

- If GPX can report a reserve of over 10Mt – which seems likely - this implies a 12 year mine life at Stage 1 production rates based on reserves alone. In our modelling, we have assumed a 15 year mine life, with production expanding from 58ktpa to 100ktpa (with full production from year 4) and a total production of 1.4Mt of graphite. This requires an upgrade of at least 50% of the high grade inferred resource into reserves which we see as low risk.
- The ease with which GPX has been able to upgrade resources gives us a high level of confidence our projections will be achieved. As we have said on many occasions, reserves and resources are the least of GPX's concerns.
- Completion of the BFS remains scheduled for 4Q19. It is understood that testing of a bulk sample of Chilalo ore is to be started shortly. This will allow consultants to sign off on final process design.
- Our valuation for GPX remains at A\$1.63/share, a substantial premium to the current share price. Refer to our July report for further details.

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### Update on Tanzania

- As we detailed in our recent report, GPX has been working well to advance permitting of its Chilalo graphite project. Despite all the issues attached to recent changes to the Tanzanian Mining Act, GPX appears to have been highly successful in navigating a reasonable outcome. This will, of course, involve a 16% free carried interest to the GoT. This is incorporated in our GPX valuation.
- A merger of Barrick and Acacia – now virtually *fait accompli* - should allow payment of the outstanding tax liability following completion of the takeover, likely in 4Q19. This should then open the doors for Tanzanian mining projects.
- Of the five graphite pre-development companies in Tanzania, GPX is by far the most advanced, with a financing solution at hand. As far as we are aware, none of the other graphite ‘hopefuls’ have been able to secure project debt facilities.

### Our investment thoughts on GPX

- Based on our assumptions GPX is remarkably inexpensive. Even if we assume our valuation is wrong by a factor of 2, or even 3, the stock is still dramatically underpriced.
- We understand that Tanzanian resources exposures should trade at a discount. But with an imminent resolution of the Acacia situation, we believe the country is open for business. Our country visit earlier in the year confirmed this view.
- Our recent experience in the graphite sector suggests investors still do not understand the graphite sector. It is a small industrial mineral sector, and commodity supply/demand dynamics are far from clear. To use Syrah Resources as a benchmark is simply comparing apples and oranges. GPX is not trying to participate in the small flake graphite market.
- Without wishing to make the point too strongly, IT IS NOT POSSIBLE FOR SYRAH RESOURCES TO PARTICIPATE MATERIALLY IN THE LARGE FLAKE GRAPHITE MARKET. It is simply not possible. The characteristics of the Balama orebody does not allow it. Oversupply of fine flake graphite is unlikely to impact the large flake producers.
- As we understand it the supply/demand dynamics for large flake graphite is very strong. Pricing remains robust, and seems likely to remain so for some time.



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Dr Chris Baker, an authorised representative of BSCP, 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 and research on a part time basis. He may own securities in companies he recommends, but will declare this when providing advice. He currently owns securities of GPX. He was not paid a fee by BSCP for the preparation of this report. BSCP are corporate advisors who routinely seek to provide corporate advisory services to junior mining companies and to earn fees from such companies. BSCP, its directors, officers and associates, may from time to time own securities in GPX and/or have a corporate advisory relationship with GPX and may earn corporate advisory fees from such a relationship.

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