

26 July 2017

QUARTERLY ACTIVITIES REPORT

Quarter ended 30 June 2017

SUMMARY

During the Quarter, the Company reached agreement on a non-binding term sheet (the **"Term Sheet"**) with a syndicate of Chinese investors led by CN Docking Joint Investment & Development Co. Ltd (**"CN Docking"**) for the joint venture, offtake and financing of the Chilalo Graphite Project. Among other things, the Term Sheet included an equity investment of US\$18-20 million by CN Docking for a 50% interest in the Chilalo Project.

Subsequent to the Quarter end, 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 contains a range of provisions, including the ability for the Government to acquire a free carried interest of 16% in mining companies undertaking projects. There are also new requirements relating to in-country beneficiation, local content and social responsibility measures.

Graphex understands that to a large extent, the Amending Legislation is designed to address the mining and export of precious metals and metal concentrates from existing operations in Tanzania, which have been the focus of a recent review conducted by Presidential Committees. As the Company's Chilalo Graphite Project is an industrial mineral project, a number of the new provisions of the Amending Legislation are not expected to impact on the Company.

Immediately following the passage of the Amending Legislation, the Company met with senior representatives of CN Docking in China, at which time they restated their commitment to working with Graphex to develop Chilalo. In response to the Amending Legislation, CN Docking agreed to a revised Term Sheet under which they would make an equity investment of US\$15-17 million for a 42% interest in the Chilalo Project (previously US\$18-20 million for 50%), should the Tanzanian Government elect to acquire a 16% interest.

The Company has since completed a placement of 12,045,454 ordinary shares to professional and sophisticated investors at \$0.22 per share to raise \$2.65 million (the **"Placement"**).

Commenting on this series of events, Graphex Managing Director Phil Hoskins said, *"This has clearly been a challenging period in our Company's history. Notwithstanding the legislative changes, we remain committed to the development of Chilalo and hope to work with the Tanzanian Government to provide a stable platform for all stakeholders to benefit. I was extremely pleased that CN Docking share our vision for the project and that a sensible amendment to terms could be agreed in a timely manner. Following the Placement, the Company can pursue the conclusion of the offtake and finance agreements in a far stronger financial position ensuring maximum probability of a successful outcome."*

HIGHLIGHTS

Chilalo Graphite Project

- Execution of a non-binding term sheet for an equity joint venture, offtake and prospective financing for the Chilalo Graphite Project. The key terms included:
 - Equity investment of US\$18-20 million (A\$23-26 million) by CN Docking for a 50% interest in the Chilalo Project
 - Provision of debt guarantees
 - Offtake for at least 50% of Chilalo product
- Post Quarter end, in response to the Amending Legislation that was passed by the Tanzanian Parliament in July 2017, the CN Docking-led syndicate reaffirmed its commitment to the joint venture development of Chilalo when it agreed revised terms for an equity investment of US\$15-17 million (A\$19-22 million) for a 42% interest, should the Tanzanian Government elect to acquire a 16% interest
- Metallurgical testwork completed on a bulk sample of Chilalo graphite showed improved results for both the concentrate grade and the flake size distribution

Tanzanian legislation changes

- The legislative changes included provisions relating to Government free carried interest, local content requirements and in-country mineral beneficiation
- As Chilalo is an industrial mineral project, a number of the new provisions of the Amending Legislation are not expected to impact the Company

Corporate

- Closing cash balance as at 30 June 2017 of \$1.15 million
- Post Quarter end, completion of the Placement to raise \$2.65 million (before costs)
- Updated research from Pulse Markets, BR Securities, The Sophisticated Investor and RM Research

CHILALO GRAPHITE PROJECT

Offtake and financing

During the Quarter, Graphex signed a non-binding term sheet which sets out a number of the key commercial terms relating to the proposed joint venture, offtake and prospective financing for the Chilalo Graphite Project. The Term Sheet was signed by CN Docking, a subsidiary of China National Building Materials Group. CN Docking leads a syndicate of Chinese investors through a new special purpose investment entity.

Key terms include:

- A syndicate led by CN Docking to make an equity investment of US\$18-20 million (A\$24-27 million) directly into wholly owned Graphex subsidiary, Ngwena Tanzania Limited for a 50% interest in the Chilalo Project, via a project-level incorporated joint venture. Should the Tanzanian Government require a 16% free carried interest, as may be the case under the Amending Legislation, CN Docking has agreed to make an equity investment of US\$15-17 million (A\$19-22 million) for a 42% interest in the Chilalo Project.
- Debt guarantees (if required) to be provided by both parties for the targeted project finance of up to 65% of the final pre-production capital costs. The Chinese investment syndicate is primarily responsible for procuring Chinese debt and Graphex for seeking project finance proposals ex-China.
- Offtake agreement for the purchase of a minimum of 50% of the Chilalo product at market prices, with assistance to be provided to the joint venture to procure product sales for the remainder of production.
- Both Graphex and CN Docking to exercise best endeavours to conclude formal legal documents within three months.

The joint venture expects to appoint an experienced Chinese company to undertake project EPC (engineering, procurement and construction). As part of the final engineering design and associated EPC appointment, the Company is targeting a reduction in capital expenditure from the previously reported capital expenditure estimates.

Bulk sample testwork

Metallurgical testwork showed improved results for both the concentrate grade and the flake size distribution of Chilalo graphite, which were a significant improvement on previously reported results:

- Production of a graphite concentrate with an average grade of 98.1% TGC;
- Grades in excess of 99% TGC were found in flake sizes coarser than +80 mesh;
- A near doubling in the percentage of +35 mesh material; and
- A significant reduction in the proportion of -100 mesh material.

Table 1 shows the results in comparison to the previously reported specifications for Chilalo product. It is important to note however that the previously reported specifications in the table below were prior to substantial metallurgical testwork undertaken by CN Docking as part of their due diligence, which confirmed that Chilalo graphite has a high proportion of coarse flake material, has exceptional expandability and is suitable for multiple expandable graphite products including graphite foil, graphite paper, seals, gaskets and flame retardants.

Table 1. Results of bulk sample testwork

Flake Size	Microns	Mesh	Previous Mass Distribution (%)	June 2017 Mass Distribution (%)	Previous Grade (TGC %)	June 2017 Grade (TGC %)
Super Jumbo	> 500	35	1.9	3.7	95.9	98.7
Jumbo	300 – 500	50	24.0	18.3	95.6	99.3
Large	180 – 300	80	22.5	27.0	93.7	98.7
Medium	150 – 180	100	6.0	11.6	93.9	97.4
Small	75 – 150	200	20.6	22.3	94.9	98.1
Fines	<75	-200	25.0	17.1	90.0	96.2
Total			100.0	100.0	93.5	98.1

The testwork was carried out by SGS Lakefield in Canada on a seven tonne composite sample of oxide and fresh material extracted from a series of trenches and test pits. The purpose of the testwork program was to generate marketing samples for distribution to potential customers in China. As the Company's negotiations with CN Docking have advanced, the parties identified a significant number of end users interested in purchasing Chilalo product for the growing expandable graphite market. Sample material has been dispatched to a number of end users.

CORPORATE

Cash

As at 30 June 2017, the Company had cash of \$1.15 million.

Subsequent to the end of the June Quarter, the Company completed a placement of 12,045,454 ordinary shares to professional and sophisticated investors at \$0.22 per share to raise \$2.65 million. The issue of shares pursuant to the Placement is expected to take place in the coming days. Of the 12,045,454 Placement shares, Directors subscribed for 300,000 shares, the issue of which is subject to shareholder approval at the Company's next general meeting.

Share capital

As part of the initial public offering ("IPO") completed in June 2016, the Company issued 55,000,000 ordinary shares and 11,666,502 Loyalty Options.

The Loyalty Options were issued to subscribers under the IPO and vested on 14 September 2016 ("Vesting Date") subject to the number of shares held by subscribers on the Vesting Date. As at 30 June 2017, 6,200,308 Loyalty Options are unexercised, with 2,499,585 having lapsed on the Vesting Date and a further 2,983,275 having been exercised since the Vesting Date.

During the Quarter, 299,159 ordinary shares were issued pursuant to the exercise of Loyalty Options and 116,178 shares were issued to the lead managers of the IPO, this being the final issue of shares pursuant to the lead managers' mandate. As at 30 June 2017, the Company had 58,212,063 ordinary shares on issue. On completion of the Placement, including the issue of shares for which directors subscribed, the Company will have 70,257,517 ordinary shares on issue.

Changes to Tanzanian legislation

Subsequent to Quarter end, the Amending Legislation was passed, which included a number of changes with respect to the legal and regulatory framework governing the natural resources sector in Tanzania. Key aspects of the Amending Legislation and their potential impact on Graphex are set out in the table below:

Table 2. Key aspects of the Amending Legislation

Legislative change	Potential impact
Scope for the Government to have at least a 16% non-dilutable free carried interest in the capital of the mining company.	It is expected that the funding costs of a new project would be recoverable underneath the free carried interest.
The Government shall be entitled to acquire, in total, up to 50% of the shares in a mining company, commensurate with the quantified value of tax incentives incurred by the Government in favour of the mining company.	As the Government has not incurred any tax incentives in favour of Graphex, nor is Graphex seeking the Government to incur any tax incentives in its favour, the Company believes that this is not applicable to Chilalo.
There is an increase in the royalty rate for certain minerals, though not for 'other minerals' such as graphite.	The new royalty provisions do not apply to industrial minerals and the royalty rate applicable to Chilalo remains at 3%.
Any earnings from mineral developments must be retained in the banks and financial institutions established in Tanzania.	The Amending Legislation does not restrict repatriation of profits in accordance with the laws of Tanzania.
The Government may renegotiate existing Mine Development Agreements ("MDAs") based on such agreements being unconscionable.	Graphex owns 100% of Ngwena Tanzania Limited ("Ngwena"), which owns 100% of Chilalo. Ngwena does not have an existing MDA with the Government, as Chilalo consists of a Mining Licence which does not require an MDA, as opposed to Special Mining Licences which require an MDA and are eligible for concessional tax arrangements.
No raw resources shall be exported for beneficiation outside Tanzania.	As graphite is processed at the mine site into a final product with a grade of not less than 95% total graphitic carbon, with no further upgrading required, this is not expected to apply to Chilalo.
Proceedings or disputes must be adjudicated in Tanzania in accordance with the laws of Tanzania.	Purports to remove the ability of the Company to settle disputes by international arbitration.
Mineral rights holders must participate in the growth of the Tanzanian economy by investing a portion of the returns from mining, and satisfy further provisions on local content, corporate social responsibility ("CSR") and the requirement for mineral rights holders to make an integrity pledge.	Graphex has always sought to maximise the use of locally produced goods and services, is committed to providing employment and training opportunities for Tanzanian nationals, operates an active CSR program and maintains a leading practice Code of Conduct. As a result, the Company does not anticipate any issues in meeting these requirements.

TENEMENT INTERESTS

Table 3 shows the Company's tenement interests as at 30 June 2017. No tenements were acquired or disposed during the March Quarter.

Table 3. 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 ¹	100%	Noli	Tanzania
PL 11921/2017 - Noli SE ²	100%	Noli	Tanzania

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



PHIL HOSKINS

Managing Director

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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's current focus of effort is on securing offtake and financing agreements for the development of Chilalo. Following the recent execution of a non-binding term sheet, Graphex is working closely with CN Docking Joint

Investment & Development Co. Ltd, a subsidiary of China National Building Materials on the finalisation of such agreements.

Graphex has an experienced board and management team with specific skills and extensive experience in African based project development, exploration, mining and processing.

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



Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16

Name of entity

Graphex Mining Limited

ABN

77 610 319 769

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(424)	(2,130)
(b) development	-	-
(c) production	-	-
(d) staff costs	(199)	(807)
(e) administration and corporate costs	(168)	(1,318)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	5	47
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	17
1.8 Other (Business Development)	(43)	(225)
1.9 Net cash from / (used in) operating activities	(829)	(4,416)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(2)	(13)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	7
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(2)	(6)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	75	746
3.4	Transaction costs related to issues of shares, convertible notes or options	(1)	(248)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	74	498

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	1,908	5,075
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(829)	(4,416)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2)	(6)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	74	498
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
4.6	Cash and cash equivalents at end of period	1,150	1,150

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	142	653
5.2 Call deposits	1,008	1,255
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,150	1,908

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
90
Nil

Non-executive Directors fees and Managing Directors salary.

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
Nil
Nil

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

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9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(405)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(284)
9.5 Administration and corporate costs	(178)
9.6 Other (Business Development)	(85)
9.7 Total estimated cash outflows	(952)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 26 July 2017

Print name: Stuart McKenzie

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, AASB 6: Exploration for and Evaluation of Mineral Resources and AASB 107: Statement of Cash Flows apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.