Graphex
MINING

ABN 77 610 319 769

ANNUAL REPORT - 30 JUNE 2017

Corporate Information

ABN 77 610 319 769

Directors
Mr Stephen Dennis (Non-Executive Chairman)
Mr Grant Davey (Non-Executive Director)
Mr Phil Hoskins (Managing Director)

Company Secretary
Mr Stuart McKenzie

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ASX Code
Shares are listed on the Australian Securities Exchange (**ASX**) under stock code GPX.

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Managing Directors' report

Dear Shareholders

On behalf of the Directors, I am pleased to introduce the 2017 Annual Report for Graphex Mining. Graphex has committed to a clear strategy of supplying coarse flake graphite to China for the expandable graphite market. As China is the global leader in the demand and supply of graphite, as well as processing technology, we have always believed that a focus on China is critical and are confident that this strategy gives us the best possible opportunity of realising the value of our Chilalo Graphite Project.

Recently reported results of testwork completed by the pre-eminent graphite laboratory in China, Suzhou Design and Research Institute for Non-Metallic Minerals (Suzhou), on behalf of CN Docking Joint Investment and Development Co Ltd (CN Docking), confirmed that Chilalo graphite is the coarsest flake graphite in the world. The testwork was part of CN Docking's detailed feasibility study that was completed in December 2016 and their willingness to share this information is a measure of the quality of our relationship.

Chilalo graphite demonstrates expansion rates among the highest in the world. It is this combination of coarse flake and expandability that sets Chilalo apart. Expanded graphite has unique heat-resistant properties and among other uses, is used in the manufacture of flame retardant building materials, which has become increasingly important due to a number of recent high-rise building fire disasters, which have been attributed to the use of flammable cladding.

China accounts for 90% of expandable graphite production and given they imported only 1,027 tonnes of flake graphite in 2016, this graphite is being sourced from domestic Chinese sources. However, we know that there are serious flake graphite supply restrictions emerging in China, driven by the closure of thousands of open pit mines due to environmental reviews, particularly in the graphite rich Heilongjiang and Shandong provinces; abolition of the graphite export tax on 1 January 2017; and rising costs of production caused by low-grade, deep mining operations.

These factors are combining to drive higher graphite prices. CN Docking and Suzhou recently informed the Company that there have been significant improvements in flake graphite pricing, primarily in the coarser flake sizes, with prices having increased by 50% since December 2016. Price increases of this magnitude have the potential to materially improve the economics of our Chilalo project. CN Docking and Suzhou expect to see further upward pressure on graphite prices.

CN Docking agrees that the quality of the Chilalo project is irrefutable. Since signing a term sheet for a 50/50 joint venture development of Chilalo in May 2017, progress was held up due to changes in Tanzanian legislation, which added some complexity to the negotiations. Nonetheless, shortly after announcement of the changes to the legislation, CN Docking recommitted to the 50/50 joint venture by agreeing revised terms under which each party's interest would be reduced equally to provide for any interest held by the Tanzanian Government. Negotiations on the remaining outstanding commercial terms are at an advanced stage and there is a genuine desire from both parties to reach agreement as soon as possible.

The changes to Tanzanian legislation were very much unexpected. Much of the legislation seems to have been designed to address the mining and export of precious metals and metal concentrates from existing operations in Tanzania, and as an industrial minerals project, a number of the new provisions in the legislation are not expected to impact our development of Chilalo. However, there are several aspects of the legislation on which clarification is required and led by our Country Manager, we are working with the Tanzanian Government to obtain that clarification. Having operated successfully in Tanzania for many years (as Graphex and formerly as IMX Resources), the Company is a respected operator among the local communities and within all levels of Tanzanian Government. With our Country Manager and a Board and management team that has demonstrated success in operating in developing countries, we are confident that a satisfactory outcome which allows for the joint venture development of Chilalo can be achieved.

Chilalo is a world class project and we are committing every effort to see it developed as an operating graphite mine. The Board and I would like to thank all shareholders for your continued support and look forward to keeping you updated as we progress during what should be an exciting year.

Yours faithfully

Phil Hoskins
Managing Director

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the **Group**) comprising Graphex Mining Limited (**Graphex** or the **Company**) and the entities it controlled at the end of, or during, the year ended 30 June 2017 and the auditor's report thereon. Graphex is a company limited by shares that is incorporated and domiciled in Australia.

Directors and Company Secretary

The following persons were Directors of Graphex (**Directors**) during the 2017 financial year and up to the date of this report:

Stephen Dennis

Grant Davey

Phil Hoskins

The Company Secretary is Mr Stuart McKenzie. Mr McKenzie was appointed to the position of Company Secretary in January 2016.

Directors were in office for the entire period unless otherwise stated.

Principal activities

During the period, the principal continuing activities of the Group consisted of exploration and development of the Chilalo Graphite Project in Tanzania.

Dividends

During the period, no dividends were declared or paid.

Significant changes in the state of affairs

There were no significant or material changes to the Company's state of affairs not otherwise disclosed in this report.

Events since the end of the financial year

Subsequent to year end, the Company completed a placement of 12,045,454 fully paid ordinary shares at $0.22 per share to raise $2.65 million before costs.

Likely developments and expected results

In the opinion of the Directors, there is nothing else to report, except as reported in the Directors' Report, which relates to likely developments in the operations of the Group and the expected results of those operations in financial years subsequent to 30 June 2017.

Environmental regulation

The Group's exploration and development activities and those of its partners are subject to environmental regulations and guidelines applicable to the tenements on which such activities are carried out. Failure to meet environmental conditions attaching to the Group's exploration tenements could lead to forfeiture of those tenements. The Group is committed to achieving a high standard of environmental performance. No environmental breaches have occurred or have been notified by any Government agencies during the period ended 30 June 2017 and up to the date of this annual report.

Directors' report

Review of operations

Results of operations

A summary of results for 2017 is as follows:

	2017 $	2016 $
Net loss after income tax	(4,662,853)	(1,256,415)
attributable to:		
Administrations costs	(938,727)	(184,766)
Employee benefits	(846,021)	(106,558)
Exploration and evaluation expenditure	(1,277,633)	(80,326)
Transaction costs	-	(397,954)
Business development and marketing	(1,433,759)	(91,592)
Share based payments	(201,582)	(397,070)

Chilalo Graphite Project

Joint venture negotiations

In May 2017, the Company executed a non-binding term sheet for an equity joint venture, offtake and prospective financing for the Chilalo Graphite Project with a Chinese syndicate, led by CN Docking Joint Investment and Development Co Ltd (**CN Docking**), a subsidiary of China National Building Materials Group. Key terms include:

- A syndicate led by CN Docking to make an equity investment of US$18-20M (A$24-27M) for a 50% interest in the Chilalo Project, via a project-level incorporated joint venture;
- 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; and
- Offtake agreement for the purchase of a minimum of 50% of the Chilalo product at market prices. Assistance to be provided to the joint venture to procure product sales for the remainder of production.

While changes to Tanzanian legislation in July 2017 (see page 9) delayed progress, CN Docking reaffirmed its commitment to the joint venture development of Chilalo and revised terms were agreed to address the possible scenario where the Tanzanian Government holds a 16% free carried interest. Under the revised terms, CN Docking will invest US$15-17 million (A$20-23 million) for a 42% interest in the Chilalo Project via a project-level incorporated joint venture. The Company continues to advance negotiations on a transaction for the joint venture development of Chilalo.

Substantial increase in Mineral Resource

A 12 hole, 1,331m Reverse Circulation drilling program resulted in an increase in the high-grade Chilalo Mineral Resource by more than 80% to 16.9Mt grading 10.2% Total Graphitic Carbon (**TGC**), comprised of:

- Indicated Resource of 5.2Mt grading 11.9% TGC for 0.6Mt of contained graphite; and
- Inferred Resource of 11.7Mt grading 9.4% TGC for 1.1Mt of contained graphite.

The Chilalo Mineral Reserve and Ore Reserve following this drilling is shown in the table below.

Directors' report

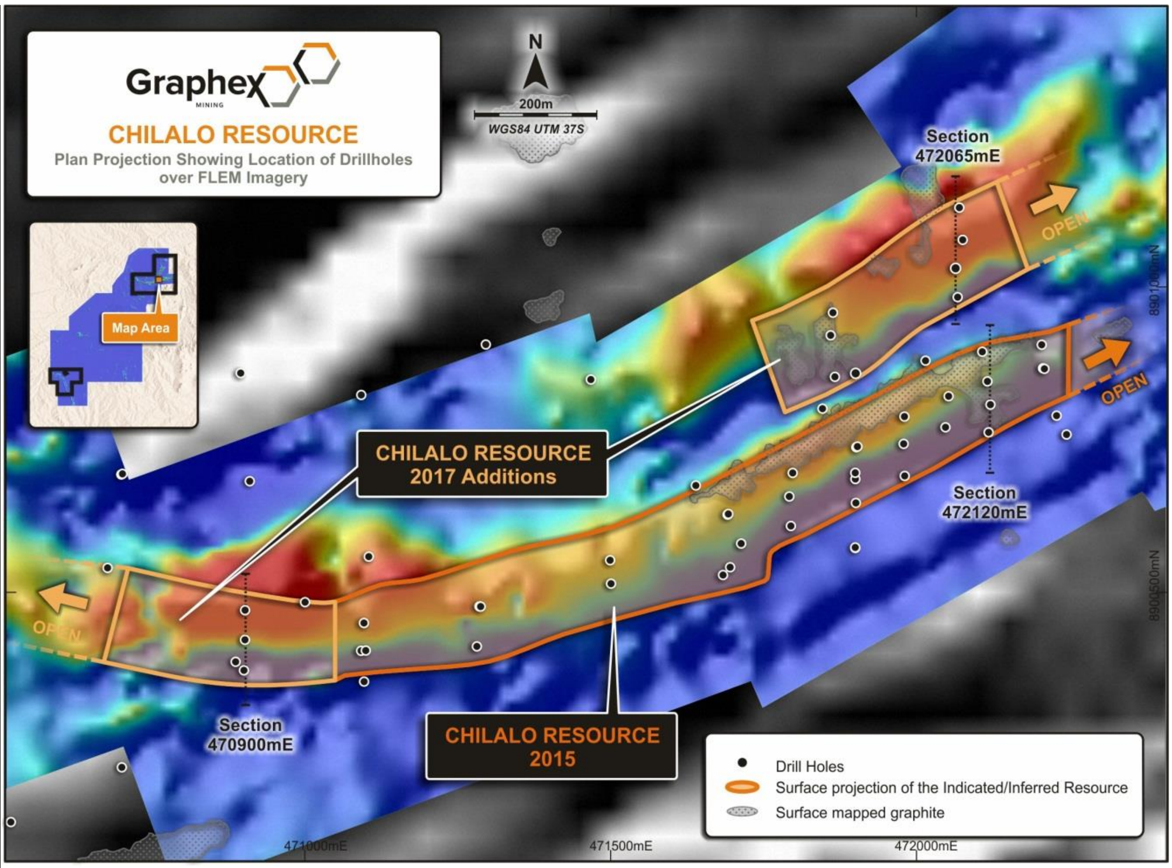
Annual Statement of Ore Reserves and Mineral Resources: Chilalo Project

Domain	Classification	Tonnes (Mt)	TGC (%)	Contained Graphite (Kt)
High-grade zone	Probable Reserve	4.7	11.0	517
Total ore reserves	**Probable Reserve**	**4.7**	**11.0**	**517**
High-grade zone	Indicated	5.2	11.9	622
High-grade zone	Inferred	11.7	9.4	1,100
Total high-grade resource	**Indicated and Inferred**	**16.9**	**10.2**	**1,722**
Low-grade zone	Inferred	36.6	3.5	1,265
Total resource	**Indicated and Inferred**	**53.5**	**5.6**	**2,987**

1. Mineral Resources are inclusive of Ore Reserves. The Mineral Resource was estimated within constraining wireframe solids using a core high grade domain defined above a nominal 5% TGC cut-off within a surrounding low-grade zone defined above a nominal 2% TGC cut-off. The resource is quoted from all classified blocks within these wireframe solids. Differences may occur due to rounding (see ASX announcements 10 May 2016 (IMX Resources Limited) and 2 February 2017).

The increase in the Mineral Resource followed the discovery of two new zones of graphite mineralisation located adjacent to the north and south-west of the existing Chilalo Mineral Resource (see Figure 1). One of these is a new and separate zone of graphite mineralisation located approximately 300 metres north and running parallel to the existing Mineral Resource, the other is located to the south-west of the existing Mineral Resource, confirming the continuation of mineralisation along strike. Both new zones remain open along strike.

Figure 1. Chilalo Mineral Resource Plan Projection



Directors' report

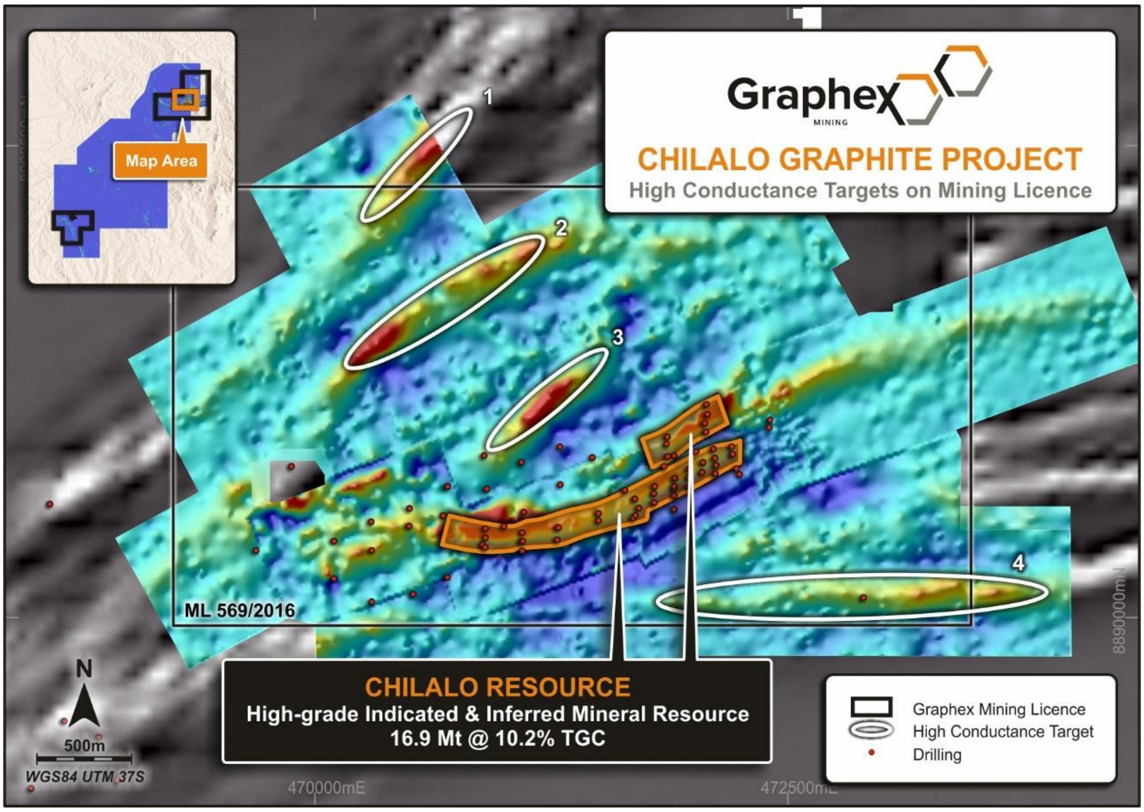
Petrographic examination of RC chip samples from the high-grade domain of the North-East Mineral Resource zone has confirmed that it exhibits similar flake graphite dimensions to the 2015 Mineral Resource.

Potential for further increases to the Chilalo Mineral Resource

A Fixed Loop Electromagnetic (FLEM) survey carried out during the December Quarter identified four untested, high quality targets on the Chilalo Mining Licence – all within close proximity to the existing high-grade Mineral Resource (ASX announcement 15 December 2016).

Conductors 1, 2 and 3 are located to the north of the Shimba Mineral Resource, all of which have FLEM responses that indicate the potential for thick and/or high grade graphitic mineralisation and are yet to be drilled. Conductor 4 located to the south of Shimba has a single historic drill hole (NRC12-111) which was part of a nickel exploration program conducted by IMX Resources Limited in 2012. Geological logging from this hole identified that it includes an intersection of 41m of graphitic gneiss, with the mineralisation open at the end of the hole.

Figure 2. High conductance FLEM targets on Mining Licence



The success of the drilling program that delivered a substantial increase in the Chilalo Mineral Resource was largely due to the effectiveness of FLEM surveys in identifying high quality drill targets. As a result, the Company is highly confident that these four new targets will enable Graphex to progressively grow Chilalo's graphite resources as required.

Further testwork materially improved flake size and basket price

Subsequent to year-end, the Company received the results of testwork carried out by the Suzhou Design and Research Institute for Non-Metallic Minerals (**Suzhou**) on behalf of CN Docking as part of their technical due diligence undertaken in 2016. These results show significant improvements to the previously reported flake size distribution, including:

- 42% above +35 mesh (500 microns); and
- 13% above +20 mesh (850 microns) – a flake size not produced by any peer group company.

Directors' report

The table below shows Suzhou's results in comparison to the previously reported specifications for Chilalo product. Whilst some of the product grades are slightly lower than those achieved in Graphex's own testwork, both CN Docking and Suzhou have advised that such grades 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.

Chilalo flake size distribution

Flake Size	Microns	Mesh	Suzhou Mass Distribution (%)	Graphex Mass Distribution (%)	Suzhou Grade (TGC %)	Graphex Grade (TGC %)
N/A	> 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
Total			**100.0**	**100.0**		

CN Docking has also advised the Company that there have been significant improvements in flake graphite pricing, with prices having increased by 50% since December 2016, 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.

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

Infrastructure improvements in south-east Tanzania

Improvements to key infrastructure in south-east Tanzania have lent further support for the development of the Chilalo Project. The infrastructure improvements, which are being undertaken by the Tanzanian Government and are referenced in the respective Ministers' 2017/18 budget speeches, include:

- Potential access to grid-connected power supply from a natural gas power plant at Mtwara, with 300 MW generation capacity that is currently the subject of a feasibility study;
- Expansion of the Mtwara Port facility with the construction of four new berths; and
- Upgrade of the road from Nanganga to Ruangwa, which when completed, will mean that all but approximately 35 kilometres of the 220km route from Chilalo to the Mtwara Port will be bitumenised.

Figure 3 shows the existing and proposed infrastructure applicable to the Chilalo project.

Directors' report

Figure 3. Chilalo Graphite Project: Existing and proposed infrastructure

Fully permitted

During the year, the Ministry for Energy and Minerals granted the Company a mining licence (ML 569/2016). With the Company having already received its Environmental Certificate and Government approval of its Resettlement Action Plan for the surrounding communities, all key regulatory approvals for the development of Chilalo are in place.

Legislative changes in Tanzania

Subsequent to year end, the Tanzanian Government passed legislation which included a number of changes with respect to the legal and regulatory framework governing the natural resources sector in Tanzania (**Amending Legislation**).

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 Project is an industrial minerals project, a number of the new provisions of the Amending Legislation are not expected to impact the Company, as they appear to be targeted at metals and metal concentrates.

Directors' report

Key aspects of the Amending Legislation include:

- Depending on the scale of the project and the minerals being mined, the Tanzanian Government may hold a free carried interest of at least 16%;
- An increase in the royalty rate for certain minerals (including gold and copper) from 4% to 6%, however the royalty rate of 3% applicable to graphite has not changed;
- Retention of earnings in Tanzania, with repatriation of profits permitted in accordance with Tanzanian law;
- Disputes to be adjudicated in Tanzania under Tanzanian law;
- Local content, corporate social responsibility and the requirement for mineral rights holders to make an integrity pledge; and
- Restrictions on the export of raw resources for beneficiation outside Tanzania.

Regulations that are expected to provide greater clarity on the practical operation of the Amending Legislation are currently being drafted and a new Mining Commission that will have responsibility for all mineral licencing matters is in the process of being formed.

Strategy

The Group's strategy is to maximise shareholder value through development of its Chilalo Graphite Project. The existing high-grade Ore Reserve and Mineral Resource and outstanding flake size distribution make Chilalo an excellent near-term development opportunity. The Group's short to medium-term strategic goals are to:

- Secure funding for the development of Chilalo through a mix of strategic investment and debt;
- Obtain offtake for planned graphite production; and
- Bring the Chilalo Project into production.

Since its admission to the official list of ASX in June 2016, the Company has used available funds in a manner that is consistent with its business objectives.

Information on Directors

Mr Stephen Dennis BCom, LLB GDipAppFin (Finsia) – Non-Executive Chairman		
Experience and expertise	Stephen Dennis has been actively involved in the mining industry for over 30 years. He has held senior management positions at MIM Holdings Limited, Minara Resources Limited and Brambles Australia Limited. Until recently, Mr Dennis was the Chief Executive Officer and Managing Director of CBH Resources Limited, the Australian subsidiary of Toho Zinc Co., Ltd of Japan.	
Other current directorships	Heron Resources Limited (Non-Executive Chairman) Rox Resources Limited (Non-Executive Chairman) Cott Oil and Gas Limited (Non-Executive Chairman)	
Former directorships in the last 3 years	CBH Resources Limited	
Special responsibilities	Chairman	
Interests in shares and options	Ordinary shares	375,000
	Unlisted options Loyalty options pursuant to IPO	1,000,000 124,999

Directors' report

Mr Grant Davey BSc – Non-Executive Director		
Experience and expertise	Grant Davey has over 20 years of senior management and operational experience in the construction and operation of gold, platinum and coal mines in Africa, Australia, South America and Russia. More recently, he has been involved in venture capital investments in several Canadian and Australian listed exploration and mining projects. Mr Davey was instrumental in acquiring the Honeymoon Uranium Project in South Australia and was the Managing Director of Cradle Resources Limited and founder and Managing Director of the Panda Hill niobium project in Tanzania.	
Other current directorships	Boss Resources Limited (Non-Executive Director) Cradle Resources Limited (Executive Director)	
Former directorships in the last 3 years	Nil	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares	250,000
	Unlisted options Loyalty options pursuant to IPO	1,000,000 83,333

Philip Hoskins BCom, CA, GDipAppFin (FINSIA) – Managing Director		
Experience and expertise	Mr Hoskins commenced his career at a large international accounting firm and has since gained corporate experience with both Australian and international listed companies. He is a senior executive with 15 years of broad finance and commercial experience across resources exploration, project development and production as well as large-scale property developments requiring debt and equity financing. He was appointed as IMX's Managing Director in October 2015 after being Chief Executive Officer from September 2014, before which he spent almost three years as IMX's Chief Financial Officer. Mr Hoskins became the Managing Director of Graphex on June 2016.	
Other current directorships	Nil	
Former directorships in the last 3 years	IMX Resources Limited (Managing Director)	
Special responsibilities	Nil	
Interests in shares and options	Ordinary shares	366,998
	Unlisted options Loyalty options pursuant to IPO	1,585,000 83,333

Stuart McKenzie LLB, BEc. (Hons.), AGIA, ACIS – Company secretary	
Experience and expertise	Mr McKenzie has over 30 years of experience in senior commercial roles. He was previously Company Secretary with Anvil Mining Limited for almost six years, prior to which he held senior positions with Ok Tedi Mining Limited, Ernst and Young and HSBC.

Meetings of Directors

The number of meetings of the Company's Directors held during the period ended 30 June 2017 and the number of meetings attended by each Director is shown below:

	Meetings of Directors	
	Held	**Attended**
S Dennis	6	6
G Davey	6	6
P Hoskins	6	6

As at the date of this report there is no audit and risk committee or remuneration committee. The Board has determined that given the size and composition of the Board and the scale of the Company's activities, the functions of those committees ought to be performed by the Board. For further information, please see the Company's Corporate Governance Statement.

Directors' report

Remuneration report (audited)

(a) Key management personnel covered in this report

This Remuneration Report sets out information relating to the remuneration of the key management personnel (**KMP**) of the Group during the 2017 financial year. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and Group, directly or indirectly. The KMP for the 2017 financial year are as set out below.

Non-Executive and Executive Directors

Name	Position
S Dennis	Non-Executive Chairman
G Davey	Non-Executive
P Hoskins	Managing Director

Other KMP

Name	Position
S McKenzie	Commercial Manager and Company Secretary
N Corlis	General Manager – Technical
C Knee	Chief Financial Officer

Subsequent to year-end, on 19 July 2017, Mr Nicholas Corlis was made redundant. Per contractual arrangements Mr Corlis remains employed by the Company to 19 October 2017, in accordance with the three-month notice period in his employment agreement.

(b) Remuneration policy and link to performance

The Group's approach to remuneration is designed to attract and retain key executive talent, recognise the individual contributions of the Group's people, and motivate them to achieve strong performance aligned to the business strategy, whilst discouraging excessive risk taking.

In summary, the Group's approach to remuneration is to:

- Provide remuneration that is competitive and consistent with market standards;
- Align remuneration with the Company's overall strategy and shareholder interests;
- Reward superior performance within an objective and measurable incentive framework;
- Ensure that executives understand the link between individual reward and Group and individual performance;
- Be at a level acceptable to shareholders; and
- Apply sufficiently flexible remuneration practices that enable the Company to respond to changing circumstances.

All Executive KMP remuneration is comprised of the following:

- Fixed (base remuneration):
  - Contractual salary; and
  - Legislated superannuation guarantee (9.5% of gross salary for 2017).
- At risk component:
  - Short-term incentive (**STI**) – described further in the table below; and
  - Long-term incentive (**LTI**) – described further in the table below.

Directors' report

(b) Remuneration policy and link to performance (continued)

Element	Purpose	Performance metrics	Potential value
Base (fixed) remuneration	Provide competitive market salary, including superannuation	Nil	Within industry averages for the position's required skill and experience. Third party advice is sought periodically to ensure these are at or close to market median.
STI	Equity based reward for 12 month performance	Health and safety, corporate objectives and project development objectives. Company strategy is set at the Board level and is used to determine the Managing Director's KPIs, which are then cascaded down to the other Executives.	Managing Director up to 40% of base remuneration, other KMP up to 20% of base remuneration.
LTI	Alignment with growth in long-term shareholder value over a three year period	Achievement of key Company objectives, such as obtaining offtake and funding for Chilalo.	Up to 55% of base remuneration on an annual basis including one off grant of options upon successful IPO of the Company during the 2016 financial year.

Balancing short-term and long-term performance

The Company considers performance based remuneration to be a critical component of the overall remuneration framework, by providing a remuneration structure that rewards employees for achieving goals that are aligned to the Group's strategy and objectives. Both STIs and LTIs are issued under the Graphex Mining Limited Option Plan (**Option Plan**).

Short-term incentives

The STI scheme operates to link performance and reward with key measurable financial and non-financial performance indicators to provide employees with clear and understandable targets that are aligned with the Group's objectives.

STIs are in the form of zero exercise price options which vest on completion of the one-year period. The number of options that vest is determined by assessment of individual performance against stated objectives to determine the percentage of objectives that has been achieved. This percentage is then applied to the options granted in order to determine the number of options that vest. The employee then has two years in which to exercise the options for nil consideration. Each vested STI option represents a right to be issued one Graphex share.

With respect to options issued under the STI scheme during the 2017 financial year, the applicable performance indicators relate to the following areas of the Group's activities, performance against which determines STI outcomes:

- Safety results at the Group's exploration projects;
- Securing offtake agreement for the Chilalo Graphite Project;
- Procuring finance for development of the Chilalo Graphite Project;
- Completion of a definitive feasibility study on the Chilalo Graphite Project; and
- Individual performance against agreed KPIs.

The Board sets the objectives of the Managing Director and these are then cascaded down through the organisation to ensure alignment of objectives. The STI performance objectives are communicated to Executive KMP at the beginning of the twelve month performance period, with performance evaluations conducted following the end of the respective twelve month performance period. Subsequent to year-end, the Board reviewed performance against individual KPI measures and approved the vesting of a percentage of the 2017 STI. Details of the KMPs' 2017 vested STIs are summarised in the table below. As the vesting date for the options is 1 July 2017, the options vested in the table below have not been reflected in notes e) and f) below.

Directors' report

(b) Remuneration policy and link to performance (continued)

KMP	Position	Percentage of total STI granted	STI vesting as a percentage of base package[(1)]	Options to vest[(1)]
P Hoskins	Managing Director	50.0%	19.0%	260,000
S McKenzie	Commercial Manager and Company Secretary	76.0%	15.2%	136,800
N Corlis	General Manager – Technical	66.5%	13.3%	139,650
C Knee	Chief Financial Officer	70.0%	14.0%	119,000

[(1)] The value of vested options used to determine the percentage of base package, is the share price at date of issue being $0.20.

Subsequent to year-end, the Board approved payment of a cash bonus of $25,000 to Mr Hoskins. Following a desk top review and obtaining information from a human resources consultant, it was evident that Mr Hoskins' base salary was inconsistent with the remuneration of his equivalent at peer group companies. As a result, the Board elected to pay Mr Hoskins a $25,000 cash bonus and increase Mr Hoskins base salary by $30,000 effective 1 January 2017.

Long-term incentives

The Executive KMP remuneration structure also seeks to drive performance and align with shareholder interests through LTI equity based remuneration. The LTI scheme consists of zero exercise price options issued to key management personnel with a three-year vesting period. The LTI scheme was implemented during the 2016 financial year. The vesting of LTIs is dependent on Company performance against the following objectives:

- Share price performance;
- Execution of project financing and offtake agreements for the development of Chilalo; and
- Commencement of commercial production at Chilalo.

Subject to performance against the above objectives, LTIs granted in 2016 vest in three equal amounts at the end of the first, second and third anniversary of the grant date (9 June 2016) with all options expiring five years from the grant date. Each vested LTI option represents a right to be issued one Graphex share. KMP were assessed against applicable KPIs on the first anniversary. Due to the mechanics of the Option Plan, one third of the options must either be vested or forfeited on the anniversary date. This subsequently led to a situation where KMP are assessed on long term strategic goals over a shorter one year period and were therefore unable to satisfy long-term objectives in the first year. As a result, with the exception of Mr Corlis, the Board agreed that those LTIs which vest in 2017 lapse unvested and the vesting provisions of the LTI scheme be modified going forward.

Subsequent to year end, Mr Corlis became a Leaver under the Option Plan. When an executive becomes a Leaver, the Board has discretion to vest LTIs. In recognition of Mr Corlis contribution to the Company, the Board approved the vesting of 50% of Mr Corlis' LTIs, a benefit that represented approximately 27% of base salary.

Directors' report

(c) Contractual arrangements with executive KMP's

Component	Managing Director	Other KMP - Senior executives
Fixed remuneration	$290,000 plus superannuation effective from 1 January 2017	$170,000 to $210,000 plus superannuation
Contract duration	Ongoing contract	Ongoing contract
Notice by individual	3 months	3 months
Notice by Company	6 months	3 months
Change of control bonus payment	12 months fixed remuneration. In the event of a change of control, any unvested options will immediately vest on the date that the change of control event occurs, so as to permit the option holder to exercise such options.	6 months fixed remuneration. In the event of a change of control, any unvested options will immediately vest on the date that the change of control event occurs, so as to permit the option holder to exercise such options.
Termination of employment (with or without cause)	Unvested STIs and LTIs to be automatically forfeited unless the Board determines in its discretion to vest some or all of the options.	

(d) Non-Executive Director arrangements

Non-Executive Directors receive an annual fee, paid quarterly. No compensation other than the annual fee was paid to Directors in 2017. As the Company is not of sufficient size to have separate audit and remuneration committees, no additional fees are paid in connection with the provision of these services.

The Non-Executive Director fees are reviewed annually by the Board taking into account comparable roles and market data. Directors' fees will next be reviewed in June 2018, with no changes made in the 2017 financial year. Annual Directors' Fees were approved by shareholders on 25 February 2016 with a maximum pool of $250,000 per year available for non-executive Directors. Fees for the financial year are as follows:

- Non-Executive Chairman – $60,000 plus superannuation
- Non-Executive Director - $40,000

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment which summarises the key terms and conditions of the Non-Executive Director's appointment.

Directors' report

(e) Remuneration expenses for key management personnel

The following table shows details of the remuneration expense recognised for the Group's KMP for the current financial period measured in accordance with the requirements of the accounting standards:

2017 financial year

Name	Fixed remuneration			Variable			Total
	Cash salary	Annual and long service leave	Post-employment benefits	STI / LTI share based payment	Cash STI	Re-charge under Co-operation Deed	
Non-executive directors							
S Dennis	60,000	-	5,700	-	-	-	65,700
G Davey	40,000	-	-	-	-	-	40,000
Executive directors							
P Hoskins	275,000	4,211	19,616	66,042	25,000	-	389,869
Other KMP							
N Corlis	210,000	5,792	19,616	52,089	-	(84,000)	203,497
S McKenzie	162,000	5,306	35,000	39,267	-	(36,000)	205,573
C Knee	170,000	(5,313)	16,150	35,045	-	(34,000)	181,882
Total executive and other KMP	**817,000**	**9,996**	**90,382**	**192,443**	**25,000**	**(154,000)**	**980,821**
Total NED remuneration	**100,000**	**-**	**5,700**	**-**	**-**	**-**	**105,700**
Total KMP remuneration expensed	**917,000**	**9,996**	**96,082**	**192,443**	**25,000**	**(154,000)**	**1,086,521**

2016 financial year

Name	Fixed remuneration			Variable		Total
	Cash salary	Annual and long service leave	Post-employment benefits	STI / LTI share based payment	Re-charge under Co-operation Deed	
Non-executive directors						
S Dennis[1]	19,516	-	1,747	125,000	-	146,263
G Davey[1]	13,118	-	1,117	125,000	-	139,235
Executive directors						
P Hoskins[2]	21,667	1,645	1,609	52,745	-	77,666
Other KMP						
N Corlis[2]	17,500	1,328	1,609	35,966	(7,000)	49,403
S McKenzie[2]	13,508	2,485	2,917	35,292	(3,000)	51,202
C Knee[2]	14,167	1,075	1,346	22,568	(2,833)	36,323
Total executive and other KMP	**66,842**	**6,533**	**7,481**	**146,571**	**(12,833)**	**214,594**
Total NED remuneration	**32,634**	**-**	**2,864**	**250,000**	**-**	**285,498**
Total KMP remuneration expensed	**99,476**	**6,533**	**10,345**	**396,571**	**(12,833)**	**500,092**

[1] Commenced 3 March 2016
[2] Commenced 1 June 2016

In order to minimise administrative costs, the Group has entered into a Cooperation Deed with Indiana Resources Limited (**Indiana**) under which Graphex and Indiana agree to share certain costs. Mr Corlis, Mr McKenzie and Mr Knee spend a portion of their time working for Indiana, with this time recharged by the Group to Indiana. This is presented in the table above as the Recharge under Cooperation Deed. The total amount recharged to Indiana for the period was $154,000 (2016: $12,833).

Directors' report

(f) Additional statutory information

Relative proportions of fixed and variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense above:

Name	2017		2016	
	Fixed remuneration	At risk remuneration - STI / LTI	Fixed remuneration	At risk remuneration - STI / LTI
Managing Director				
P Hoskins	77%	23%	30%	70%
Other KMP				
N Corlis	82%	18%	33%	67%
S McKenzie	84%	16%	30%	70%
C Knee	84%	16%	39%	61%

Performance based remuneration granted and forfeited

The remuneration of KMP was approved by the Board in March 2016. The first assessment of performance against the stated objectives took place in August 2017 as outlined in note (b) above. At 30 June 2017, no options held by KMP had lapsed or been forfeited.

Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

Grant date	Vesting date	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% Vested
9-June-16	1-July-17	9-June-19	Nil	$0.20	Determined subsequent to year end [1]	n/a
9-June-16	1-July-17	9-June-21	Nil	$0.20	Determined subsequent to year end [1]	n/a
9-June-16	9-June-19	9-June-19	$0.20	$0.13	100%	nil
9-June-16	9-June-16	9-June-19	$0.20	$0.13	100%	100%

[1] Subsequent to year end the options have vested in line with Boards assessment which is disclosed in note (b) above

The number of options over ordinary shares in the Company provided as remuneration to KMP is shown below. The options carry no dividend or voting rights. See section (b) above for the conditions that must be satisfied for the options to vest. When exercisable, each option is convertible into one ordinary share of the Company.

Reconciliation of options held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of the 2017 period. All vested options were exercisable.

Directors' report

2017	Balance at the start of the period			Vested			Forfeited			Balance at end of period	
Name and Grant dates	Vested	Unvested	Granted as compensation	Number	%	Exercised	Number	%	Other changes[1]	Vested	Unvested
S Dennis											
9-June-16	1,000,000[2]	-	-	-	-	-	-	-	-	1,000,000[2]	-
9-June-16[1]	-	124,999	-	124,999	100%	-	-	-	-	124,999	-
G Davey											
9-June-16	1,000,000[2]		-	-	-	-	-	-	-	1,000,000[2]	-
9-June-16[1]	-	83,333	-	83,333	100%	-	-	-	-	83,333	-
P Hoskins											
9-June-16	-	520,000	-	-	-	-	-	-	-		520,000
9-June-16	-	715,000	-	-	-	-	-	-	-	-	715,000
9-June-16	350,000	-	-	-	-	-	-	-	-	350,000	-
9-June-16[1]	-	83,333	-	83,333	100%	-	-	-	-	83,333	-
N Corlis											
9-June-16	-	210,000	-	-	-	-	-	-	-	-	210,000
9-June-16	-	577,500	-	-	-	-	-	-	-	-	577,500
9-June-16	250,000	-	-	-	-	-	-	-	-	250,000	-
9-June-16[1]	-	16,666	-	16,666	100%	-	-	-	-	16,666	-
S McKenzie											
9-June-16	-	180,000	-	-	-	-	-	-	-		180,000
9-June-16	-	495,000	-	-	-	-	-	-	-	-	495,000
9-June-16	250,000	-	-	-	-	-	-	-	-	250,000	-
9-June-16[1]	-	16,666	-	16,666	100%	-	-	-	-	16,666	-
C Knee											
9-June-16	-	170,000	-	-	-	-	-	-	-	-	170,000
9-June-16	-	467,500	-	-	-	-	-	-	-	-	467,500
9-June-16	150,000	-	-	-	-	-	-	-	-	150,000	-
9-June-16[1]	-	16,666	-	16,666	100%	-	-	-	-	16,666	-

[1] KMP purchased shares in the IPO under the terms of the Replacement Prospectus. For each three shares acquired under the IPO, the holder received one attaching Loyalty Option. The Loyalty Options vested on 14 September 2016 subject to the number of shares held on the vesting date and are exercisable at $0.25 to 8 June 2019.

[2] Vested but cannot be exercised as they are held in escrow to 14 June 2018 as disclosed in the Company's Replacement Prospectus.

Directors' report

(f) Additional statutory information (continued)

Shareholdings

Name	Balance at start of period	Received during the period on the exercise of options	Other changes during the period	Balance at end of the period
S Dennis	375,000	-	-	375,000
G Davey	250,000	-	-	250,000
P Hoskins	366,554	-	-	366,554
N Corlis	113,004	-	-	113,004
S McKenzie	142,200	-	-	142,200
C Knee	73,652	-	-	73,652

None of the shares in the above table are held nominally by the Directors or any of the other KMP.

Loans to KMP

There were no loans made to Directors or KMP.

Reliance on external remuneration consultants

In performing its role, the Board may seek advice from independent remuneration consultants where appropriate, to make recommendations as to the nature and amount of remuneration payable to KMPs. Remuneration consultants are engaged by, and report directly to the Board. In 2017, the Board did not engage an independent remuneration consultant to review the Company's entire remuneration structure. Having reviewed publicly available information on the remuneration practices of peer group companies and sought advice of independent human resources consultant, the Board believes that all current salaries including the Managing Directors revised salary are appropriate and at market.

Shares under option

Unissued ordinary shares

Unissued ordinary shares of the Company under option held by Directors and KMP that formed part of remuneration at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
9-June-16	9-June-19	Nil	1,080,000
9-June-16	9-June-21	Nil	2,255,000
9-June-16	9-June-19	$0.20	1,000,000
9-June-16	9-June-19	$0.20	2,000,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

END OF REMUNERATION REPORT

Directors' report

Insurance of officers and indemnities

The Graphex constitution allows the Company to indemnify each Director or officer of the Company, to the extent permitted by law, against liability incurred in or arising out of the conduct of the business of the Company or the discharge of the duties of the Directors or officers.

The Group has granted indemnities under deeds of indemnity with its current Directors and officers. In conformity with the constitution, each deed of indemnity indemnifies the relevant Director or officer to the full extent permitted by law. Where applicable, each deed of indemnity indemnifies the relevant Director, officer or employee to the fullest extent permitted by law for liabilities incurred whilst acting as a director, officer or employee of the Company, any of its related bodies corporate and any outside entity, where such an office is held at the request of the Company.

The Group has a policy that it will, as a general rule, support and hold harmless an employee who, while acting in good faith, incurs personal liability to others as a result of working for the Group.

No indemnity has been granted to an auditor of the Group in their capacity as auditors of the Group.

During the period, the Group paid insurance premiums (inclusive of fees and charges) in respect of directors' and officers' liability insurance of $61,195 (ex GST).

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PwC) for audit and non-audit services provided during the period are set out below.

The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Directors' report

	2017 $	2016 $
(a) PricewaterhouseCoopers Australia (PwC)		
(i) Audit and assurance services		
Audit of financial statements - Australia	60,690	28,000
Audit of financial statements - Tanzania	14,574	8,000
Total audit and assurance remuneration	**75,264**	**36,000**
(ii) Taxation services		
Taxation services - Australia	27,524	-
Total taxation remuneration	27,524	-

Auditor independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

Rounding amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order.

Competent persons' statement

Information in this announcement that relates to in situ Mineral Resources for Chilalo is based on information compiled by Mr. Grant Louw under the direction and supervision of Dr Andrew Scogings, who are both full-time employees of CSA Global Pty Ltd. Dr Scogings takes overall responsibility for the report. Dr Scogings is a Member of both the Australian Institute of Geoscientists and Australasian Institute of Mining and Metallurgy and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (**JORC Code 2012**). Dr Scogings consents to the inclusion of such information in this report in the form and context in which it appears. Graphex confirms that it is not aware of any new information or data that materially affects the information included in the announcement of 2 February 2017 and that all material assumptions and technical parameters underpinning the estimates in the announcement of 2 February 2017 continue to apply and have not materially changed.

The information in this report that relates to the Ore Reserve at the Chilalo Project is based on information compiled by Mr Karl van Olden, a Competent Person, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Karl van Olden is employed by CSA Global Pty Ltd, an independent consulting company. Mr van Olden has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012. Mr van Olden consents to the inclusion in this report of the matters based on his information in the form and context in which it appears. Graphex confirms that it is not aware of any new information or data that materially affects the information included in the announcement of 10 May 2016 (by its former parent company IMX Resources Limited) and that all material assumptions and technical parameters underpinning the estimates in the announcement of 10 May 2016 continue to apply and have not materially changed.

Information in this annual report that relates to exploration results at the Chilalo Project is based on data collected under the supervision of Mr Nick Corlis, in his capacity as Executive Director, Exploration (prior to the formation of Graphex) and in his capacity as General Manager – Technical (following the listing of Graphex). Mr Corlis, BSc (Hons) MSc, is a registered member of the Australian Institute of Geoscientists and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person under the JORC Code 2012. Mr Corlis has verified the data underlying the information contained in this report and approves and consents to the inclusion of the data in the form and context in which it appears. The relevant announcements to which information in this annual report on exploration results at the Chilalo Project relate are referenced in the annual report. Graphex confirms that it is not aware of any new information or data that materially affects the information included in those relevant announcements.

Directors' report

Ore Reserves and Mineral Resources Governance

Graphex reviews its Mineral Resources and Ore Reserves estimates on an annual basis. The Annual Statement of Mineral Resources and Ore Reserves (see page 6) is prepared in accordance with the JORC Code 2012 and the ASX Listing Rules.

Competent Persons named by the Company are members of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists, and qualify as Competent Persons as defined under the JORC Code 2012.

The Company engages external consultants and Competent Persons to prepare and calculate estimates of its Mineral Resources and Ore Reserves. These estimates and underlying assumptions are reviewed by the Directors and management for reasonableness and accuracy. The results of the Mineral Resources and Ore Reserves estimates are then reported in accordance with the JORC Code 2012 and the ASX Listing Rules. Where material changes occur to a project during the period, including the project's size, title, exploration results or other technical information, previous resource estimates and market disclosures are reviewed for completeness. The Company reviews its Mineral Resources and Ore Reserves as at 30 June each year and where a material change has occurred in the assumptions or data used in previously reported Mineral Resources and Ore Reserves, a revised estimate will be prepared as part of the annual review process.

This report is made in accordance with a resolution of the Directors.

Stephen Dennis
Chairman of the Board
PERTH
On the 28th day of September 2017

Corporate governance statement

Graphex and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Graphex has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2017 corporate governance statement is dated as at 30 June 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The 2017 corporate governance statement was approved by the Board on 30 May 2016. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed on the Company’s website at www.graphexmining.com.au/corporate-governance/.

Auditor's Independence Declaration

As lead auditor for the audit of Graphex Mining Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Graphex Mining Limited and the entities it controlled during the period.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
28 September 2017

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Consolidated statement of profit or loss and other comprehensive income
for the period ended 30 June 2017

	Notes	30 June 2017 $	From 21 January 2016 to 30 June 2016 $
Continuing operations			
Other income		**47,065**	2,864
Corporate and administration expenses		**(938,727)**	(184,766)
Employee benefits		**(846,021)**	(106,558)
Business development and marketing		**(1,433,759)**	(91,592)
Transaction costs		-	(397,954)
Exploration expenses	1	**(1,277,633)**	(80,326)
Share based payments		**(201,582)**	(397,070)
Other expenses		**(28,741)**	(1,013)
Loss before income tax		**(4,679,398)**	(1,256,415)
Income tax benefit	3	**16,545**	-
Loss for the period		**(4,662,853)**	(1,256,415)
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**27,613**	(3,134)
Total comprehensive loss for the period		**(4,635,240)**	(1,259,549)
Net loss is attributable to:			
Owners of Graphex Mining Limited		**(4,662,853)**	(1,256,415)
Total comprehensive loss is attributable to:			
Owners of Graphex Mining Limited		**(4,635,240)**	(1,259,549)
Earnings per share attributable to owners of the Company		**$**	$
Basis EPS	24	**(0.08)**	(0.40)
Diluted EPS	24	**(0.08)**	(0.40)

The above consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated balance sheet

as at 30 June 2017

	Notes	2017 $	2016 $
ASSETS			
Current assets			
Cash and cash equivalents	4	**1,149,777**	5,074,863
Trade and other receivables	5	**123,160**	202,971
Total current assets		**1,272,937**	5,277,834
Non-current assets			
Property, plant and equipment	6	**126,816**	168,027
Exploration and evaluation	7	**5,000,000**	5,000,000
Total non-current assets		**5,126,816**	5,168,027
Total assets		**6,399,753**	10,445,861
LIABILITIES			
Current liabilities			
Trade and other payables	8	**(382,460)**	(695,119)
Provisions	9	**(165,659)**	(149,325)
Total Current liabilities		**(548,119)**	(844,444)
Total liabilities		**(548,119)**	(844,444)
Net assets		**5,851,634**	9,601,417
EQUITY			
Share capital	10	**10,459,258**	9,775,383
Reserves	11	**1,311,644**	1,082,449
Retained earnings	12	**(5,919,268)**	(1,256,415)
Total equity		**5,851,634**	9,601,417

The above consolidated balance sheet is to be read in conjunction with the notes to the financial statements.

Consolidated statement of changes in equity

for the period ended 30 June 2017

	Notes	Contributed equity	Foreign currency translation reserve	Share based payment reserve	Retained earnings	Total equity
		$	$	$	$	$
Balance at 21 January 2016		-	-	-	-	-
Total comprehensive income for the period:						
Loss for the period		-	-	-	(1,256,415)	(1,256,415)
Foreign exchange translation differences		-	(3,134)	-	-	(3,134)
Total comprehensive income for the period		-	(3,134)	-	(1,256,415)	(1,259,549)
Transactions with owners in their capacity as owners:						
Issue of shares net of transaction costs	10	9,775,383	-	-	-	9,775,383
Employee share schemes - value of employee services	22(b)	-	-	397,000	-	397,000
Options issued to consultants		-	-	688,583	-	688,583
Balance at 30 June 2016		9,775,383	(3,134)	1,085,583	(1,256,415)	9,601,417
Total comprehensive loss for the period:						
Loss for the period		**-**	**-**	**-**	**(4,662,853)**	**(4,662,853)**
Foreign exchange translation differences		**-**	**27,613**	**-**	**-**	**27,613**
Total comprehensive loss for the period		**-**	**27,613**	**-**	**(4,662,853)**	**4,635,240**
Transactions with owners in their capacity as owners:						
Issue of shares net of transaction costs	10(b)	**683,875**	**-**	**-**	**-**	**683,875**
Employee share schemes - value of employee services	22(b)	**-**	**-**	**201,582**	**-**	**201,582**
Balance at 30 June 2017		**10,459,258**	**24,479**	**1,287,165**	**(5,919,268)**	**5,851,634**

The above consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

Consolidated statement of cash flows

for the period ended 30 June 2017

	Notes	30 June 2017	From 21 January 2016 to 30 June 2016
		$	$
Cash flows from operating activities			
Payments to suppliers and employees		**(1,832,108)**	(77,597)
Business development and marketing		**(1,433,759)**	(91,592)
Payment of exploration expenditure		**(1,112,959)**	-
Other income		**47,065**	2,864
Receipts from research and development rebate		**16,544**	-
Net cash (outflow) from operating activities	13	**(4,315,217)**	(166,325)
Cash flows from investing activities			
Payment for property, plant and equipment		**(5,561)**	(44,671)
Payment for acquisition of tenements		**-**	(1,000,000)
Net cash (outflow) from investing activities		**(5,561)**	(1,044,671)
Cash flows from financing activities			
Transaction costs associated with IPO		**(287,055)**	(272,770)
Proceeds from the issue of ordinary shares		**746,146**	7,000,000
Share issue transaction costs		**(62,271)**	(437,225)
Net cash flow from financing activities		**396,820**	6,290,005
Net (decrease) / increase in cash and cash equivalents		**(3,923,958)**	5,079,009
Cash and cash equivalents at the beginning of the period		**5,074,863**	-
Effects of exchange rate changes on cash and cash equivalents		**(1,128)**	(4,146)
Cash and cash equivalents at the end of the period	4	**1,149,777**	5,074,863

The above consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

CALCULATIONS AND EXPLANATIONS OF BALANCES

This section provides additional information about the individual line items in the financial statements that the Directors consider most relevant in the context of the entity including:

a) **accounting policies that are relevant for the understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction;**
b) **analysis and sub-totals, including segment information; and**
c) **information about estimates and judgements made in relation to particular items.**

1. Material expense items

(a) Employee expenses

	2017	2016
	$	$
Salaries	**1,012,214**	83,815
Share based payments	**201,582**	397,070
Superannuation	**110,213**	7,008
Changes in leave provisions	**16,506**	15,735
	1,340,515	503,628

Employee expenses above include all employee expenses of all departments in the group. On the face of the Consolidated statement of profit or loss and other comprehensive income, technical and exploration staff wages are included as exploration expenses. Employee benefits expense on the face of the statements therefore includes only corporate and administrative staff.

2. Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision makers, being the Directors. The Group's reportable segments in accordance with AASB 8 are as follows:

- Exploration – exploration carried out in Tanzania; and
- Unallocated – management of corporate affairs.

The segments have applied the same accounting policies as applied to the Group and disclosed in note 26 of these financial statements.

Notes to the financial statements

2. Segment information (continued)

	30-Jun-17			30-Jun-16		
	Exploration Tanzania	Unallocated	Total	Exploration Tanzania	Unallocated	Total
	$	$	$	$	$	$
Other income	-	**47,066**	**47,066**	-	2,864	2,864
Total income	-	**47,066**	**47,066**	-	2,864	2,864
Depreciation and amortisation	**(30,601)**	**(16,171)**	**(46,772)**	(2,596)	(1,264)	(3,860)
Share based payments	-	**(201,582)**	**(201,582)**	-	(397,000)	(397,000)
Transaction costs	-	-	-	-	(397,954)	(397,954)
Exploration expenses	**(1,277,633)**	-	**(1,277,633)**	(80,326)	-	(80,326)
Other expenses	**(332,599)**	**(2,867,878)**	**(3,200,477)**	(91,159)	(288,980)	(380,139)
Income tax benefit	-	**16,545**	**16,545**	-	-	-
Segment loss	**(1,640,833)**	**(3,022,020)**	**(4,662,853)**	(174,081)	(1,082,334)	(1,256,415)
Segment assets	**5,211,264**	**1,188,489**	**6,399,753**	5,164,884	5,280,977	10,445,861
Segment liabilities	**(23,018)**	**(525,101)**	**(548,119)**	(92,100)	(752,344)	(844,444)

3. Income tax expense

	2017	2016
	$	$
(a) Accounting loss before tax		
Loss from continuing operations	**(4,679,398)**	(1,256,460)
Taxed at the parent entities income tax rate (30%) (2016: 30%)	**(1,403,819)**	(376,938)
Non-deductible expense - share based payments	**60,475**	119,121
Non-deductible FBT	**3,580**	-
Current year tax losses not brought to account	**1,209,488**	257,817
Adjustment for current tax or prior periods	**130,276**	-
R&D rebate	**16,545**	-
Total current tax benefit	**16,545**	-

No income tax is currently payable by the Group. The Directors have considered it prudent not to bring to account the deferred tax asset related to income tax losses and exploration deductions until it is probable that assessable income will be earned of a nature and amount to enable such benefit to be realised. $4,588,652 of unrecognised losses have not been brought to account.

(b) Significant estimate

The Group is subject to income taxes of Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is not certain. The Group recognises provision for potential tax issues based on estimates of amounts that were initially recorded. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax position in the period in which the determination is made.

Deferred tax assets (**DTA**) are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

Notes to the financial statements

3. Income tax expense (continued)

	2017 $	2016 $
(c) Deferred income tax		
Accruals	**30,096**	10,800
Provision for employee entitlements	**11,533**	6,632
Section 40-880 costs[1]	**92,181**	102,982
Carry forward tax losses	**1,376,596**	257,817
Gross deferred tax asset	**1,510,406**	378,231
Net DTA not brought to account	**(1,510,406)**	(378,231)
Net deferred tax asset	**-**	-

[1] Costs associated with capital raising activities deductible over five years.

4. Cash and cash equivalents

Cash at bank	**899,777**	5,074,863
Cash on deposit	**250,000**	-
	1,149,777	5,074,863

Refer to note 15 for the Group's exposure to interest rate and credit risk.

5. Trade and other receivables

Accounts receivable	**34,845**	75,202
Other receivables	**69,963**	111,571
Prepayments	**17,097**	11,758
Security bond	**1,255**	4,440
	123,160	202,971

Other receivables include a $68,058 GST/VAT receivable (2016: $110,000).

6. Property, plant and equipment

Non-current	**Plant and equipment $**	**Furniture and fittings $**	**Total $**
At 30 June 2017			
Cost or fair value	**110,050**	**66,764**	**176,814**
Accumulated depreciation	**(24,018)**	**(25,980)**	**(49,998)**
Net book amount	**86,032**	**40,784**	**126,816**
Period ended 30 June 2017			
Opening net book amount	**111,999**	**56,028**	**168,027**
Additions	**-**	**9,421**	**-**
Disposals	**-**	**-**	**(3,860)**
Foreign exchange movement	**(3,860)**	**-**	**9,421**
Depreciation charge	**(22,107)**	**(24,665)**	**(46,772)**
Closing net book amount	**86,032**	**40,784**	**126,816**

Notes to the financial statements

6. Property, plant and equipment (continued)

Non-current	Plant and equipment $	Furniture and fittings $	Total $
At 30 June 2016			
Cost or fair value	113,911	57,970	171,881
Accumulated depreciation	(1,912)	(1,942)	(3,854)
Net book amount	111,999	56,028	168,027
Period ended 30 June 2016			
Opening net book amount	-	-	-
Additions	113,911	57,970	171,881
Depreciation charge	(1,912)	(1,942)	(3,854)
Closing net book amount	111,999	56,028	168,027

7. Exploration and evaluation expenditure

	2017 $	2016 $
(a) Reconciliation of exploration and evaluation expenditure		
Carrying amount at beginning of the period	**5,000,000**	-
Acquisition of tenements	**-**	5,000,000
Carrying amount at the end of the period	**5,000,000**	5,000,000

During the 2016 financial year, the Company acquired six tenements, including the Chilalo Graphite Project, from its then parent company IMX Resources Limited (now Indiana). The asset is recorded at its acquisition cost of $5 million, being the consideration paid for the tenement assets, comprising $1 million in cash and $4 million in share capital that was distributed *in-specie* to IMX shareholders upon the Company's admission to the official list of the ASX. The Company has accounted for this asset acquisition in accordance with the accounting policy in Note 26(e).

(b) Significant estimate

The future recoverability of capitalised exploration and evaluation expenditure is dependent upon a number of factors.

Factors that could impact future recoverability include the level of reserves and resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environment restoration obligations) and changes to commodity prices and foreign exchange rates.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which the determination is made.

8. Trade and other payables

Creditors	**185,759**	469,955
Accruals	**153,929**	194,328
Other payables	**42,772**	30,836
	382,460	695,119

9. Provisions

Employee benefits	**165,659**	149,325

Notes to the financial statements

10. Share capital

	2017 Shares	2017 $	2016 Shares	2016 $
(a) Issued and paid up capital				
Ordinary fully paid shares	**58,212,063**	**10,459,258**	55,000,000	9,775,383
(b) Movement in ordinary shares				
Opening balance	**55,000,000**	**9,775,383**	-	-
Issue of shares in IPO	**-**	**-**	35,000,000	7,000,000
Conversion of loyalty options	**3,212,063**	**746,146**	-	-
Issue of shares as consideration for tenement purchase	**-**	**-**	20,000,000	4,000,000
	58,212,063	**10,521,529**	55,000,000	11,000,000
Less: Transaction costs arising on share issues	**-**	**(62,271)**	-	(1,224,617)
	58,212,063	**10,459,258**	55,000,000	9,775,383

(c) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of, and amounts paid on, shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote. Upon a poll, each fully paid share has one vote.

11. Reserves

The following table shows a breakdown of the balance sheet line item 'reserves' and the movements in these reserves during the period. A description of the nature and purpose of each reserve is provided below.

	Share based payments	Foreign currency translation	Total reserves
At 21 January 2016	-	-	-
Translation of foreign subsidiaries	-	(3,134)	(3,134)
Other comprehensive income	-	(3,134)	(3,134)
Transactions with owners in their capacity as owners			
Employee share based payments expense	397,000	-	397,000
Consultant share based payment expense	688,583	-	688,583
At 30 June 2016	1,085,583	(3,134)	1,082,449
Translation of foreign subsidiaries	**-**	**27,613**	**27,613**
Other comprehensive income	**1,085,583**	**24,479**	**1,110,062**
Transactions with owners in their capacity as owners			
Employee share based payments expense	**201,582**	**-**	**201,582**
At 30 June 2017	**1,287,165**	**24,479**	**1,311,644**

(a) Nature and purpose of reserves

(i) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of the Company's net investment in a foreign subsidiary.

(ii) Share based payment reserve

The share based remuneration reserve is used to recognise the fair value of options issued.

Notes to the financial statements

12. Retained earnings / (accumulated losses)

	2017 $	2016 $
Balance at 1 July 2016 / 21 January 2016	**(1,256,415)**	-
Net loss for the period	**(4,662,853)**	(1,256,415)
Balance at 30 June	**(5,919,268)**	(1,256,415)

13. Cash flow information

(a) Reconciliation of operating loss after income tax to the net cash flows from operating activities:

	2017 $	2016 $
Loss for the period	**(4,662,853)**	(1,256,415)
Adjustments for:		
Depreciation	**46,772**	3,860
Non-cash employee benefits expense - share based payments	**201,582**	397,070
Non-cash consultants expense - share based payments	**-**	397,954
Net exchange differences	**28,740**	1,013
Changes in operating assets and liabilities:		
Decrease/(Increase) in trade and other receivables	**79,811**	(202,971)
(Decrease)/Increase in trade and other payables	**(9,269)**	493,164
Net cash (outflow) from operating activities	**(4,315,217)**	(166,325)

(b) Non-cash investing and financing activities

In March 2016, the Company entered into an agreement with IMX to acquire 100% beneficial ownership of the Chilalo Graphite Project, other graphite tenements and various minor assets for 20,000,000 shares at a deemed issue price of $0.20 per share and $1,000,000 cash.

Notes to the financial statements

RISK

This section discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

14. Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates, which by definition, will seldom equal the actual results. Management is also required to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions proving to be incorrect. Detailed information about each of these estimates and judgements is included in notes 1 to 25 together with information about the basis of calculation for each affected line item in the financial statements.

(a) Significant estimates and judgements

The areas involving significant estimates and judgements are:

- Estimation of current tax payable and current tax expense – note 3(b);
- Recoverability of exploration and evaluation assets – note 7(b); and
- Share based payments – note 22.

15. Financial risk management

The Company and Group's activities expose it to a variety of financial risks, including market, credit and liquidity risk. For the Group, market risk includes:

- Interest rate risk; and
- Foreign currency risk.

Financial risk management is carried out by the Group's Managing Director and Chief Financial Officer, in close co-operation with the Board. The Group obtains independent external advice as required to assist it in understanding and managing its exposures and risks.

The Group held the following financial instruments at reporting date:

	Note	2017 $	2016 $
Financial Assets			
Cash and cash equivalents	4	**1,149,777**	5,074,863
Trade and other receivables – current	5	**123,160**	202,971
Total Financial Assets		**1,272,937**	5,277,834
Financial Liabilities			
Trade and other payables	8	**(382,460)**	(695,119)
Total Financial Liabilities		**(382,460)**	(695,119)

Market risk

(a) Interest rate risk

The Group and the Company are exposed to interest rate volatility on deposits. Deposits at variable rates expose the Group and the Company to cash flow interest rate risk. Deposits at fixed rates expose the Group to fair value interest rate risk.

Notes to the financial statements

15. Financial risk management (continued)

	Effective Average Interest Rate (%)	Variable Interest Rate	Fixed Interest Rate	Non-Interest Bearing	Total
		$	$	$	$
2017 (consolidated)					
Financial Assets					
Cash and cash equivalents	**0.87%**	**758,365**	**250,000**	**141,412**	**1,149,777**
Security bonds	**0%**	**-**	**-**	**1,255**	**1,255**
		758,365	**250,000**	**142,667**	**1,151,032**
2016 (consolidated)					
Financial Assets					
Cash and cash equivalents	1.05%	4,812,864	-	261,999	5,074,863
Security bonds	0%	-	-	4,440	4,440
		4,812,864	-	266,439	5,079,303

Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets to interest rate risk. Had the relevant variables, as illustrated in the tables, moved with all other variables held constant, post-tax loss and equity would have been affected as shown below.

		Interest Rate Risk		Interest Rate Risk	
		-100 basis points (-1%)		+100 basis points (+1%)	
	Carrying Amount	Net Profit / (Loss)	Equity	Net Profit / (Loss)	Equity
	$	$	$	$	$
2017 (consolidated)					
Financial Assets					
Cash and cash equivalents	**1,149,777**	**(632)**	**(632)**	**632**	**632**
	1,149,777	**(632)**	**(632)**	**632**	**632**
2016 (consolidated)					
Financial Assets					
Cash and cash equivalents	5,074,863	(4,011)	(4,011)	4,011	4,011
	5,074,863	(4,011)	(4,011)	4,011	4,011

The dollar value of the sensitivity above has increase from 2016 to 2017 despite the significant decrease in cash balances due to the 2016 financial year only being one month of operations.

(b) Foreign exchange risk

The Group is exposed to fluctuations in foreign currencies arising from costs incurred in currencies other than Australian dollars, which is the Group's presentation currency.

The Group operates internationally and is primarily exposed to foreign exchange risk arising from currency exposures to the United States dollar and Tanzanian shilling.

The Group has not formalised a foreign currency risk management policy and it holds only limited amounts of cash in foreign currencies at any point in time. The Group monitors foreign currency expenditure in light of exchange rate movements.

Notes to the financial statements

15. Financial risk management (continued)

(b) Foreign exchange risk (continued)

	10% Strengthening		10% Weakening	
	Equity	Net Profit / (Loss)	Equity	Net Profit / (Loss)
	$	$	$	$
2017 (Consolidated)				
USD (10% movement)	**11,791**	**78,250**	**14,798**	**(95,639)**
TZS (10% movement)	**893**	**315**	**(8,785)**	**(385)**
2016 (Consolidated)				
USD (10% movement)	(7,899)	18,385	9,655	(22,471)
TZS (10% movement)	-	-	-	-

(c) Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group's treasury function continually reviews the Group's liquidity position, including cash flow forecasts, to determine the forecast liquidity position and maintain appropriate liquidity levels.

Contractual maturities of financial liabilities	Less than 1 year	Between 1 and 2 years	Total contractual cash flows	Carrying amount
	$	$	$	$
2017 (Consolidated)				
Trade and other payables	**382,460**	**-**	**382,460**	**382,460**
	382,460	**-**	**382,460**	**382,460**
2016 (Consolidated)				
Trade and other payables	695,119	-	695,119	695,119
	695,119	-	695,119	695,119

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) (level 2); and

(c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group does not recognise any financial assets under levels 1, 2 or 3 and the carrying value of those shown above are considered to approximate fair value.

Notes to the financial statements

16. Capital management

(a) Risk management

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The Group is currently focused on the exploration and development of its Chilalo Graphite Project. As the Group's development activities at Chilalo continue, finance and offtake arrangements will be critical to balancing the funding of the Group whilst also minimising shareholder dilution.

The Company has welcomed equity investment from major stakeholders so that goals are aligned and there is a vested interest in the Group's success. Current stakeholders that are also shareholders include major suppliers for exploration, project management and feasibility studies advisors, corporate advisors, Directors, executives and employees.

The Company monitors its total shares on issue, market capitalisation and enterprise value on a regular basis so as to maintain a critical balance between having its strategy fully funded and minimising existing shareholder dilution.

(b) Dividends

Up until the date of this report, no dividend has been declared or paid by the Company.

Notes to the financial statements

GROUP STRUCTURE

This section provides information which will help readers understand how the Group structure affects the financial position and performance of the Group as a whole.

A list of subsidiaries is provided below.

17. Interests in other entities

Name	Country of incorporation	Class of shares	Equity Holding 2017 %	Equity Holding 2016 %
Graphex Mining UK No.1 Limited	United Kingdom	Ordinary	**100**	100
Ngwena Tanzania Limited	Tanzania	Ordinary	**100**	100

All subsidiaries were registered during the prior period with 100% of share capital of each of the entities being held by the Group from the date of incorporation.

Notes to the financial statements

UNRECOGNISED ITEMS

This section provides information about items that are not recognised in the financial statements as they do not yet satisfy the recognition criteria.

In addition to the items and transactions disclosed below, there are also unrecognised tax amounts – see note 3.

18. Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2017.

19. Commitments

	2017 $	2016 $
(a) Lease and operating contract expenditure commitments		
Operating lease (non-cancellable), minimum lease payments		
- not later than one year	**41,195**	41,195
- beyond one year	**3,689**	3,689
	44,884	44,884

The Group leases office premises with a fixed term lease expiring 4 August 2018.

(b) Exploration commitments

The Company is required to meet certain minimum expenditure commitments on the mineral exploration assets in which it has an interest. The minimum expenditure commitment is set out in the Prospecting Licences held by the Group. Outstanding exploration commitments are as follows:

	2017	2016
- not later than one year	**263,145**	813,308
- beyond one year	**-**	-
	263,145	813,308

(c) Exploration lease rentals

	2017	2016
- not later than one year	**59,979**	46,674
- beyond one year	**-**	-
	59,979	46,674

The Company pays an annual lease amount for the tenements it holds. The leases can be relinquished on or before the anniversary date, therefore there are no contractual commitments beyond one year. The Company has no current plans to drop any existing tenements.

20. Events occurring after reporting dates

Subsequent to year end, the Company completed a placement of 12,045,454 fully paid ordinary shares at $0.22 per share to raise $2.65 million before costs.

Notes to the financial statements

OTHER INFORMATION

This section includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

21. Related party transactions

(a) Parent entity

Graphex Mining Limited is the ultimate Australian parent entity of the Group. Graphex Mining Limited is a company limited by shares that is incorporated and domiciled in Australia.

(b) Group transactions

Controlled entities made payments and received funds on behalf of Graphex and other controlled entities by way of inter-company loan accounts with each controlled entity. These loans are unsecured, bear no interest and are repayable on demand, however demand for repayment is not expected in the next twelve months.

(c) Key management personnel compensation

	2017 $	2016 $
Short-term employee benefits	**951,996**	106,009
Post-employment benefits	**96,082**	10,344
Share-based payments	**192,443**	396,570
Re-charges under the co-operation agreement	**(154,000)**	(12,833)
	1,086,521	500,090

Detailed remuneration disclosures are provided in the Remuneration Report on pages 12 to 19.

22. Share-based payments

(a) Employee option plan

Information on the Option Plan was set out in the Company's Replacement Prospectus lodged on 10 May 2016. Given the disclosure of the Plan in the Replacement Prospectus, the issue of shares under the Plan rules does not count towards the Company's share issuance capacity under ASX listing Rules 7.1 and 7.1A. The Plan is designed to:

a) assist and reward the retention and motivation of employees;
b) link employee reward to shareholder value creation; and
c) align the interests of employees with shareholders by providing an opportunity for employees to receive an equity interest in the Company in the form of Options.

Under the Plan, participants are granted options which only vest if certain performance criteria are satisfied. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

The number of STI options that vest is linked to performance against shorter term strategic objectives of the Company and a performance assessment of employees against specific KPI's relevant to that position. Once vested, the options remain exercisable for a period of two years.

The number of LTI options that vest depends on performance against a number of Board approved Company objectives, including agreements for the development of the Chilalo Graphite Project and bringing Chilalo into production.

To exercise an option, an employee must deliver a signed notice of exercise and, subject to a cashless exercise of options, pay the option exercise price prior to the expiry date. An option may specify that at the time of exercise, the employee may elect not to be required to provide payment of the option exercise price. Alternatively, the Company will transfer or issue to the employee that number of shares equal in value to the positive difference between the market value of the shares at the time of exercise and the option exercise price that would otherwise be payable to exercise those options.

The Board has determined that STI awards and LTI awards will be equity settled to ensure alignment with shareholders' interests and to preserve cash.

Notes to the financial statements

22. Share-based payments (continued)

(a) Employee option plan (continued)

Options are granted under the Plan for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share subject to the payment of any applicable exercise price. Set out below are summaries of options granted under the Plan:

	2017		2016	
	Weighted average exercise price	Number of options '000	Weighted average exercise price	Number of options '000
As at 1 July 2016 / 21 January 2016	**$0.17[1]**	**12,365**	-	-
Granted during the period	**-**	**-**	$0.17[1]	12,365
Exercised during the period	**-**	**-**	-	-
Forfeited during the period	**-**	**-**	-	-
As at 30 June	**$0.17**	**12,365**	**$0.17**	**12,365**

[1] Options granted carried either a $0.20, $0.25 or nil exercise price.

No options included in the table above expired during the period.

Options outstanding at the end of the period have the following expiry date and exercise prices:

Grant date	Expiry date	Exercise price	Options 30 June 2017 '000
9-Jun-16	9-Jun-19	Nil	1,114
9-Jun-16	9-Jun-21	Nil	2,324
9-Jun-16	9-Jun-19	$0.20	1,000
9-Jun-16	9-Jun-19	$0.20	2,000
9-Jun-16	9-Jun-19	$0.25	5,927

Weighted average remaining contractual life of options outstanding at period end is 2.36 years (2016: 3.67 years).

Fair value of options granted

There were two types of options on issue during the period:

(a) Zero priced options where the options can be exercised for nil consideration after vesting. Given the nil exercise price, the fair value of these options is reflected by the five day volume weighted average share price (**VWAP**) at the date of issue. These options were granted on the date on which the Company was admitted to the official list of ASX, therefore, the fair value is reflected by the IPO listing price of $0.20.

(b) Options granted during the period were cashless exercise options which have exercise prices of $0.20 and $0.25 and are valued using the Black-Scholes options pricing methodology that takes into account, exercise price, the term of the option, the share price at grant date, expected volatility of the price of the underlying share, the risk free interest rate for the term of the option and the correlations and volatilities of the share prices of peer group companies. Cashless exercise allows a participant to elect that in lieu of making payment of the total exercise price payable on exercise, the participant will be issued that number of shares equal in value to the difference between the market value of the underlying shares that would be issued at the time of exercise and the exercise price that would otherwise be payable. The fair value of cashless exercise price options has been calculated as $0.125 per option for options with a $0.20 exercise price and $0.116 for options with a $0.25 exercise price. The model inputs for options granted during the period ended 30 June 2017 included:

Notes to the financial statements

22. Share-based payments (continued)

(a) Employee option plan (continued)

i. Exercise price: $0.20 and $0.25
ii. Grant date: 9 June 2016
iii. Expiry date: 9 June 2019
iv. Share price at grant (listing) date: $0.20
v. Expected price volatility of the Company's shares: 100%
vi. Risk free interest rate: 1.87%

The expected price volatility was determined by reference to the Company's peer group of graphite companies listed on the ASX. Price volatility for the Company could not be used as it had no trading history. The risk free interest rate was determined by reference to coupon rates for Australian government bonds with the same or similar term to the options.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions during the period were as follows:

	2017 $	2016 $
Options issued under the Plan	**201,582**	397,000
Options issued to consultants recognised in transaction costs[1]	**-**	125,000
	201,582	522,000

1. Options issued to contractors were those issued to the Company's corporate advisor and lead brokers to the Company's IPO as disclosed in the Replacement Prospectus. A portion of the options issued as consideration for capital raising associated with the IPO are included as share issue costs as disclosed in note 10(b).

23. Remuneration of auditors

During the period, the following fees were paid and payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) PricewaterhouseCoopers Australia (PwC)

(i) Audit and assurance services

	2017	2016
Audit of financial statements - Australia	**60,690**	28,000
Total audit and assurance remuneration	**60,690**	28,000

(ii) Taxation services

	2017	2016
Taxation services - Australia	**27,524**	-
Total taxation remuneration	**27,524**	-

(b) Network firms of PwC (Tanzania)

(i) Audit and assurance services

	2017	2016
Audit of financial statements	**14,574**	8,000
Total audit and assurance remuneration	**14,574**	8,000

Notes to the financial statements

23. Remuneration of auditors (continued)

During the 2016 financial year, the Company's previous parent, IMX, engaged PwC for tax compliance services and to obtain a Private and Class Ruling in relation to the spin-off of Graphex. These amounts were settled by IMX. The Company has engaged PwC to perform tax compliance services provided during the 2017 financial year. It is the Group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally tax advice, or where PwC is awarded assignments on a competitive basis. It is the Group's policy to seek multiple quotes for all major consulting projects.

24. Earnings per share

	2017 $	2016 $
(a) Basic earnings per share		
From continuing operations attributable to ordinary equity holders	**(0.08)**	(0.40)

The weighted average number of shares used to calculate both the basic and diluted earnings per share is 56,519,385 (2016: 3,164,384). In the 2016 financial year shares in the Company were issued on 9 June 2016, resulting in a much lower weighted average number of shares as compared to actual shares on issue disclosed in note 10.

(b) Fully diluted earnings per share

	2017	2016
From continuing operations attributable to ordinary equity holders	**(0.08)**	(0.40)

(c) Information concerning the classification of securities

Options granted to employees under the Plan and those issued to contractors are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share with the assumption all such options will vest, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 22.

25. Parent entity financial information

The individual financial statements for the parent entity show the following aggregate amounts:

(a) Summary of financial information

	2017 $	2016 $
Balance sheet		
Current assets	**1,186,149**	5,277,834
Total assets	**7,574,251**	10,510,198
Current liabilities	**(525,101)**	(752,344)
Total liabilities	**(525,101)**	(752,344)
Shareholders' equity		
Issued capital	**10,459,258**	9,775,383
Reserves	**1,287,165**	1,085,583
Retained earnings	**(4,697,273)**	(1,103,113)
	7,049,150	9,757,853
Loss for the period	**(4,697,273)**	(1,103,113)
Total comprehensive loss	**(4,697,273)**	(1,103,113)

(b) Guarantees

Graphex, as the parent company, has provided a guarantee for ongoing financial support to its wholly owned Tanzanian subsidiary Ngwena Tanzania Limited.

Notes to the financial statements

25. Parent entity financial information (continued)

(c) Commitments

Of the commitments in note 19, all of the operating leases disclosed in note 19(a) related to the parent, Graphex. These related to the fixed term leases of the Company's office premises and photocopier/printer lease.

26. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. The financial statements are for the Group consisting of Graphex and its subsidiaries disclosed in note 17.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Graphex is a for-profit entity for the purpose of preparing the financial statements. The Company was incorporated on 21 January 2016 and subsequently became a reporting entity on 14 June 2016. The comparative prior financial year numbers presented in these financial statements are from the Date of Incorporation to balance date being the 30 June 2016. The 2017 financial year was for the entire period 1 July 2016 to 30 June 2017.

The ability of the Company to continue as a going concern and meet its debts and commitments as they fall due is dependent upon obtaining additional funding to finance ongoing exploration and project development activities. Plans to obtain further financing include engaging with parties interested in joint venture activities to develop the Company's exploration assets and raising additional funds through equity raisings and placements to existing or new investors. Additionally, the company maintains sufficient capacity to control discretionary expenditure and meet required expenditure commitments should additional funding not be available.

The directors believe that the Company will be successful in the above matters and accordingly have prepared the financial report on a going concern basis in the belief that the Company will realise its assets and settle its liabilities and commitments in the normal course of business and for at least the amounts stated in the interim financial report.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for Share-based payments as disclosed in note 22.

(iii) New and amended standards adopted by the group

All mandatory new Accounting Standards and Pronouncements effective for financial years commencing 1 July 2016 were adopted in full by the Group. None of the standards that applied for the first time materially changed the accounting policies or disclosure of the Group.

All amendments adopted merely clarify the existing requirements; they do not affect the Group's accounting policies or any of the disclosures.

(iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 2017 financial year and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income (**OCI**). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' (**ECL**) model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 and has assessed the impact to the subsequent years' financial statements to be immaterial.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) New standards and interpretations not yet adopted (continued)

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018. As the Company does not have any revenue contracts, it is expected that any impact will be insignificant.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019. As the Company does not have material leases with a term of 12 months or longer, it is expected that any impact will be insignificant.

(b) Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and costs directly attributable to bringing the asset to a working condition for their intended use.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation of plant and equipment is calculated on a straight line basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 2% and 50% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

(d) Impairment

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(e) Exploration and evaluation costs

Costs arising from the acquisition of exploration and evaluation activities are carried forward where these activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Ongoing exploration activities are expensed as incurred.

The Directors believe that this policy results in the carrying value of exploration expenditure more appropriately reflecting the definition of an asset, being future benefits controlled by the Group. All costs carried forward are in respect of areas of interest in the exploration and evaluation phases and accordingly, production has not commenced.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, in particular when exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.

Where tenements or part of an area of interest are disposed of, the proceeds of this partial disposal will reduce the value of the asset by the fair value of those proceeds. This recognises that part of the future economic benefit of the asset has effectively been disposed.

(f) Operating leases

Operating leases are not recognised in the Group's consolidated balance sheet.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis. Contingent rentals are recognised as an expense in the period in which they are incurred.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(g) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable of the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax exposures

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made. The Company and its wholly owned Australian resident entities are not part of a tax consolidated group.

(h) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**) or value added tax (**VAT**), unless the GST / VAT incurred is not recoverable from taxation authorities. In this case it is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated inclusive of the amount of GST / VAT receivable or payable. The net amount of GST / VAT recoverable from, or payable to, taxation authorities is included with other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows inclusive of GST / VAT. The GST / VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, taxation authorities are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST / VAT recoverable from, or payable to taxation authorities. The net of GST / VAT payable and receivable is remitted to the appropriate tax body in accordance with legislative requirements.

(i) Foreign currency translation

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(i) Foreign currency translation (continued)

Foreign currency transactions

Transactions in foreign currencies are translated to the respective financial currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss, However, foreign currency differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges are recognised in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(j) Accounts payable

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost when the Group becomes obliged to make payments resulting from the purchase of goods and services. The amounts are non-interest-bearing, unsecured and are usually paid within 30 days of recognition.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(l) Employee benefits

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid, inclusive of on costs, when the liabilities are settled. The expense for non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

Long-term employee benefits

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(l) Employee benefits (continued)

Share-based payment transactions

The fair value of options previously granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors, employees or contractors become unconditionally entitled to the options.

The fair value of the options at grant date is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

The fair value of these equity instruments does not necessarily relate to the actual value that may be received in future by the recipients. The Company has elected to account for share based payments issued to non-employees in accordance with the share based payments standard.

(m) Revenue recognition

Interest revenue is recognised as it accrues in profit or loss, using the effective interest method. Revenue from sale of goods and disposal of assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable and collectability is reasonably assured. This is generally when title passes.

(n) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(o) Earnings per share (EPS)

Basic earnings per share

Basic EPS is calculated as the profit / (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the period.

Diluted earnings per share

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(p) Cash and cash equivalents

For Consolidated Statement of Cash Flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Consolidated Balance Sheet.

(q) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held-to-maturity investments, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables (see notes 4 and 5).

When an investment is derecognised, the cumulative gain or loss in equity is transferred to the consolidated statement of comprehensive income. Fair value is determined by reference to the quoted price at the reporting date.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or have expired.

The Group classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans from related parties and trade and other payables.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Notes to the financial statements

26. Summary of significant accounting policies (continued)

(r) Segment reporting

Segment results that are reported to the Group's Managing Director (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

(s) Parent entity information

The financial information for the parent entity, Graphex Mining Limited, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements.

(t) Rounding

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order.

Directors declaration

In the opinion of the Directors:

(a) the consolidated financial statements and notes set out on pages 25 to 52 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 26(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

Stephen Dennis
Chairman
PERTH
On this 27th day of September 2017

Independent auditor's report

To the members of Graphex Mining Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Graphex Mining Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $205,000, which represents approximately 5% of the Group's loss before tax.

- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.

- We chose the Group's loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and reflects the Group's accounting policy to expense ongoing exploration activities as incurred.

- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

- The Group maintains its corporate head office in Australia and has exploration assets in Tanzania. Key financial processes are principally managed from the head office finance function in Australia.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Board of Directors.

Key audit matter	*How our audit addressed the key audit matter*
Availability of funding for further exploration activities. *Refer to note 26a* The Group is in the exploration and evaluation phase of its lifecycle and therefore does not generate revenue and relies on sufficient funding from its shareholders or other sources to continue as a going concern. These funds are used to progress the Group's Chilalo graphite project, meet minimum expenditure requirements to maintain the good standing of the Group's tenements and to cover corporate overheads. In determining the appropriateness of their going concern basis of preparation of the financial report, the Group made a number of judgements, including minimum corporate overhead expenditure requirements and the ability of the Group to access additional funding. Assessing the appropriateness of the Group's basis of preparation for the financial report was a key audit matter due to its importance to the financial report and the level of judgement involved in forecasting future cash flows for a period of at least 12 months from the date of the financial report.	In assessing the appropriateness of the going concern assumption used in preparing the financial statements we: • Obtained management's cash flow forecasts and compared the key underlying data and assumptions of the Group's cash flow forecast for a period of at least 12 months from the date of the financial report, to Board approved budgets. • Developed an understanding of the key forecast expenditure items, including the amount that is contractually committed and required to maintain the good standing of the Group's tenements and what is considered discretionary. • Discussed the Group's various options for raising additional funds with management and the directors. This included tracing the cash received by the Group from a share placement subsequent to 30 June 2017 to bank statements. • Inquired of management and directors as to their knowledge of events or conditions that may have cast doubt on the Group's ability to continue as a going concern. • Evaluated the adequacy of the disclosures made in the financial report, including the basis for the directors' conclusion that the Group is a going concern, in light of the requirements of Australian Accounting Standards.

Key audit matter	How our audit addressed the key audit matter
Carrying value of exploration and evaluation assets *Refer to note 7* The Group holds mining and exploration licenses in Tanzania, including those that relate to the carrying value of the exploration and evaluation asset in respect of the Chilalo graphite project, which the Group considers to be its key asset. Subsequent to year-end, the Tanzanian parliament passed legislative changes with respect to the legal and regulatory framework governing the natural resources sector in Tanzania. As the Group's Chilalo graphite project is subject to the Tanzanian regulatory environment, these changes may impact assumptions made in respect of the future development of the project. The Group performed an assessment as to whether impairment indicators exist at 30 June 2017 in respect of exploration and evaluation assets as required by Australian Accounting Standards and concluded that there were no indicators of impairment. This was a key audit matter due to the size of the carrying value of the Group's exploration assets and the judgements and assumptions in relation to the future development of the Chilalo graphite project in determining whether there are any impairment indicators.	We performed the following procedures, amongst others: • We assessed the Group's accounting policy to capitalise the initial acquisition cost of exploration and evaluation assets and record subsequent expenditure in the income statement in light of the requirements of Australian Accounting Standards. • For the Group's portfolio of tenements, we obtained evidence supporting the Group's legal right of tenure, including documentation from the Government of Tanzania. • We obtained the planned expenditure for the Chilalo graphite project as included in approved budgets and future cash flow forecasts of the Group and compared it to the minimum expenditure requirements to maintain the tenements in good standing. • We inquired of management and directors as to the future planned expenditure on capitalised exploration and evaluation assets. • We have considered the Group's assessment of the potential impact of the change in Tanzanian laws and regulations on the feasibility of the Chilalo graphite project and its conclusion that there were no indicators of impairment. • We obtained written representations from management regarding their plans for future action and their assessment of the feasibility of these plans. • We evaluated whether, in view of the requirements of Australian Accounting Standards, the financial report provides adequate disclosure as to the exploration and evaluation assets.

Other information

The directors are responsible for the other information. The other information comprises the Corporate Information, Managing Director's Report, Directors' Report, Corporate Governance Statement and ASX Additional Information included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 12 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Graphex Mining Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
28 September 2017

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 18 September 2017.

(a) DISTRIBUTION OF EQUITY SECURITIES

Ordinary Shares

			Number of holders	Number of shares
1	-	1,000	2,485	390,014
1,001	-	5,000	584	1,372,243
5,001	-	10,000	192	1,491,157
10,001	-	100,000	541	18,204,250
100,001		and over	116	48,499,583
			3,918	69,957,517
Number of holders holding less than a marketable parcel of shares			2,764	769,578

Unlisted Loyalty Options

			Number of holders	Number of Unlisted Loyalty Options
1	-	1,000	1	666
1,001	-	5,000	74	269,691
5,001	-	10,000	58	472,782
10,001	-	100,000	106	3,618,505
100,001		and over	7	1,838,664
			246	6,200,308

Unlisted Options

			Number of holders	Number of Unlisted Options
1	-	10,000	2	14,400
10,001	-	100,000	12	555,717
100,001		and over	14	10,496,423
			25	11,066,540

ASX Additional Information

(b) TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of quoted shares as at 15 September 2017 are:

Rank	Name	Number of shares	% of shares
1.	MMG EXPLORATION HOLDINGS LIMITED	3,546,000	5.07
2.	DR CHRISTOPHER KONG LENG SHUN + MRS SOOK LENG CHOY	3,436,251	4.91
3.	J P MORGAN NOMINEES AUSTRALIA LIMITED	2,982,834	4.26
4.	ONE MANAGED INVESTMENT FUNDS	2,879,832	4.12
5.	BPM COMMODITIES LIMITED	2,500,000	3.57
6.	MR JAMES THEODORE LAKES <LAKES FOLIO A/C>	1,500,000	2.14
7.	MR TIMOTHY MURRAY	1,478,620	2.11
8.	MRS LILY MAH <MJ A/C>	1,363,636	1.95
9.	MR JAMIE PHILLIP BOYTON	1,300,000	1.86
10.	CAPE BOUVARD EQUITIES PTY LTD	1,230,000	1.76
11.	P & D INSTRUMENT & ELECTRICAL SERVICES PTY LTD	1,060,000	1.52
12.	BNP PARIBAS NOMINEES PTY LTD <JARVIS A/C NON TREATY DRP>	896,500	1.28
13.	CLARKSON'S BOATHOUSE PTY LTD <CLARKSON SUPER FUND A/C>	876,854	1.25
14.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	802,620	1.15
15.	MR MICHAEL JAMES STRACHAN	750,000	1.07
16.	MR CONSTANTINOS CASIOU <CASIOU INVESTMENT A/C>	725,000	1.04
17.	DYNAMIC PHOTOGRAPHY PTY LTD	600,000	0.86
18.	BEEBEE HOLDINGS PTY LTD	583,333	0.83
19.	BNP PARIBAS NOMS PTY LTD <UOB KAY HIAN PRIV LTD DRP>	582,408	0.83
20.	SICHUAN TAIFENG GROUP CO LIMITED	543,698	0.78
Total Top 20 holders of ORDINARY FULLY PAID SHARES		**24,736,500**	**29,637,586**
Total Remaining Holders Balance		**30,763,500**	**40,319,931**

(c) SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

MMG EXPLORATION HOLDINGS LIMITED 5.07%

(d) VOTING RIGHTS

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands. Options have no voting tights until such time as they are exercised and shares have been issued.

(e) TENEMENT SCHEDULE

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

ASX Additional Information

Tenement	Ownership	Project	Location
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 period and the relinquished area of that tenement is under application as PL 11892/2017.
2. PL 5447/2008 expired during the period and the area covered of that tenement is under application as PL 11892/2017.