

30 January 2019

QUARTERLY ACTIVITIES REPORT

Quarter ended 31 December 2018

HIGHLIGHTS

- **Response from Tanzanian Government to detailed submission expected shortly**
- **Appointment of Project Manager to lead completion of Bankable Feasibility Study**
- **Offtake interest and strong market confirmed**

Graphex Mining Limited (ASX: GPX) ('Graphex' or the 'Company') is pleased to provide its Quarterly Activities report for the December Quarter, including an update with respect to the development of its Chilalo Graphite Project located in south-east Tanzania.

CHILALO GRAPHITE PROJECT

Funding package agreed with Castllake Funds

During the Quarter, Graphex Mining Limited ('Graphex' or the 'Company') signed agreements for financing the development of its Chilalo Graphite Project. The Chilalo finance agreements are with funds managed by global private investment firm Castllake, L.P. (the 'Castllake Funds') and provide for a funding package of up to US\$80 million, which subject to satisfaction of agreed conditions, is expected to fully fund Chilalo through to production. Further information on the funding package is set out in ASX Announcement dated October 29, 2018.

Under the funding package agreed with Castllake Funds:

- The Company entered into a Loan Note Subscription Agreement to raise US\$5 million from the issue of secured Interim Loan Notes, which became available immediately; and
- The Company has signed a term sheet setting out the proposed terms on which the Castllake Funds and other market participants (subject to the satisfaction of agreed conditions) provide up to US\$40 million in equity and up to US\$40 million from the issue of senior secured loan notes ('**Senior Funding Package**').

Conditions to the Senior Funding Package

Proceeds from the Interim Loan Notes are to be used to satisfy the conditions precedent to the Senior Funding Package. The more material conditions, in addition to customary conditions precedent, that need to be satisfied for the Senior Funding Package include:

- Entry into definitive transaction documents – the term sheet for the Senior Funding Package is to be converted into transaction documents;
- Completion of a bankable feasibility study ('BFS');
- Certain Castllake approvals and completion of ongoing Castllake due diligence to its satisfaction;
- Resolution of issues relating to Tanzania's mining legislation – a detailed submission has been provided to the Tanzanian Government with a response expected shortly; and
- Execution of material contracts including off-take, mining and EPC amongst others.

Satisfaction of these conditions (and other customary conditions) are required to proceed with the Senior Funding Package, allowing for the commencement of mine construction and providing a pathway to production.

Since completion of the finance agreements, the Company has continued to work on satisfying the conditions precedent and provides the following update:

Resolution of issues relating to Tanzania's mining legislation

In November 2018, the Company met with the Prime Minister of Tanzania, the Honourable Kassim Majaliwa and his advisors. The purpose of the meeting was to consider the detailed submission provided by the Company to the Government in late August and to explain the importance of resolving issues relating to Tanzania's mining legislation, so as to provide for the development of the Chilalo Project in a manner that is acceptable to both the Tanzanian Government and the Company.

The Chilalo Project is located in the Ruangwa District in south-east Tanzania, which is the electorate of the Prime Minister. The Prime Minister confirmed his strong support for the development of the Chilalo Project.

The Prime Minister's support for the development of Chilalo was echoed by local government officials, who also met with the Prime Minister, and emphasised the development of Chilalo as a key driver of delivering improved economic growth and opportunities for residents in the Ruangwa District.

Since meeting the Prime Minister, the Company understands that the Ministry of Minerals has been working through the Company's submission in an effort to address key issues identified in the submission, the resolution of which is a pre-requisite to the development of Chilalo.

Post Quarter end, the Government of Tanzania announced the appointment of the Honourable Doto Biteko as the new Minister of Minerals, replacing the former minister, the Honourable Angellah Kairuki. Shortly after his appointment, Minister Biteko invited the Tanzanian Chamber of Minerals and Energy ('TCME') to a meeting in Dodoma. Graphex is encouraged by Minister Biteko's willingness to meet the TCME in order to understand the perspective of the resources industry as a whole.

Bankable Feasibility Study

Completion of drilling program

During the Quarter, the Company completed a diamond drilling program of approximately 3,000m, the key purposes of which were:

- Upgrading the Inferred Resources to a higher confidence classification. Given the historically favourable conversion rate of Inferred Mineral Resources to Indicated Mineral Resources at Chilalo, the Company has confidence that this is likely;

- Providing material for geotechnical analysis of the locations proposed for the processing plant, pit and tailings storage facility; and
- Sterilisation of the location proposed for the tailings storage facility.

Results of the resource and geotech drilling are expected to be available in February and will enable work on the upgrade to the Mineral Resource classification, pit design and mine scheduling to commence. The upgrade to the Mineral Resource classification is expected in March 2019.

Appointment of Project Manager

The Company has appointed Mr Warren King as Project Manager, with responsibility for delivering the BFS. Mr King has extensive experience in project management of the engineering, design, procurement and construction of mineral processing plants and mine infrastructure, having successfully delivered several projects in Africa, Indonesia and Australia. Mr King holds a Bachelor of Engineering and a Bachelor of Law.

Project Steering Committee

A Project Steering Committee comprised of representatives of Castl lake and Graphex, which has responsibility for making recommendations to the Board on all matters relating to development of the Chilalo Project, in particular the BFS, is expected to be formed shortly. The Company anticipates that Castl lake's nomination to the Project Steering Committee will be finalised in the coming weeks. Until the Project Steering Committee has been formed, the Company is working closely with Castl lake and all scopes of work under way have been agreed.

Offtake agreements

Securing offtake agreements is another key condition to unlocking the Castl lake Senior Funding Package. The Company recently conducted a visit to China with the primary purpose being to continue engagement with graphite market participants.

Over the past four years, the Company has established a comprehensive network of relationships with parties that have expressed an interest in purchasing Chilalo graphite. The level of demand expressed by this network of parties is sufficient to sell the proposed Stage 1 production several times over. During this most recent visit, a number of those parties, encouraged by the Castl lake financing, reaffirmed their interest. The Company is highly confident that this interest will translate into binding offtake agreements which include key provisions such as product quantities and specifications and delivery arrangements. Upon completion of the BFS and satisfactorily resolving issues associated with Tanzanian mining legislation, the Company expects to then enter into full binding offtake agreements.

The recent visit further confirmed the market opportunity for supplying Chilalo's coarse flake product to the Chinese expandable graphite market. Discussions with offtakers, research institutes and graphite product manufacturers reinforced the compelling market dynamic – strong demand for coarse flake graphite and a shortage of graphite feedstock to meet such demand. In addition, the Company continues to be encouraged by the growing demand across a number of applications for coarse flake graphite, including high-value military and aerospace applications and flame-retardant seating in passenger transportation (trains, aircraft, motor vehicles). Applications for coarse flake graphite continue to grow as a raft of "new material companies" conduct research into how to utilise its impressive physical and chemical characteristics.

EPC agreement

During the next Quarter, the Company expects to begin a process of pre-qualification of selected contractors and a tender process will be conducted following finalisation of plant design in the BFS.

CORPORATE

Share capital

As at 31 December 2018, the Company had 80,680,366 shares on issue, 6,172,459 unexercised Loyalty Options and 15,259,541 unexercised unquoted options.

Cash

As at 31 December 2018, the Company had cash of \$1.7 million. During the Quarter, the Company drew down US\$2 million under the Interim Loan Note Facility in place with the Castllake Funds.

Annual General Meeting

The Company's annual general meeting was held on Monday, 26 November 2018. A total of nine resolutions were put to shareholders, all of which were passed.

TENEMENT INTERESTS

Table 1 shows the Company's tenement interests as at 31 December 2018.

Table 1. Tenement interests

Tenement	Ownership	Project	Location
ML 569/2017 - Chilalo	100%	Chilalo	Tanzania
PL 11050/2017 - Chilalo	100%	Chilalo	Tanzania
PL 11034/2017 - Chilalo	100%	Chilalo	Tanzania
PL 8628/2012 - Kipendengwa	100%	Chilalo	Tanzania
PL 9929/2014 - Chikwale	100%	Chilalo	Tanzania
PL 9946/2014 - Machangaja	100%	Chilalo	Tanzania
PL 11892/2017 - Noli	100%	Noli	Tanzania
PL 11921/2017 - Noli SE	100%	Noli	Tanzania



PHIL HOSKINS
Managing Director

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

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

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

Name of entity

Graphex Mining Limited

ABN

77 610 319 769

Quarter ended ("current quarter")

31 December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(459)	(869)
(b) development	-	-
(c) production	-	-
(d) staff costs	(220)	(494)
(e) administration and corporate costs	(254)	(468)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	3
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	183	183
1.8 Other (marketing, transaction and business development)	(844)	(1,019)
1.9 Net cash from / (used in) operating activities	(1,594)	(2,664)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(14)	(19)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(14)	(19)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	70	70
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(7)	(7)
3.5	Proceeds from borrowings	2,845	2,845
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	(427)	(427)
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	2,481	2,481

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	759	1,839
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,594)	(2,664)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(14)	(19)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	2,481	2,481
4.5	Effect of movement in exchange rates on cash held	41	38
4.6	Cash and cash equivalents at end of period	1,673	1,673

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	1,630	76
5.2	Call deposits	43	683
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	1,673	759

6. Payments to directors of the entity and their associates

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

**Current quarter
\$A'000**

110

Nil

Non-executive Directors fees and Managing Directors salary.

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

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

**Current quarter
\$A'000**

Nil

Nil

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	6,973	2,845
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The facilities are secured Loan Notes issued to funds managed by private equity firm Castlake L.P. as announced 29 October 2018. The Loan Notes have a term of 2 years with an interest rate of 15% and a commitment fee on undrawn funds of 4%. The loan notes are denominated in USD and as at quarter end, the Company has issued US\$2M of the US\$5M total Loan Notes.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(848)
9.2 Development	-
9.3 Production	-
9.4 Staff costs	(238)
9.5 Administration and corporate costs	(277)
9.6 Other (Marketing and business development)	(140)
9.7 Total estimated cash outflows	(1,503)

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

Compliance statement

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



Sign here:
(Director/Company secretary)

Date: 30 January 2019

Print name: Stuart McKenzie

Notes

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