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Graphex well positioned to secure sales agreements

Graphex Mining Limited (**ASX: GPX**) ('**Graphex**' or the '**Company**') is pleased to provide an update regarding progress with its large flake graphite sales and marketing strategy. Located in Tanzania, Graphex's Chilalo Project ('**Project**') will produce coarse flake graphite to target the emerging expandable graphite, graphite foil and flame-retardant industries.

In March 2018, Graphex signed statements of sales intent for 80,000 tonnes per annum with five Chinese based customers. These customers have tested the Chilalo product, have discussed the major terms for graphite sales agreements and are considered to have 'pre-qualified' Chilalo's large flake graphite product.

However, it is the opinion of Graphex that sales agreements cannot be truly binding until price negotiations are conducted in the months prior to production commencement. This lack of certainty provided by pre-construction graphite sales agreements has been cited as a key reason that project finance has been difficult to obtain for many graphite companies.

Graphex's strategy has been to develop multiple customer relationships such that contract values are maximised when the price negotiation takes place. Through this process, the Company has identified 41 potential customers or traders in China and is at varying stages of engagement with these parties, including numerous other customers who have 'pre-qualified' Chilalo product and could sign sales agreements prior to conclusion of the construction funding package once the indicative delivery schedule is available.

Graphex Managing Director, Phil Hoskins, commented *"The Company has developed a substantial number of relationships with potential customers who are interested in signing graphite sales agreements. Major terms of these agreements have been discussed however execution will be delayed until the delivery schedule for Chilalo graphite can be communicated with greater certainty. We are highly confident in the demand for Chilalo graphite and believe the markets for graphite foils and flame-retardants are ripe for new supply. Additional customers have 'pre-qualified' Chilalo graphite, which serves to maximise both the sales opportunity and pricing expected to be realised for Chilalo graphite."*

As the Company moves towards production, it will aim to maximise the number of companies for whom Chilalo graphite is 'pre-qualified'. The Company expects to deliver trial shipments to numerous customers or traders early in the Project's life in a bid to create maximum price tension.

Markets First Approach

Graphite is unlike other mainstream commodities in that independent market information is scarce and prices are set between the buyer and seller, rather than by reference to an index or exchange. Acknowledging this, the Company has always adopted a '*markets first*' approach to the development of the Chilalo Project,

placing the requirements of customers at the forefront of decisions around targeted product specifications and target markets.

Our commitment to this approach has seen a substantial amount of time and effort dedicated to China's graphite market, which accounts for the vast majority of global graphite supply and consumption. Since early 2015, Managing Director Phil Hoskins has spent over 200 days in China across 30 separate trips, which has resulted in the establishment of a network of high-quality relationships with graphite market participants, including research institutes and a substantial number of end users and traders.

As well as the 41 potential customers or traders in China, the Company has also sought to expand the market access for Chilalo product and over the past nine months has actively engaged with end users and traders in Europe and North America. A list of 17 recommended customers has been prepared and each will be provided with technical data sheets for each flake size and grade, with further analytical tests to follow to confirm Chilalo product is suitable for each party's applications.

Binding Graphite Sales Agreements

In October 2018, Graphex signed agreements for financing the development of its Chilalo Graphite Project, which included 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 ('**Funding Package**'). Further information on the Funding Package is set out in an ASX Announcement dated October 29, 2018.

Execution of graphite sales agreements is one of the conditions to unlocking the Funding Package and the progression to a true binding graphite sales agreement involves numerous stages:

1. Conducting graphite market research to understand the various applications, graphite demand/supply and specific product specification requirements;
2. Conducting testwork to understand which applications are suitable for the product (product placement plan);
3. Customer identification, preliminary engagement and due diligence;
4. Sample testwork by potential customers;
5. Negotiation of major terms;
6. Agreeing a delivery schedule;
7. Negotiation of price (typically conducted in the months leading up to production); and
8. Provision of trial shipments from commercial production to confirm results from sample testwork conducted earlier in the engagement.

As indicated above, final binding commitment in most cases (with the exception of certain Chinese parties), is aligned with commercial production achieving similar results to those achieved on sample testwork.

Market Research and Analysis

Since 2015, the Company has undertaken considerable market research and analysis, including direct engagement with market participants, to develop its understanding of the broader graphite market. The graphite market is currently undergoing a transition from being dominated by industrial uses (refractories etc) to more high-tech, high-value applications.

Graphite produced from Chilalo is amenable to numerous high-value applications and is expected to be highly sought after as compared to Chinese-sourced competitor products. The Company is aligning with customers who can capitalise on the substantial demand in such applications.

It is well understood that companies producing a high proportion of fine flake graphite (-100 mesh or -150 microns), can expect lower average selling prices, as seen by the realised prices reported by Syrah Resources Limited. Despite their use in lithium-ion batteries, Graphex believes that lower prices for fines will continue. This was confirmed during a recent China visit by Graphex, where end users reported a further softening in prices for finer fractions following Syrah's improved operational performance in Q1 2019.

Graphex remains largely unaffected by the depressed fines market as it has positioned the Chilalo Project to produce predominantly larger flake sizes which command the highest average price.

Advisor Team

The Company continues to be advised by Australia China Trade and their principal consultant, Juyan Feng. Ms Feng has extensive experience in facilitating Australia-China resources transactions having worked for Rio Tinto for 14 years and successfully negotiated over 50 Australia-China resources transactions. Further, the Company's customer introductions have come from an in-country advisor with 40 years' experience in the graphite industry including as General Manager of China's largest graphite mine and actively trading graphite for the last 15 years. He is also a reliable source of market information, pricing and advice.

The Company also continues to develop its relationships with end users and traders in both Europe and the US and is advised by an experienced graphite sales and marketing executive with extensive experience in these regions.



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ABOUT GRAPHEx MINING

Graphex Mining Limited (ASX:GPX) is an Australian resources company listed on the Australian Securities Exchange. Graphex owns the world-class Chilalo Graphite Project, located in south-east Tanzania (Figure 1).

Since the initial discovery of Chilalo in 2014, Graphex has adopted a clear and differentiated strategy of understanding end markets and seeking to partner with strategic investors to enable delivery of the Chilalo Project. Underpinned by a high proportion of large flake material with exceptional expansion characteristics, the Company has targeted the expandable graphite market, which among many applications, is ideally suited to the manufacture of high-value graphite foils and flame-retardant materials.

Graphex has strategically targeted these expandable graphite applications based on their attractive growth and value characteristics. The size and growth expectations of the expandable graphite market applications, the premium prices for large flake graphite in general and the suitability of Chilalo graphite for the production of expandable graphite applications has meant that the Company has prioritised supplying the expandable graphite market as the primary focus.

Figure 1 – Chilalo Large Flake Graphite Project, Located in Tanzania.

