ABN 77 610 319 769

INTERIM FINANCIAL REPORT

For the half year ended 31 December 2019

Corporate Information

ABN 77 610 319 769

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

Company Secretary
Mr Stuart McKenzie

Registered Office
Level 1, Emerald House, 1202 Hay Street
WEST PERTH WA 6005
Tel +61 8 9200 4960
Fax +61 8 9200 4961

Bankers
Commonwealth Bank of Australia
150 St Georges Terrace
PERTH WA 6000

Share Register
Computershare Limited
Level 11, 172 St Georges Terrace
PERTH WA 6000
Tel + 61 8 9323 2000
Fax + 61 8 9323 2033

Auditors
PricewaterhouseCoopers
Brookfield Place
125 St Georges Terrace
PERTH WA 6000

Website Address
www.graphexmining.com.au

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

Contents

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 six months ended 31 December 2019 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 half-year ended 31 December 2019 and up to the date of this report:

Stephen Dennis

Phil Hoskins

Daniel Saint Don

Grant Davey (resigned 25 September 2019)

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.

Basis of preparation

The attached half-year report ended 31 December 2019 contains an independent auditor's review report which includes a material uncertainty related to going concern. For further information, refer to Note 2(a) of the financial statements together with the auditor's report.

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.

Review of operations

Results of operations

A summary of results for the half-year ended 31 December 2019 is as follows:

	December 2019 $	December 2018 $
Net loss after income tax	(4,988,343)	(4,621,458)
attributable to:		
Administration costs	(680,140)	(731,265)
Business development and marketing	(434,886)	(1,119,095)
Exploration expenses	(2,956,347)	(2,369,199)

Directors' report

CHILALO GRAPHITE PROJECT

Increase in Mineral Resource

During the period, the Company's focus was on completion of a definitive feasibility study (**DFS**) with respect to the development of its Chilalo Graphite Project (**Chilalo Project**). Completion of the DFS is one of the more material conditions to be satisfied in connection with the Company having access to $80 million of debt and equity funding under the finance arrangements agreed with funds managed by global private investment firm Castlelake, L.P. (**Financier**). Further information on those finance arrangements is available in ASX announcement dated 29 October 2018.

Work on the DFS included a 22-hole, 2,083m infill diamond drilling program, which resulted in a substantial increase in the Mineral Resource estimate at the Chilalo Project with Chilalo's high-grade Indicated Mineral Resource increased to 10.3Mt grading 10.5% Total Graphitic Carbon (TGC) for 1.1Mt of contained graphite, a 73% increase in contained graphite from the previous Mineral Resource estimate.

The high-grade resource is part of the total Indicated and Inferred Mineral Resource estimate of 67.3Mt grading 5.4% TGC for 3.7Mt of contained graphite, which includes a low-grade Inferred Resource of 47.3 Mt grading 3.5% TGC for 1.68Mt of contained graphite. A summary of the Chilalo Mineral Resource is shown in the table below, with additional information available in an ASX announcement dated 28 August 2019.

Domain	Classification	Zone	Million Tonnes (Mt)	TGC (%)	Contained Graphite (Kt)
High Grade	Indicated	Main	9.2	10.6	982
		North East	1.0	9.5	100
		All	**10.3**	**10.5**	**1,082**
	Inferred	Main	7.4	9.5	704
		North East	2.3	8.8	205
		All	**9.8**	**9.3**	**908**
	Indicated + Inferred	**All**	**20.1**	**9.9**	**1,991**
Low Grade	Inferred	Main	37.8	3.4	1,282
		North East	9.5	4.1	394
		All	**47.3**	**3.5**	**1,677**
High Grade + Low Grade	**Indicated + Inferred**	**All**	**67.3**	**5.4**	**3,667**

Note: 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 above a lower cut-off of 2% TGC within these wireframe solids. Differences may occur due to rounding.

Development of Value-Added Products Strategy

Over an extended period of time, the Company has invested significant time developing and enhancing its 'markets first' strategy, with a strong focus on non-Chinese markets to complement the Company's strong existing customer relationships in China. A key development in the Company's strategy has been the advancement of a low-risk, low capital-intensive, value-added products strategy to enhance the value of its concentrate sales through:

- Chinese 'Toll-Treatment' of Chilalo flake graphite concentrate into expandable graphite for qualification and direct sale to fire-retardant customers identified by Graphex; and
- Installation of fine milling equipment to produce micronised graphite for qualification and sale to customers identified by Graphex.

The identification of the opportunities in the expandable and micronised graphite markets are a direct result of the Company's focus on application-specification marketing.

Over the past four years, Graphex has engaged numerous end users as well as three independent laboratories to evaluate the use of Chilalo flake graphite (in various mesh sizes) for the production of expandable graphite and to determine how Graphex expandable graphite would perform when compared to other expandable graphite producers and products. Evaluations have consistently concluded

Directors' report

that Chilalo flake graphite, using two different intercalation / oxidation compound formulas, meets the performance characteristics for graphite foils and fire-retardants. Due to its unique chemistry markers, Chilalo flake graphite meets critical parameters that are required for fire-retardant manufacturers.

Graphex is now strongly positioned to capitalise on the expandable graphite market opportunity, with key achievements during the half-year including:

- Identification of numerous international fire-retardant customers with demand for expandable graphite;
- Advancement of negotiations with some of China's leading expandable graphite manufacturers to act as processing agent – providing Graphex with leverage to existing processing expertise; and
- Completion of industrial-scale laboratory testwork confirming the suitability of Chilalo graphite concentrate to produce expandable graphite using Graphex proprietary intercalation chemistries to meet fire-retardant and foil specifications.

Micronised graphite is a processed form of natural or synthetic graphite, produced by fine grinding flake graphite concentrate into specific micron particle size distributions. In addition, significant progress has been made on developing the micronised graphite strategy, including:

- Identification of a large number of international micronised graphite customers and their expected product specifications for standard purity (95% LOI) micronised flake graphite; and
- Successful completion of testwork by micronisation equipment manufacturer to produce micronised graphite to meet targeted customer's specifications.

The strategy to pursue micronised graphite has a number of advantages:

- Natural flake graphite feedstock to produce micronised graphite is -100 mesh, 95% LOI, which is also a graphite product competing with Chinese suppliers and Syrah Resources Limited and is therefore more likely to attract low prices;
- Micronisation equipment is relatively low capital cost (even so, it is proposed as a second phase following commissioning of the main Chilalo plant); and
- Significant value uplift achievable (weighted average sales price for standard purity micronised graphite based on Graphex's targeted product mix increased to US$2,800/t FOB Port compared with significantly lower prices for selling -100 mesh concentrate into China).

The enhancement of the Company's graphite sales strategy underpins the DFS, which was released on 29 January 2020.

Results of DFS

Post 31 December 2019, the Company released the results of the DFS, which positioned Graphex as a vertically integrated manufacturer of high-value graphite products and demonstrated that the Chilalo Project has strong margins with a significant near-term value-add market opportunity. Key outcomes of the DFS are shown in the table below.

Physicals	Unit	Life of mine
Mine life	Years	18
Total plant feed	Mt	8.9
Annual plant feed	ktpa	500
Average head grade	TGC %	10.1%
Average graphite concentrate production[1]	ktpa	50
Steady state expandable graphite sales	ktpa	12
Steady state micronised graphite sales	ktpa	8
Project Financials	**Unit**	**Life of mine**
NPV_8 (Post-tax)	US$M	331
NPV_8 (Post-tax) – at Year 4	US$M	510
IRR (Post tax)	%	36%
Post-tax payback period	years	3.5

Directors' report

Pre-production capital cost (incl. 10% contingency and pre-strip)				US$M	87.4
Average annual EBITDA				US$M	74
Product Segment Financials	**Unit**	**Concentrate**	**Expandable Graphite**	**Micronised Graphite**	**Consolidated Production[3]**
Average sales price (FOB)	US$/t	1,534	5,690	2,802	2,500
C1 operating costs per tonne (FOB)[2]	US$/t	778	512	383	905
Operating margin	US$/t	756	5,178	2,419	1,595

1. Average graphite concentrate production includes graphite concentrate used as feedstock into both value-added products.
2. Operating costs of expandable graphite and micronised graphite excludes the internal transfer price (purchasing feedstock from Chilalo).
3. Consolidated Production shows the average sales price, operating costs and margin for the consolidated operation (i.e. Inclusive of concentrate, expandable graphite and micronised graphite).

The production target in the DFS was underpinned entirely by an updated Ore Reserve which increased by 52% from that previously reported, with no exploration targets or Inferred or Indicated Resources included in the forecast financial information set out in the above table. The updated Ore Reserve is shown in the table below.

Deposit	JORC classification	Tonnes (Mt)	Grade TGC (%)	Contained Graphite (Kt)
Chilalo	Proved	-	-	-
	Probable	9.2	9.9	878
Total		**9.2**	**9.9**	**878**

Further information on the Ore Reserve and the DFS is available in the ASX announcement dated 29 January 2020.

Reference to Previous ASX Announcements

In relation to the Mineral Resource estimate previously reported on 28 August 2019, Graphex confirms that it is not aware of any new information or data that materially affects the information included in the announcement of 28 August 2019 and that all material assumptions and technical parameters underpinning the Mineral Resource estimate in the announcement of 28 August 2019 continue to apply and have not materially changed.

In relation to the Ore Reserve estimate previously reported on 29 January 2020, Graphex confirms that it is not aware of any new information or data that materially affects the information included in the announcement of 29 January 2020 and that all material assumptions and technical parameters underpinning the Ore Reserve estimate in the announcement of 29 January 2020 continue to apply and have not materially changed.

In relation to the results of the Bankable Feasibility Study announced on 29 January 2020, the Company confirms that all material assumptions underpinning the production target and forecast financial information included in that announcement continue to apply and have not materially changed.

LEGAL AND REGULATORY ENVIRONMENT IN TANZANIA

During the half-year, the Company maintained constant dialogue with the Government of Tanzania (**GOT**) to resolve and clarify certain outstanding issues in order to ensure a legal and regulatory environment that is acceptable to its financiers.

The Company has made material progress in addressing such issues and believes that concerns relating to the GOT's 16% free carried interest, the export of graphite concentrate from the Chilalo Project, operation of the local content requirements and lower level issues such as the function of the integrity pledge and ownership of mineral data have been essentially addressed.

During January 2020, the Company met with senior officials of the Mining Commission, the Ministry of Minerals and the Bank of Tanzania to discuss compliance with the local content regulations during the construction phase at the Chilalo Project and bank account arrangements. The meeting was overwhelmingly positive, and the Company is confident that an outcome can be achieved that meets the requirements of both the GOT and financiers.

Directors' report

On 24 January 2020, the GOT and Barrick Gold Corporation (**Barrick**), signed a series of agreements that effectively settled the outstanding issues between Barrick and the GOT. The President of the United Republic of Tanzania pledged Barrick the full support of the GOT and ordered the relevant authorities to release the concentrate containers that had been held at the port of Dar es Salaam since March 2017. On the same day, Barrick issued an announcement on the agreement reached with the GOT and also announced a US$50 million exploration budget during 2020, looking at various opportunities to sustain and expand its operations in Tanzania. This is an important development that has increased investor confidence in Tanzania.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307 of the *Corporation Act 2001* is set out on page 8.

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

Stephen Dennis
Chairman of the Board
PERTH
On the 13th day of March 2020

Auditor's Independence Declaration

As lead auditor for the review of Graphex Mining Limited for the half-year ended 31 December 2019, 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 review; and

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

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

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
13 March 2020

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

Condensed consolidated statement of profit or loss and other comprehensive income

for the half year ended 31 December 2019

	31 December 2019 $	31 December 2018 $
Continuing operations		
Interest income	1,500	3,485
Research and development rebate	386,948	201,735
Corporate and administration expenses	(680,140)	(731,265)
Employee benefits	(390,842)	(500,654)
Business development and marketing	(434,886)	(1,119,095)
Finance costs	(890,121)	(85,959)
Exploration expenses	(2,956,347)	(2,369,199)
Share based payments	(24,455)	(20,506)
Loss before income tax	**(4,988,343)**	**(4,621,458)**
Income tax expense	-	-
Loss for the period	**(4,988,343)**	**(4,621,458)**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	4,482	(99,265)
Total comprehensive loss for the period	**(4,983,861)**	**(4,720,723)**
Net loss is attributable to:		
Owners of Graphex Mining Limited	**(4,988,343)**	(4,621,458)
Total comprehensive loss is attributable to:		
Owners of Graphex Mining Limited	**(4,983,861)**	(4,720,723)
Earnings per share attributable to owners of the Company	**$**	**$**
Basic EPS	(0.05)	(0.06)
Diluted EPS	(0.05)	(0.06)

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

Condensed consolidated balance sheet
as at 31 December 2019

	Notes	31 December 2019 $	30 June 2019 $
ASSETS			
Current assets			
Cash and cash equivalents		872,430	1,264,791
Trade and other receivables	5	195,394	318,465
Total current assets		**1,067,824**	**1,583,256**
Non-current assets			
Property, plant and equipment		93,780	112,880
Exploration and evaluation	6	5,000,000	5,000,000
Total non-current assets		**5,093,780**	**5,112,880**
Total assets		**6,161,604**	**6,696,136**
LIABILITIES			
Current liabilities			
Trade and other payables	7	(411,035)	(449,871)
Provisions		(274,202)	(171,377)
Loans and borrowings	8	(7,977,318)	-
Total current liabilities		**(8,662,555)**	**(621,248)**
Non-current liabilities			
Provisions		-	(72,018)
Loans and borrowings		-	(5,799,825)
Total non-current liabilities		**-**	**(5,871,843)**
Total liabilities		**(8,662,556)**	**(6,493,091)**
Net (liabilities)/assets		**(2,500,951)**	**203,045**
EQUITY			
Share capital	9	19,087,485	16,832,075
Reserves		1,478,001	1,449,065
Accumulated losses		(23,066,437)	(18,078,095)
Total equity		**(2,500,951)**	**203,045**

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2019

	Notes	Contributed equity	Foreign currency translation reserve	Share based payment reserve	Accumulated losses	Total equity
		$	$	$	$	$
Balance at 1 July 2018		**15,111,194**	**26,986**	**1,628,745**	**(10,028,344)**	**6,738,581**
Total comprehensive income for the period:						
Loss for the period		-	-	-	(4,621,458)	(4,621,459)
Foreign exchange translation differences		-	(99,265)	-	-	(99,265)
Total comprehensive loss for the period		-	(99,265)	-	(4,621,458)	(4,720,724)
Transactions with owners in their capacity as owners:						
Issue of shares net of transaction costs	9	62,295	-	-	-	62,295
Employee share schemes - value of employee services		-	-	20,506	-	20,506
Balance at 31 December 2018		**15,173,489**	**(72,279)**	**1,649,251**	**(14,649,802)**	**2,100,658**
Balance at 1 July 2019		16,832,075	(41,024)	1,490,088	(18,078,094)	203,045
Total comprehensive income for the period:						
Loss for the period		-	-	-	(4,988,343)	(4,988,343)
Foreign exchange translation differences		-	4,482	-	-	4,482
Total comprehensive loss for the period		-	4,482	-	(4,988,343)	(4,983,861)
Transactions with owners in their capacity as owners:						
Issue of shares net of transaction costs		2,255,410	-	-	-	2,255,410
Employee share schemes - value of employee services		-	-	24,455	-	24,455
Balance at 31 December 2019		**19,087,485**	**(36,542)**	**1,514,543**	**(23,066,437)**	**(2,500,951)**

The above condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the interim financial report.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2019

	31 December 2019 $	31 December 2018 $
Cash flows from operating activities		
Payments to suppliers and employees	(853,792)	(1,086,425)
Payments for business development and marketing	(460,088)	(1,111,726)
Payment of exploration and evaluation expenditure	(3,000,889)	(802,604)
Receipt from research and development rebate	386,948	201,735
Interest received	1,500	3,485
Net cash (outflow) from operating activities	**(3,926,321)**	**(2,795,533)**
Cash flows from investing activities		
Payment for property, plant and equipment	(7,775)	(20,048)
Net cash (outflow) from investing activities	**(7,775)**	**(20,048)**
Cash flows from financing activities		
Proceeds from the issue of loan notes	1,353,701	2,836,075
Loan note issue costs	(66,328)	(212,706)
Proceeds from the issue of ordinary shares	2,500,000	69,880
Share issue transaction costs	(244,590)	(7,585)
Net cash inflow from financing activities	**3,542,783**	**2,685,665**
Net increase / (decrease) in cash and cash equivalents	(391,313)	(129,916)
Cash and cash equivalents at the beginning of the period	1,264,791	1,838,886
Effects of exchange rate changes on cash and cash equivalents	(1,048)	(35,469)
Cash and cash equivalents at the end of the period	**872,430**	**1,673,501**

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

Notes to the condensed consolidated financial statements

1. Corporate information

Graphex Mining Limited (**Graphex** or the **Company**) is a company incorporated in Australia and limited by shares. Graphex shares are publicly traded on the Australian Securities Exchange under the stock code GPX. The condensed consolidated interim financial statements of the Company as at, and for the half-year ended, 31 December 2019 comprise the Company and its subsidiaries (together the **Group**).

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

The consolidated financial statements of the Group as at and for the year ended 30 June 2019 are available online at www.graphexmining.com.au or upon request from the Company's registered office located at Level 1, Emerald House, 1202 Hay Street, West Perth 6005, Australia.

This financial report was authorised for issue in accordance with a resolution of the Directors on 13 March 2020.

2. Basis of preparation and accounting policies

This general purpose interim financial report for the half-year ended 31 December 2019 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. The financial report does not include all notes of the type normally included within the annual financial report. However, selected explanatory notes are included to explain events and transactions that are important to an understanding of changes in the Group's financial position and performance since the last annual consolidated financial statements, as of, and for the year ended 30 June 2019.

It is recommended that this interim financial report be read in conjunction with the annual report for the year ended 30 June 2019 and considered together with any public announcements made by the Company during the half-year ended 31 December 2019 in accordance with the Company's continuous disclosure obligations.

(a) Going concern

The Group incurred a net loss for the half year ended 31 December 2019 of $4,988,343 (2018: $4,621,458) and a net cash outflow from operating activities of $3,926,321 (2018: $2,795,533). As at 31 December 2019, the Group had cash and cash equivalents of $872,430 (30 June 2019: $1,264,791) and a working capital deficit of $7,594,731 (30 June 2019: deficit $962,008).

Based on the Group's cash flow forecast, the Group will require additional funding in the next 12 months to enable the Group to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due, including progression of its project development activities. Subsequent to the half-year end, the Company completed a placement of 14,823,078 ordinary shares at a price of $0.065 to raise $963,500 before costs and commenced a share purchase plan on the 11 March 2020 to raise up to a further $250,000 before costs.

In October 2018, the Company entered into a Loan Note Subscription Agreement to raise US$5 million from the issue of secured loan notes (**Interim Loan Notes**). The Company also signed a term sheet setting out the proposed terms on which, subject to the satisfaction of agreed conditions, the Financier and other market participants would 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**).

Proceeds from the Interim Loan Notes have been applied to satisfying the conditions to the Senior Funding Package. Amounts owed under the Interim Loan Notes are due on 29 October 2020 (**Interim Loan Note Repayment Date**). In addition to customary conditions, the more material conditions that need to be satisfied for availability of the Senior Funding Package:

- Completion of a bankable feasibility study (**BFS**) to support a decision to mine;
- Resolution of certain specified issues relating to Tanzania's mining legislation;
- Execution of material contracts, including offtake, mining and engineering, procurement and construction (**EPC**);
- Completion of ongoing due diligence to the satisfaction of the Financier – the Financier's due diligence is ongoing; and
- Entry into definitive transaction documents – the term sheet for the Senior Funding Package is to be converted into transaction documents – to be completed upon satisfaction of all other conditions above.

The Company has made significant progress in relation to the above condition's precedent and ultimately a positive financing outcome including:

Notes to the condensed consolidated financial statements

- the DFS was completed on 29 January 2020 and is currently being reviewed by the Financier (see pages 3-6 of this report for a summary of the results of the DFS). As is routine with a DFS, when the Financier has confirmed its satisfaction with the DFS, it will become a BFS;
- the Company has worked extensively with the Government of Tanzania to obtain the certainty required by project financiers, with the Financier currently reviewing the status of such issues; and
- the Company continues to progress through the various stages of work required to deliver genuine binding sales agreements, with several of these stages not capable of completion prior to commencement of construction. In relation to the mining contract, the Company believes that tendering and negotiating a mining contract prior to securing project finance is likely to receive less focus from potential mining contractors and considers it beneficial to undertake the contracting process when project finance is in place. Owing to flake size being a key driver of revenue and maximising the percentage of coarse flake material produced at Chilalo a fundamental factor in the design of the processing plant, the Company considers it prudent that it retains control over design of the processing plant.

Should the Company satisfy the conditions to the Senior Funding Package, the amount owed to the Financier from the Interim Loan Notes will roll into the Senior Funding Package on the same terms as the Senior Funding Package and as a result, the Interim Loan Notes will not be due and payable on the Interim Loan Note Repayment Date.

Should the conditions above not be satisfied prior to the Interim Loan Note Repayment Date or additional funding is required before then, there are several potential outcomes for the Company, including:

- The Company raises capital from existing and new shareholders sufficient to continue operations and to extinguish the amount owed from the Interim Loan Notes;
- The Company negotiates an amendment to the terms of the Interim Loan Notes such that there is an extension to the Interim Loan Note Repayment Date or an increase in the amount available for drawdown;
- In the event the Company cannot repay the amount owed from the Interim Loan Notes, or negotiate amended terms on or before the Interim Loan Note Repayment Date, the Financier may:
    - Elect to enforce the Interim Loan Note security and take legal title of the Chilalo Project; or
    - Negotiate a restructure of the Interim Loan Note agreement, such that any amount owed may be settled in ordinary shares of the Company.

There can be no assurances that if the Company is unable to repay the amount owed from the Interim Loan Notes on the Interim Loan Note Repayment Date, it can negotiate an outcome other than that contractually set out in the Interim Loan Note agreement, which would be enforcement of security in the event of default.

As a result of the above, there is a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

This half-year report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The directors are satisfied, however that at the date of signing of the financial report, there are reasonable grounds to believe that the Group will be able to continue to meet its debts as and when they fall due and that it is appropriate for the financial statements to be prepared on a going concern basis. The directors have based this on the following pertinent matters:

- The Group has the capacity, if necessary, to reduce its operating cost structure in order to minimise its working capital requirements and defer the timing of any future capital raising; and
- The directors believe that future funding will be available to meet the Group's objectives and debts as and when they fall due, including:
    - Completion of the condition's precedent of the Company's senior funding package to the access up to $80 million in debt and equity funding from the Company's financier;
    - through engaging with parties interested in alternate financing arrangements; and/or
    - raising additional capital through equity placements to existing or new investors of which the Group has a demonstrated history of success in this regard.

Notes to the condensed consolidated financial statements

3. Accounting policies

The accounting policies and methods of computation adopted in the preparation of the interim financial report are consistent with those disclosed in the Company's 2019 annual financial report for the financial year ended 30 June 2019 other than outlined below.

(a) New and amended standards adopted by the Company

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases – (Effective date 1 July 2019)
AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.
Management has considered significant contracts, such as those for drilling, and believes the Company does not hold any contracts that constitute leases under the standard. Therefore, the implementation of this standard has had no impact.

(b) Impact of standards issued but not yet adopted by the entity

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

4. Use of judgements and estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 30 June 2019.

5. Trade and other receivables

	31 December 2019	30 June 2019
	$	$
Accounts receivable	96,909	118,038
Other receivables	48,769	31,863
Prepayments	49,716	150,283
Security bond	-	18,281
	195,394	**318,465**

6. Exploration and evaluation expenditure

(a) Reconciliation of exploration and evaluation expenditure

Carrying amount at beginning of the period	5,000,000	5,000,000
Acquisition of tenements	-	-
Carrying amount at the end of the period	**5,000,000**	**5,000,000**

Notes to the condensed consolidated financial statements

7. Trade and other payables

Creditors	239,274	188,871
Accruals	116,212	216,314
Other payables	55,549	44,686
	411,035	**449,871**

8. Loans and borrowings

Interim Loan Notes	6,554,822	5,192,664
Effective interest capitalised	1,368,095	513,187
Foreign currency movement	54,401	93,974
	7,977,318	**5,799,825**

As set out in Note 2(a), Graphex signed agreements for financing the development of its Chilalo Graphite Project, which comprised the US$80 million Senior Funding Package and the US$5 million Interim Loan Note facility. At the end of the period, the Interim Loan Note facility is fully drawn. Material terms of the Interim Loan Notes include:

- Amounts owed under the Interim Loan Note facility are payable on the Interim Loan Note Repayment Date;
- Structuring fee of 2% and an issuer discount of 7.5%;
- Interest rate of 15% applied on drawn funds and a 4% commitment fee applied on undrawn funds;
- All fees other than the issuer discount are capitalised into the balance of the Interim Loan Notes;
- Any capital raising by the Company is restricted to $5 million unless for the purpose of debt repayment; and
- Security over the Chilalo Project.

As noted above, on satisfaction of the conditions to the Senior Funding Package, the US$5 million Interim Loan Note facility can be rolled into the Senior Funding Package in accordance with the agreed term sheet. Proceeds from the Interim Loan Notes have been applied to satisfying the conditions precedent to the Senior Funding Package. Details of the more material conditions to the Senior Funding Package are set out in Note 2(a).

9. Share capital

	31 December 2019		30 June 2019	
	Shares	**$**	**Shares**	**$**
(a) Issued and paid up capital				
Ordinary fully paid shares	100,957,708	19,087,485	88,145,208	16,832,075
(b) Movement in ordinary shares				
Opening balance at 1 July	88,145,208	16,832,075	78,714,794	15,111,194
Issue of equities				
Conversion of loyalty options	-	-	138,748	34,687
Exercise of employee options	-	-	1,369,737	-
Shares issued as consideration for drilling	-	-	5,956,357	1,638,312
Shares issued to interim loan note holders	312,500	62,500	1,645,000	-
Issue of shares[1]	12,500,000	2,500,000	320,572	69,880
	100,957,708	19,394,575	88,145,208	16,854,073
Less: Transaction costs arising on share issues	-	(307,090)	-	(21,998)
	100,957,708	19,087,485	88,145,208	16,832,075

[1] The issue of shares for the half-year was the issue of 12,500,000 fully paid ordinary shares for $0.20 consideration as part of a placement.

Notes to the condensed consolidated financial statements

10. Events since the end of the half-year

Subsequent to year end, on:

- 29 January 2020 the Company released a Definitive Feasibility Study on its Chilalo Graphite Project. The study outlined strong economics with an NPV_8 of US$331 million and an internal rate of return on 36%.
- 6 March 2020 the Company completed a placement of 14,823,078 ordinary shares at a price of $0.065 to raise $963,500 before costs and commenced a share purchase plan on the 11 March 2020 to raise up to a further $250,000 before costs.

11. Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2019.

12. Operating segments

Management has determined the operating segments based on the reports reviewed by the chief operating decision maker. The Group is solely focussed on exploration and hence has only one operating segment.

In respect of the exploration operating segment, geographically the Company's primary focus is exploration in Tanzania.

Exploration Tanzania, which has reported an operating loss of $724,191 (31 December 2018: $2,134,420) for the period to the entity's loss before tax of $4,988,343 (31 December 2018: $4,621,458). There have been no differences in the basis of measurement of segment profit or loss from the last annual report.

Directors declaration

In accordance with a resolution of the Directors of Graphex Mining Limited (the **Directors**), I state that:

In the opinion of the Directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001* and:

(i) give a true and fair view of the financial position as at 31 December 2019 and the performance for the half-year ended on that date of the consolidated entity

(ii) comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*

(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.

Signed in accordance with a resolution of the Directors made pursuant to Section 303(5) of the *Corporations Act 2001*.

On behalf of the Board

Stephen Dennis
Chairman
PERTH
On this 13th day of March 2020

Independent auditor's review report to the members of Graphex Mining Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Graphex Mining Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the Condensed consolidated balance sheet as at 31 December 2019, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and Condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Graphex Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Graphex Mining Limited is not in accordance with the *Corporations Act 2001* including:

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 2(a) in the financial report, which indicates that the Group incurred a net loss of $4,988,343 and a net cash outflow from operating activities of $3,926,321 during the half year ended 31 December 2019, and as of that date had net current liabilities of $7,594,731. As a result, the Group will require additional funding to enable it to continue its normal business activities and the realisation of assets and extinguishment of liabilities as and when they fall due, including progression of its project development activities. These conditions, along with other matters set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
13 March 2020