

31 October 2016

## QUARTERLY ACTIVITIES REPORT

Quarter ended 30 September 2016

### HIGHLIGHTS

#### Chilalo Graphite Project

- Due diligence activity by China Gold Group Investment Co. Ltd and CN Docking Joint Investment and Development Co. Ltd (**'Project Partners'**) progressing:
  - Successful completion of independent, confirmatory testwork with respect to the product quality and marketability of Chilalo graphite
  - Agreement on specific milestones to be achieved in progressing towards binding agreements
  - Project Partners' technical due diligence nearing completion
- New zone of graphite mineralisation identified from recently completed Reverse Circulation drilling program – updated mineral resource estimate expected in December
- Fixed Loop Electromagnetic (FLEM) surveys to generate additional high-conductance targets continuing

#### Corporate

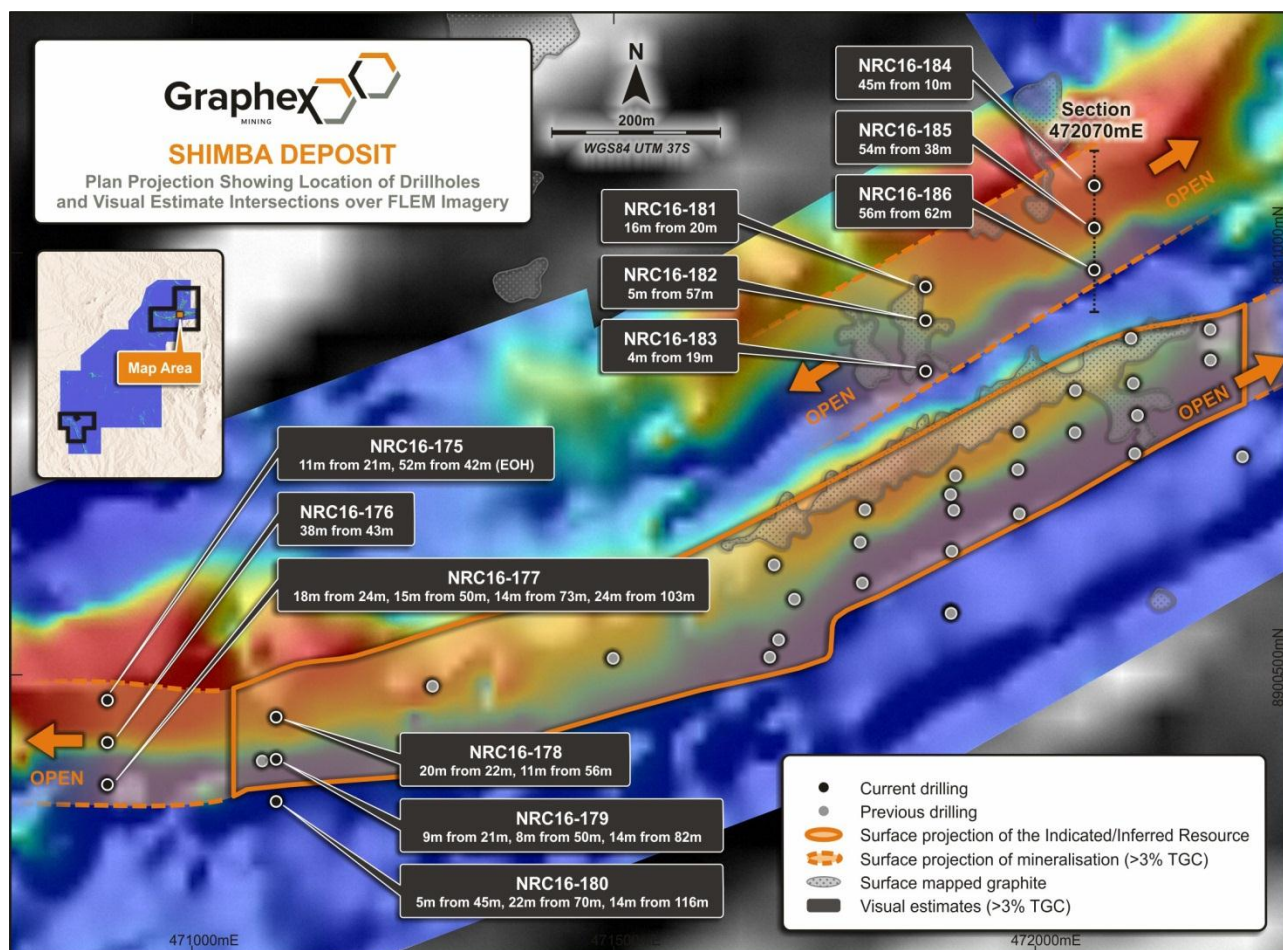
- Closing cash balance of \$3.7 million
- Commencement of research coverage by three analysts – Pulse Markets (Chris Baker), Red Leaf Securities (David Greenwood) and RM Research (Guy Le Page)

## CHILALO GRAPHITE PROJECT

### Reverse Circulation Drilling Program

During the Quarter, a Reverse Circulation drilling program comprising 12 holes for 1,331 metres was completed, with visual inspections and geological logging indicating that all holes intersected high-grade graphite mineralisation as shown in Figure 1 (see ASX announcement of 6 October 2016).<sup>1</sup>

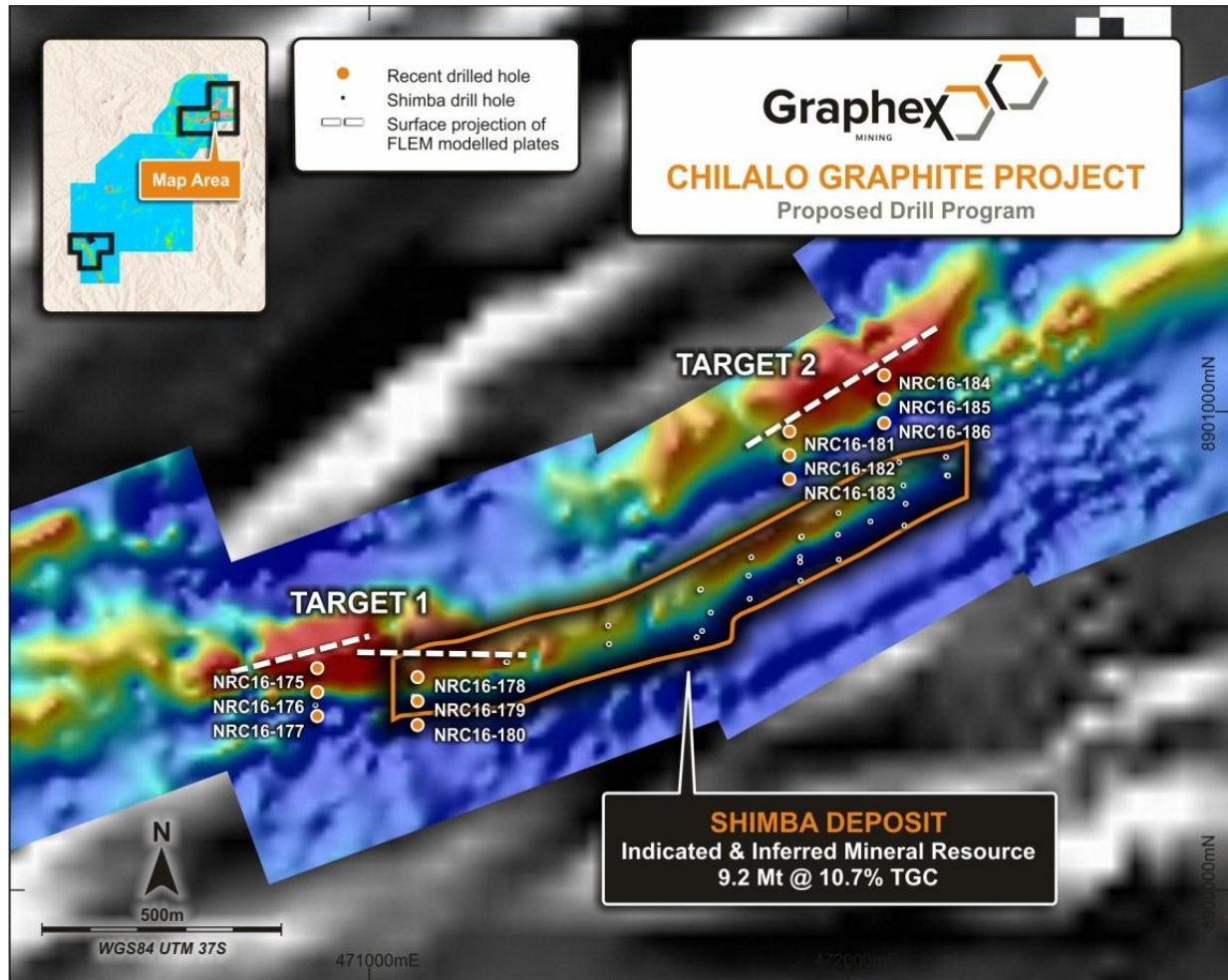
**Figure 1: Location of drill holes and visual estimates of intersections on FLEM imagery,**



The program was designed to test two key targets, one to the south-west and the other to the north-east of the Shimba deposit (see Figure 2), with the objective of increasing the existing high-grade resource. These targets outcrop at surface, are within 200m of Shimba and are interpreted to be the same mineralised horizon as Shimba, initially identified via a Fixed Loop Electromagnetic (FLEM) survey.

<sup>1</sup> Since the announcement of 6 October 2016, Graphex confirms that it is not aware of any new information or data that materially affects the information included in that announcement.

Figure 2: Shimba Deposit<sup>2</sup> showing drill hole locations



Geological logging has confirmed that all holes drilled to date have intersected high-grade graphite mineralisation, confirming the modelling generated by the FLEM survey. Of particular note, are holes NRC16-184, NRC16-185 and NRC16-186 (see Figure 3) where visual inspections indicate the width of mineralisation to be approximately 45m (note widths of the existing resource vary between 10m and 30m). The mineralisation looks similar to the existing high-grade Shimba deposit.

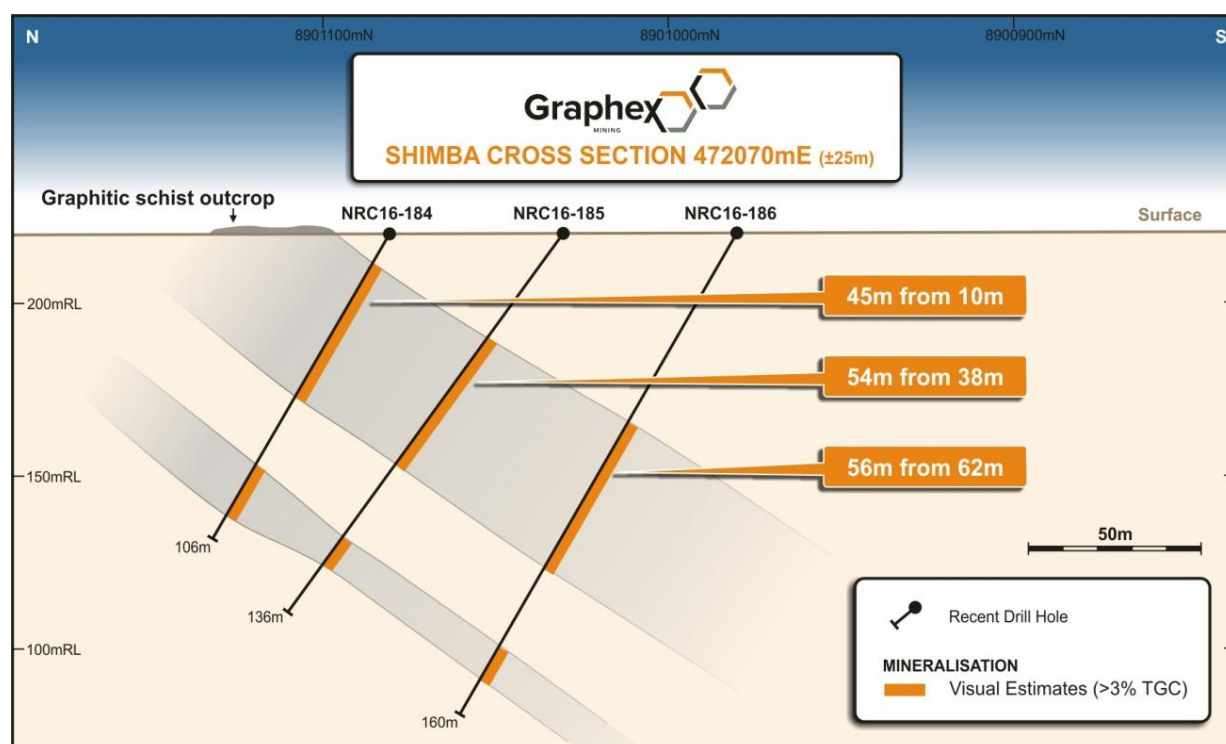
Assays from the drilling program are expected to be available in November, at which time resource modelling work will be carried out. The Shimba resource is capable of supporting a 10-year mine life producing 69,000 tonnes of graphite concentrate per year<sup>3</sup>, meaning that a resource expansion will result in improved project economics through mine life extensions or production expansions.

<sup>2</sup> Since the announcement of the Mineral Resource estimate on 13 October 2015 by IMX Resources Limited, Graphex confirms that it is not aware of any new information or data that materially affects the information included in those announcements and that all material assumptions and technical parameters underpinning the Mineral Resource estimate in that announcement continue to apply and have not materially changed.

<sup>3</sup> Graphex confirms that all material assumptions underpinning the production targets and forecast financial information in the Replacement Prospectus lodged on 10 May 2016 continue to apply and have not materially changed.



**Figure 3: Cross Section**



### Offtake and financing agreements

Following a series of productive negotiations during July, the Company and the Project Partners recommitted to the Memorandum of Understanding which contemplates the Project Partners purchasing product offtake and providing project finance to develop the Chilalo Project.

The parties have agreed to specific milestones to achieve in progressing towards binding agreements. These milestones include:

- Completion of independent, confirmatory testwork (completed);
- Finalisation of due diligence, including confirmation of desired project scale and product specifications (nearing completion);
- Finalisation of commercial terms (substantial discussions have already been held);
- Completion of detailed commercial documentation;
- Approval from the Group boards of the Project Partners; and
- Securing Chinese regulatory approvals customary for overseas investment.

Independent, confirmatory metallurgical testwork was completed during the Quarter and marked the conclusion of product due diligence by the Project Partners. The testwork was carried out by Suzhou SINOMA Design and Research Institute for the Non-Metallic Minerals Industry on a 500kg sample of Chilalo ore and included flotation to confirm the coarse flake size distribution for Chilalo graphite and expandability testwork to confirm the excellent expansion rates achieved previously.

## **Geophysical survey work**

Further FLEM surveys are being carried out over the proposed Mining Licence area and surrounds. The success of the recent drilling program has demonstrated that FLEM surveys can be a cost-effective exploration technique, with the results of these ongoing surveys expected to generate additional high conductance targets as the Company seeks to progressively grow the high-grade resource base.

Given no further resource expansion drilling is anticipated prior to the onset of the wet season (December), the FLEM survey results will be consolidated and reported towards the end of the December Quarter following interpretation and calibration against existing EM data and the high-grade Shimba resource.

## **Ongoing technical work**

In addition to exploration work, the Company is continuing to carry out certain relatively low-cost streams of definitive feasibility study work that are considered to be critical to the successful and efficient development of Chilalo. These work streams include stage one of a water study, further metallurgical testwork and acid rock drainage testwork.

An unmanned aerial vehicle has been utilised for carrying out a mapping survey over the mining lease to generate orthophoto and a digital elevation model to assist in infrastructure planning.

## **Chilalo Mining Licence**

The application for a Mining Licence for the development of Chilalo is at the “recommended” stage. As set out in the recent letter to shareholders, no issues have been raised that cause the Company concern regarding the granting of the Mining Licence and the process for formal granting of the Mining Licence is nearing completion.

# **CORPORATE**

## **Cash**

As at 30 September 2016, the Company had cash of \$3.7 million.

## **Share capital**

As part of the initial public offering (**‘IPO’**) completed in the June Quarter, the Company issued 55,000,000 ordinary shares and 11,666,667 Loyalty Options. An additional 12,365,316 unquoted options were issued to advisors to the IPO, directors and employees.

The Loyalty Options were issued to subscribers under the IPO and vested on 14 September 2016 (**‘Vesting Date’**) subject to the number of shares held by subscribers on the Vesting Date. As at 28 October 2016, 7,826,475 Loyalty Options are unexercised, with 2,499,585 having lapsed on the Vesting Date and a further 1,357,108 having been exercised since the Vesting Date. As a result of the exercised Loyalty Options, the Company now has 56,357,108 issued and outstanding ordinary shares.

## **Annual General Meeting**

The Company will hold its Annual General Meeting at 3:30 pm (WST) on Thursday, 17 November 2016 at the Main Function Room of the Celtic Club, located at 48 Ord Street, West Perth. All shareholders are invited to attend.

## TENEMENT INTERESTS

There has been no change to the Company's tenement interests from the June Quarter. Table 1 shows the Company's tenement interests as at 30 September 2016.

**Table 1. Tenements held and location**

Tenement	Ownership	Project	Location
PL5447/2008 - Noli SE	100%	Chilalo	Tanzania
PL6073/2009 - Chilalo	100%	Chilalo	Tanzania
PL6158/2009 - Kiperere East	100%	Chilalo	Tanzania
PL8628/2012 - Kipendengwa	100%	Chilalo	Tanzania
PL9929/2014 - Chikwale	100%	Chilalo	Tanzania
PL9946/2014 - Machangaja	100%	Chilalo	Tanzania



### **PHIL HOSKINS**

**Managing Director**

**For further information, please contact:**  
**Phil Hoskins – Managing Director**  
**Tel: +61 8 9200 4960**

**Stuart McKenzie – Commercial Manager and**  
**Company Secretary**  
**Tel: +61 8 9200 4960**

### **Media**

**Michael Weir & Richard Glass – Citadel-MAGNUS**

**Tel: +61 8 6160 4900**

### **About Graphex**

Graphex Mining Limited is an Australian exploration and development company, dedicated to advancing the world class Chilalo Graphite Project, located in south-east Tanzania. Chilalo is host to a high-grade mineral resource and has demonstrated an ability to produce a premium graphite concentrate with a substantial portion of large and jumbo flake material. Chilalo graphite possesses outstanding expandability characteristics, making it ideally suited to the rapidly growing expandable graphite market.

Graphex's current focus of effort is on securing offtake and financing agreements for the development of Chilalo. In accordance with an existing MOU, Graphex is working closely with CN Docking Joint Investment & Development Co. Ltd, a subsidiary of China National Building Materials and China Gold Group Investment Co. Ltd. on the negotiation of such agreements.

Graphex has an experienced board and management team with specific skills and extensive experience in African based project development, exploration, mining and processing. Tanzania is a stable democracy, with a globally competitive tax and regulatory regime. The Company has had a long and well-established presence in Tanzania.

## Appendix 5B

# Mining exploration entity and oil and gas exploration entity quarterly report

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

### Name of entity

Graphex Mining Limited

### ABN

77 610 319 769

### Quarter ended ("current quarter")

30 September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(570)	(570)
(b) development	-	-
(c) production	-	-
(d) staff costs	(185)	(185)
(e) administration and corporate costs	(439)	(439)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	22	22
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (Business Development)	(82)	(82)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,254)</b>	<b>(1,254)</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(3)	(3)
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (3 months) \$A'000</b>
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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(3)</b>	<b>(3)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	208	208
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	(246)	(246)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>(38)</b>	<b>(38)</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	5,075	5,075
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,254)	(1,254)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(3)	(3)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(38)	(38)
4.5	Effect of movement in exchange rates on cash held		
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>3,780</b>	<b>3,780</b>



<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1 Bank balances	1,780	5,075
5.2 Call deposits	2,000	-
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
<b>5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>3,780</b>	<b>5,075</b>

**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

<b>Current quarter \$A'000</b>
97
Nil

**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

<b>Current quarter \$A'000</b>
Nil
Nil

## Mining exploration entity and oil and gas exploration entity quarterly report

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

--

9.	<b>Estimated cash outflows for next quarter</b>	<b>\$A'000</b>
9.1	Exploration and evaluation	(397)
9.2	Development	-
9.3	Production	-
9.4	Staff costs	(225)
9.5	Administration and corporate costs	(391)
9.6	Other (Business Development)	(234)
9.7	<b>Total estimated cash outflows</b>	<b>(1,247)</b>

10.	<b>Changes in tenements (items 2.1(b) and 2.2(b) above)</b>	<b>Tenement reference and location</b>	<b>Nature of interest</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
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: 31 October 2016

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.