Graphex MINING

ABN 77 610 319 769

INTERIM FINANCIAL REPORT

For the half year ended 31 December 2018

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

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Auditors
PricewaterhouseCoopers
Brookfield Place
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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 2018 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 2018 and up to the date of this report:

Stephen Dennis

Grant Davey

Philip Hoskins

The Company Secretary is Mr Stuart McKenzie.

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 2018 contains an independent auditor's review report which includes an unqualified, unmodified review opinion.

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 2018 is as follows:

	December 2018 $	December 2017 $
Net loss after income tax	(4,621,458)	(1,842,461)
attributable to:		
Administration costs	(731,267)	(649,185)
Business development and marketing	(1,119,095)	(445,187)
Exploration expenses	(2,369,199)	(320,857)

Directors' report

CHILALO GRAPHITE PROJECT

Funding package agreed with Castlelake Funds

During the period, Graphex signed agreements for financing the development of its Chilalo Graphite Project (**Chilalo**). The Chilalo finance agreements are with funds managed by global private investment firm Castlelake, L.P. (the **Castlelake 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.

Under the funding package agreed with Castlelake 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 signed a term sheet setting out the proposed terms on which the Castlelake 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 being 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;
- Completion of a bankable feasibility study (**BFS**);
- Certain Castlelake approvals and completion of ongoing Castlelake due diligence to its satisfaction;
- Resolution of issues relating to Tanzania's mining legislation; 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 with the status summarised below.

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 (the **Submission**) provided by the Company to the Government in late August 2018 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 Submission in an effort to address the key issues identified, the resolution of which is a pre-requisite to the development of Chilalo.

Post period 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.

Subsequent to year end, the Government of Tanzania released "*The Mining (Mineral Value Addition) Guidelines, 2019*" (**Guidelines**) which provide guidelines on the required in-country value addition in relation to mineral processing. With respect to graphite, the

Directors' report

Guidelines state that graphite concentrate with a grade above 65% total graphitic carbon (**TGC**) is permitted to be exported after laboratory tests and payment of the applicable royalty.

Given that product from the Company's Chilalo Project will be well in excess of 65% TGC, the Guidelines provide assurance that graphite produced at Chilalo can be exported. The ability to export Chilalo product is a fundamental requirement for project development and the publication of the Guidelines is an important step forward and removes the previous uncertainty associated with this requirement.

In February 2019, the Company met with key officials in the Ministry of Minerals. The primary purpose of the meeting was to discuss the key issues raised in the Submission. The priority issues included in the Submission relate to the Government free carried interest, bank account arrangements, local content requirements and the ability for the Company to grant security over the Project.

The Ministry has undertaken to provide the Company with a written response to the Submission. In the meantime, the Company will continue to work closely with the Government on a formal resolution of these issues. Resolution of issues related to Tanzania's mining legislation is a condition precedent to securing the Senior Funding Package for development of Chilalo under the funding arrangements agreed with Castlelake Funds last year. Based on discussions to date, the Company is confident that these issues can be resolved to the satisfaction of Castlelake Funds.

Updated Pre-feasibility Study

The Company completed a Pre-feasibility study (**PFS)** during the period that assessed a two-stage production scenario, under which stage 1 would produce approximately 58,000 tonnes of graphite product per year for the first two years of operation and a stage 2 expansion to commence operation in Year 3 that would produce approximately 108,000 tonnes per year (ASX announcement 20 September 2018). The Company is confident in its ability to sell 108,000 tonnes per annum of Chilalo graphite from the beginning of the Project, however has adopted a staged approach to minimise upfront capital. This approach is expected to maximise value for existing shareholders.

The PFS proposes a high-grade open-pit operation and a plant that applies simple comminution and flotation processing. Graphite product will be transported to, and shipped from, the deep-water commercial port of Mtwara, which is located approximately 220 km by road from Chilalo, the majority of which is a sealed main road.

<u>Results of the PFS</u>

The results of the PFS, which are summarised in Table 1 below, confirm that Chilalo is a high quality, high margin graphite project.

Table 1. PFS results: Key operating and financial metrics

Item	Measure	Outcome
Life of mine	years	8.5
Average head grade	% TGC	10.6%
Average annual EBITDA	US$m	112
Basket sales price FOB Mtwara	US$/t	1,777
Operating cost per tonne of product	US$/t	500
Operating margin	US$/t	1,277
Stage 1 capital cost	US$m	43.6
Stage 2 capital cost	US$m	32.5
Post-tax NPV (10% discount rate)	US$m	349
Post-tax internal rate of return (IRR)	%	131
Post-tax payback period	Yrs	0.84

Directors' report

Potential for increased mine life

Feed to the mill is comprised of Ore Reserves (5.3 Mt) and Inferred Mineral Resources (2.2 Mt). There is potential for 9.5 Mt of additional Inferred Mineral Resources currently not included in the mine schedule, to be upgraded to a higher classification and added to the 7.5 Mt mill feed in the mine schedule.

As discussed below, during the period a diamond drilling program at Chilalo was completed, of which one of the purposes is to upgrade the Inferred Mineral Resources to a higher confidence classification. It is anticipated that the diamond drilling program will enable this upgrade to progress and given the historically favourable conversion rate of Inferred Mineral Resources to Indicated Mineral Resources, the Company has confidence that this is likely.

Chilalo product and weighted average sales price

Since 2015, extensive metallurgical testwork has been carried out on Chilalo ore. This has included work programs completed by SGS Lakefield (Canada), SGS Perth, Suzhou Sinoma Research Institute for Non-Metallic Minerals in Suzhou China and ALS Metallurgy Perth. During 2018, a series of tests were completed by ALS Metallurgy Perth and managed by BatteryLimits Pty Ltd (**BatteryLimits**), to optimise the flake size distribution. The most recent testwork managed by BatteryLimits demonstrated that Chilalo can produce an exceptionally coarse flake product with over 57% of the product above 300 microns. The results of the most recent testwork, and the corresponding weighted average sales, are shown in Table 2.

Table 2. Chilalo weighted average sales price (FOB Mtwara)

Flake Size	Microns	Mesh	Mass Dist. %	Grade TGC %	Price (US$/t)	Basket Sales Price (US$/t)
Above Super Jumbo	> 850	20	9	93.4	5,150	437
Super Jumbo	500 – 850	32	24	90.3	2,540	620
Jumbo	300 – 500	50	24	88.6	1,757	427
Large	180 – 300	80	9	98.7	974	83
Medium	150 – 180	100	5	98.8	779	39
Small	< 150	-100	29	97.4	583	171
Weighted Average Sales Price (Mass Dist. % x Price) (FOB Mtwara)						**$1,777**

The weighted average sales price is the lower of information obtained from Benchmark Mineral Intelligence and reputable Chinese industry sources, with the most conservative estimates used.

Bankable feasibility study

The PFS was an important factor in the investment decision by Castlelake Funds. One of the conditions of the Senior Funding Package is the completion of the BFS, which the Company is currently progressing.

Completion of drilling program

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

- Upgrading the Inferred Mineral 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.

Directors' report

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.

Offtake agreements

Securing offtake agreements is another key condition to unlocking the 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 Castlelake 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 enter into 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.

Results of Pre-Feasibility Study

The results of the Pre-Feasibility Study, including the forecast financial information (and the production target on which such financial information is based) in this report was announced on 20 September 2018. The Company confirms that all material assumptions underpinning the forecast financial information (and the production target on which such financial information is based) in the announcement of 20 September 2018 continue to apply and have not materially changed.

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 12th day of March 2019

Auditor's Independence Declaration

As lead auditor for the review of Graphex Mining Limited for the half-year ended 31 December 2018, 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.

Ben Gargett
Partner
PricewaterhouseCoopers

Perth
12 March 2019

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Condensed consolidated statement of profit or loss and other comprehensive income

for the half year ended 31 December 2018

	31 December 2018 $	31 December 2017 $
Continuing operations		
Interest income	**3,485**	13,048
Research and development rebate	**201,735**	201,825
Corporate and administration expenses	**(731,267)**	(649,185)
Employee benefits	**(500,654)**	(469,228)
Business development and marketing	**(1,119,095)**	(445,187)
Finance costs	**(85,959)**	-
Exploration expenses	**(2,369,199)**	(320,857)
Share based payments	**(20,506)**	(172,877)
Loss before income tax	**(4,621,458)**	(1,842,461)
Income tax expense	**-**	-
Loss for the period	**(4,621,458)**	(1,842,461)
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**(99,265)**	(3,719)
Total comprehensive loss for the period	**(4,720,723)**	(1,846,180)
Net loss is attributable to:		
Owners of Graphex Mining Limited	**(4,621,458)**	(1,842,461)
Total comprehensive loss is attributable to:		
Owners of Graphex Mining Limited	**(4,720,723)**	(1,846,180)
Earnings per share attributable to owners of the Company	**$**	**$**
Basic EPS	**(0.06)**	(0.03)
Diluted EPS	**(0.06)**	(0.03)

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 2018

	Notes	31 December 2018 $	30 June 2018 $
ASSETS			
Current assets			
Cash and cash equivalents		**1,673,501**	1,838,886
Trade and other receivables	5	**111,554**	164,337
Total current assets		**1,785,055**	2,003,223
Non-current assets			
Property, plant and equipment		**122,619**	126,335
Exploration and evaluation	6	**5,000,000**	5,000,000
Total non-current assets		**5,122,619**	5,126,335
Total assets		**6,907,674**	7,129,558
LIABILITIES			
Current liabilities			
Trade and other payables	7	**1,926,634**	231,132
Provisions		**162,468**	159,845
Total current liabilities		**2,089,102**	390,977
Non-current liabilities			
Loans and borrowings	8	**2,717,913**	-
Total non-current liabilities		**2,717,913**	-
Total liabilities		**4,807,015**	390,977
Net assets		**2,100,659**	6,738,581
EQUITY			
Share capital	9	**15,173,489**	15,111,194
Reserves		**1,576,972**	1,655,731
Accumulated losses		**(14,649,802)**	(10,028,344)
Total equity		**2,100,659**	6,738,581

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 2018

	Notes	Contributed equity	Foreign currency translation reserve	Share based payment reserve	Accumulated losses	Total equity
		$	$	$	$	$
Balance at 1 July 2017		**10,459,258**	**24,479**	**1,287,165**	**(5,919,268)**	**5,851,634**
Total comprehensive income for the period:						
Loss for the period		-	-	-	(1,842,461)	(1,842,461)
Foreign exchange translation differences		-	(3,719)	-	-	(3,719)
Total comprehensive loss for the period		-	(3,719)	-	(1,842,461)	(1,846,180)
Transactions with owners in their capacity as owners:						
Issue of shares net of transaction costs		2,441,644	-	-	-	2,441,644
Employee share schemes - value of employee services		-	-	172,877	-	172,877
Balance at 31 December 2017		**12,900,902**	**20,760**	**1,460,042**	**(7,761,729)**	**6,619,975**
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**

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 2018

	31 December 2018 $	31 December 2017 $
Cash flows from operating activities		
Payments to suppliers and employees	**(1,086,425)**	(1,196,269)
Payments for business development and marketing	**(1,111,726)**	(546,827)
Payment of exploration and evaluation expenditure	**(802,604)**	(378,880)
Receipt from research and development rebate	**201,735**	-
Interest received	**3,485**	13,048
Net cash (outflow) from operating activities	**(2,795,533)**	(2,108,928)
Cash flows from investing activities		
Payment for property, plant and equipment	**(20,048)**	(8,253)
Net cash (outflow) from investing activities	**(20,048)**	(8,253)
Cash flows from financing activities		
Proceeds from the issue of loan notes	**2,836,075**	-
Loan note issue costs	**(212,706)**	-
Proceeds from the issue of ordinary shares	**69,880**	2,652,588
Share issue transaction costs	**(7,585)**	(210,944)
Net cash inflow from financing activities	**2,685,665**	2,441,644
Net increase / (decrease) in cash and cash equivalents	**(129,916)**	324,463
Cash and cash equivalents at the beginning of the period	**1,838,886**	1,149,777
Effects of exchange rate changes on cash and cash equivalents	**(35,469)**	(1,950)
Cash and cash equivalents at the end of the period	**1,673,501**	1,472,290

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 2018 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 2018 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 12 March 2019.

2. Basis of preparation and accounting policies

This general purpose interim financial report for the half-year ended 31 December 2018 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 2018.

It is recommended that this interim financial report be read in conjunction with the annual report for the year ended 30 June 2018 and considered together with any public announcements made by the Company during the half-year ended 31 December 2018 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 2018 of $4,621,458 (2017: $1,842,461) and a net cash outflow from operating activities of $2,795,533 (2017: $2,108,928). As at 31 December 2018, the Group had cash and cash equivalents of $1,673,501 (2017: $1,472,290) and a working capital deficit of $304,047 (2017: surplus $1,505,747).

The Group may require additional funding in the next 12 months to substantially complete the BFS and execute all material contracts. If the BFS and other discretionary expenditure was removed from cash flow forecasts, the Company has sufficient funding to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

The directors are satisfied that at the date of this Interim 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 Company has access to US$3 million in undrawn funds from the Interim Loan Notes available under the financing arrangements agreed with funds managed by Castlelake L.P. and outlined in note 8;
- The Group has the capacity, if necessary, to reduce its operating cost structure in order to minimise its working capital requirements; and
- The Company has a track record of successfully raising capital from new and existing shareholders and with its currently available placement capacity under ASX Listing Rules 7.1 and 7.1A, can issue approximately 12.3 million shares to do so.

The financial report does not include adjustments relating to the recoverability or classification of the recorded assets nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

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 2018 annual financial report for the financial year ended 30 June 2018 other than outlined below.

(a) New and amended standards adopted by the Company

AASB 9 Financial Instruments
AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the financial instruments standard. The application of the standard does not have an impact on the Company's accounting for financial assets and liabilities during the period. This standard has however been applied for the first time measuring the Loan Notes outlined in note 8 at fair value. The Loan is valued in accordance with AASB 9 using the effective interest method to determine fair value.

AASB 15 Revenue from Contracts with Customers
The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Management has assessed the impact of the new standard, its application to the Company's financial statements had an immaterial effect on the Company.

(b) Impact of standards issued but not yet adopted by the 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. The Company has entered into a lease for the rental of office space, however this is considered short term and therefore the implementation of the standard will have no impact at the current time.

At this stage the Company does not intend to adopt any of the above standards before its effective date. There are no other standards that are not yet effective and that are expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

(c) Loans and Borrowings

The Company entered into a Loan Note Subscription Agreement with funds managed by Castlelake L.P. to raise US$5 million from the issue of secured Interim Loan Notes, which became available during the period. At the end of the period, the Company has drawn US$2 million of the US$5 million Interim Loan Notes available. Full details of the Interim Loan Notes are outlined in note 8.

The Loan Notes are valued at fair value using the effective interest method over the life of the loan. The Interim Loan Notes are classified as non-current until they are 12 months or less from the maturity date of 29 October 2020.

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 2018.

Notes to the condensed consolidated financial statements

5. Trade and other receivables

	31 December 2018	30 June 2018
	$	$
Accounts receivable	**36,759**	47,577
Other receivables	**21,751**	83,111
Prepayments	**34,763**	15,368
Security bond	**18,281**	18,281
	111,554	164,337

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

7. Trade and other payables

Creditors	**130,673**	82,486
Accruals	**1,747,515**	120,548
Other payables	**48,445**	28,098
	1,926,634	231,132

Included in accruals is an amount of US$1.16 million payable to Capital Drilling for drilling services provided during the period as outlined in note 10. The liability was extinguished post year end via the issue of 5,956,357 ordinary shares of the Company.

8. Loans and borrowings

Interim Loan Notes	**2,717,913**	-
	2,717,913	-

On 29 October 2018, Graphex signed agreements for financing the development of its Chilalo Graphite Project with funds managed by global private investment firm Castlelake, L.P, which 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.

Under the funding package agreed with Castlelake 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 during the period. At the end of the period, the Company has drawn US$2 million of the US$5 million Interim Loan Notes available. Other material terms of the Interim Loan Notes are:
    - Loan Notes expire 29 October 2020;
    - Structuring fee 2% and an issuer discount of 7.5%;
    - Interest rate of 15% on drawn funds and 4% commitment fee on undrawn funds; and
    - Security over the Chilalo Project.

Notes to the condensed consolidated financial statements

8. Loans and borrowings (cont.)

- On satisfactory completion of conditions precedent, the US$5 million facility can be rolled into a Senior Funding Package in accordance with an agreed term sheet that sets out the proposed terms on which the Castlelake 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.

9. Share capital

	31 December 2018		30 June 2018	
	Shares	**$**	**Shares**	**$**
(a) Issued and paid up capital				
Ordinary fully paid shares	**80,680,366**	**15,173,489**	78,714,794	15,111,194
(b) Movement in ordinary shares				
Opening balance at 1 July	**78,714,794**	**15,111,194**	58,212,063	10,459,258
Issue of shares	**-**	**-**	20,474,882	5,030,240
Issue of shares to loan note holder[1]	**1,645,000**	**-**	-	-
Issue of shares to Directors[2]	**320,572**	**69,880**	-	-
Conversion of loyalty options	**-**	**-**	27,849	6,962
	80,680,366	**15,181,074**	78,714,794	15,496,460
Less: Transaction costs arising on share issues	**-**	**(7,585)**	-	(385,266)
	80,680,366	**15,173,489**	78,714,794	15,111,194

[1] The issue of shares for the half-year was the issue of 1,645,000 fully paid ordinary shares for nil consideration as part of the Loan Note Subscription Agreement outlined in note 8 above.

[2] The issue of shares for the half-year was the issue of 320,572 shares to Directors at a subscription price of $0.28. The Directors subscribed for these shares as part of the March 2018 share placement which were subsequently approved by shareholders at the Company's AGM.

10. Events since the end of the half-year

Subsequent to year end, on 24 January 2019 the Company issued 5,956,357 fully paid shares at a notional price $0.28 per Share to Capital Drilling, as consideration for drilling services provided during the period. The Company completed diamond drilling of approximately 3,000 metres in order to upgrade its Resource and Reserves, provide material for geotechnical analysis and sterilisation of the proposed tailings storage facility.

11. Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2018.

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 $2,134,420 for the period to the entity's loss before tax of $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 2018 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 12th day of March 2019

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), which comprises the condensed consolidated balance sheet as at 31 December 2018, 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 for the Graphex Mining Limited Group (the Group). The Group comprises the Company and the entities it controlled during that half-year.

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 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 2018 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*.

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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:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 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*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Ben Gargett
Partner

Perth
12 March 2019