



**ABN 77 610 319 769**

**ANNUAL REPORT - 30 JUNE 2016**

# 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**

Suite 4, Level 1, 2 Richardson 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

## **Solicitors**

Bellanhouse Legal

11 Ventnor Avenue

WEST PERTH WA 6005

## **Share Register**

Computershare Limited

Level 2, 45 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](http://www.graphexmining.com.au)

## **ASX Code**

Shares are listed on the Australian Securities Exchange (**ASX**) under stock code GPX.

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## Directors' report

Dear Shareholders

On behalf of the Directors, I am pleased to introduce the 2016 Annual Report for Graphex Mining Limited (**Graphex** or the **Company**). Graphex is a graphite-focused company with a clear strategy of fast-tracking the development of our Chilalo Graphite Project in Tanzania.

The Company was incorporated on 21 January 2016 by its then parent, IMX Resources Limited (**IMX**), following a strategic decision by IMX to dispose of its graphite assets into the Company. Graphex subsequently completed a heavily over-subscribed IPO to raise \$7 million, the success of which provided the Company with a strong platform for future growth and reflected the quality of the Chilalo Project.

There has been significant media coverage of the potential growth in demand for graphite based on its use in lithium-ion batteries for electric vehicles and energy storage. While Chilalo graphite is suitable for use in lithium-ion batteries, with its exceptional expansion characteristics, the Company considers that the most compelling market opportunity for Chilalo graphite is in supplying the expandable graphite market.

Chilalo graphite demonstrates expansion rates among the highest in the world. Expanded graphite has unique heat-resistant properties and is applied in the manufacture of high-value products such as graphite foil for the electronics industry. Perhaps most significantly though, expandable graphite can be used in the manufacture of flame retardant building materials. Recent recommendations made by the Chinese Government require the use of flame retardant building materials in all new construction which is a significant market expected to drive considerable growth in demand for expandable graphite. Graphex is well positioned to benefit from that growth due to the quality of its product and relationships with dominant market players in China.

We are continuing to advance negotiations with large companies, CN Docking Joint Investment & Development Co. Ltd, a subsidiary of China National Building Material Group Corporation, and China Gold Group Investment Co Ltd (together **Project Partners**), on the financing and offtake arrangements for the development of Chilalo.

In August, the Company and the Project Partners recommitted to an existing memorandum of understanding, under which the parties agreed to continue exclusive negotiation and due diligence subject to the completion of key milestones in the progression towards binding agreements.

Having spent a great deal of time in China during the past 18 months and committed a substantial amount of effort to the relationship with our Project Partners, the reciprocal commitment of senior management time and resources from our Project Partners has been particularly encouraging.

Your Board believes that reaching agreement with the Project Partners will secure the all-important offtake and project financing arrangements required for the development of Chilalo.

While a major focus will continue to be on progressing negotiations with the Project Partners, we have already begun further work aimed at enhancing the value of Chilalo and to allow for a more streamlined and de-risked project development pathway once our partners have been secured. This work includes recently announced resource expansion drilling which is expected to improve project economics via mine life extensions and low cost aspects of the definitive feasibility study that will reduce the overall timeline to production.

Chilalo has emerged as an advanced graphite development project. We continue to make progress in our negotiations with the Project Partners and with confirmatory testwork now completed, can advance negotiations on a binding offtake agreement. I look forward to keeping you updated on our progress on what should be an exciting year ahead.

Yours faithfully



**Phil Hoskins**  
Managing Director

## 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 period ended 30 June 2016 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 2016 financial year and up to the date of this report:

Stephen Dennis (appointed 3 March 2016)

Grant Davey (appointed 3 March 2016)

Phil Hoskins (appointed as a Director on 21 January 2016 and as Managing Director on 10 June 2016)

Stuart McKenzie (appointed 25 January 2016, resigned 3 March 2016)

Nicholas Corlis (appointed 25 January 2016, resigned 3 March 2016)

The Company Secretary is Mr S 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 mineral resources, with a focus on the Chilalo Graphite Project in Tanzania.

### Dividends

During the period no dividends were declared or paid.

### Significant changes in the state of affairs

All entities in the Group were incorporated and began trading during the financial year. Therefore no comparative information is presented as set out in note 26(r). Graphex completed an initial public offering (**IPO**) and was admitted to the official list of the ASX on 9 June 2016. Graphex shares commenced trading on the ASX on 14 June 2016. Further information on the IPO is set out below in review of operations.

### Events since the end of the financial year

There were no significant or material events subsequent to period end not otherwise disclosed in this report.

### Likely developments and expected results

In the opinion of the Directors, there is nothing else to report, except as reported in the Directors' Report, which relates to likely developments in the operations of the Group and the expected results of those operations in financial years subsequent to 30 June 2016.

### Environmental regulation

The Group's exploration and development activities and those of its partners are subject to environmental regulations and guidelines applicable to the tenements on which such activities are carried out. Failure to meet environmental conditions attaching to the Group's exploration tenements could lead to forfeiture of those tenements. The Group is committed to achieving a high standard of environmental performance. No environmental breaches have occurred or have been notified by any Government agencies during the period ended 30 June 2016.

## Directors' report

### Review of operations

#### Results of operations

A summary of results for 2016 is as follows:

|                                        | 2016<br>\$'000 | 2015<br>\$'000 |
|----------------------------------------|----------------|----------------|
| Net loss after income tax              | (1,256)        | -              |
| <b>attributable to:</b>                |                |                |
| Administrations costs                  | (291)          | -              |
| Exploration and evaluation expenditure | (155)          | -              |
| Transaction costs                      | (398)          | -              |
| Share based payments                   | (397)          | -              |

#### Initial Public Offering

Following a strategic review by the board of IMX Resources Limited (**IMX**) in January 2016, Graphex was incorporated for the purpose of acquiring the Chilalo Graphite Project from IMX in conjunction with Graphex completing an IPO.

In March 2016, the Company entered into an agreement with IMX to acquire 100% beneficial ownership of the Chilalo Graphite Project, other graphite tenements (Figure 1) and various minor assets for 20,000,000 shares at a deemed issue price of \$0.20 per share and \$1,000,000 cash.

Graphex lodged its revised Prospectus in May 2016, and successfully completed an oversubscribed IPO in early June 2016 which raised A\$7.0 million. Having been officially admitted to the Australian Stock Exchange (ASX) on 9 June 2016, trading of Graphex shares commenced on 14 June 2016.

Pursuant to the terms of the IPO, Graphex acquired the Chilalo Graphite Project from IMX for total consideration of A\$5.0 million which comprised A\$1.0 million in cash and A\$4.0 million in Graphex shares which were subsequently distributed *in specie* to IMX shareholders.

Under the IPO, Graphex issued the following shares and options:

| Securities                    | Number on Issue |
|-------------------------------|-----------------|
| Ordinary Fully Paid Shares    | 55,000,000      |
| Loyalty Options <sup>1</sup>  | 11,666,502      |
| Unquoted Options <sup>2</sup> | 5,927,359       |
| Unquoted Options <sup>3</sup> | 6,437,957       |

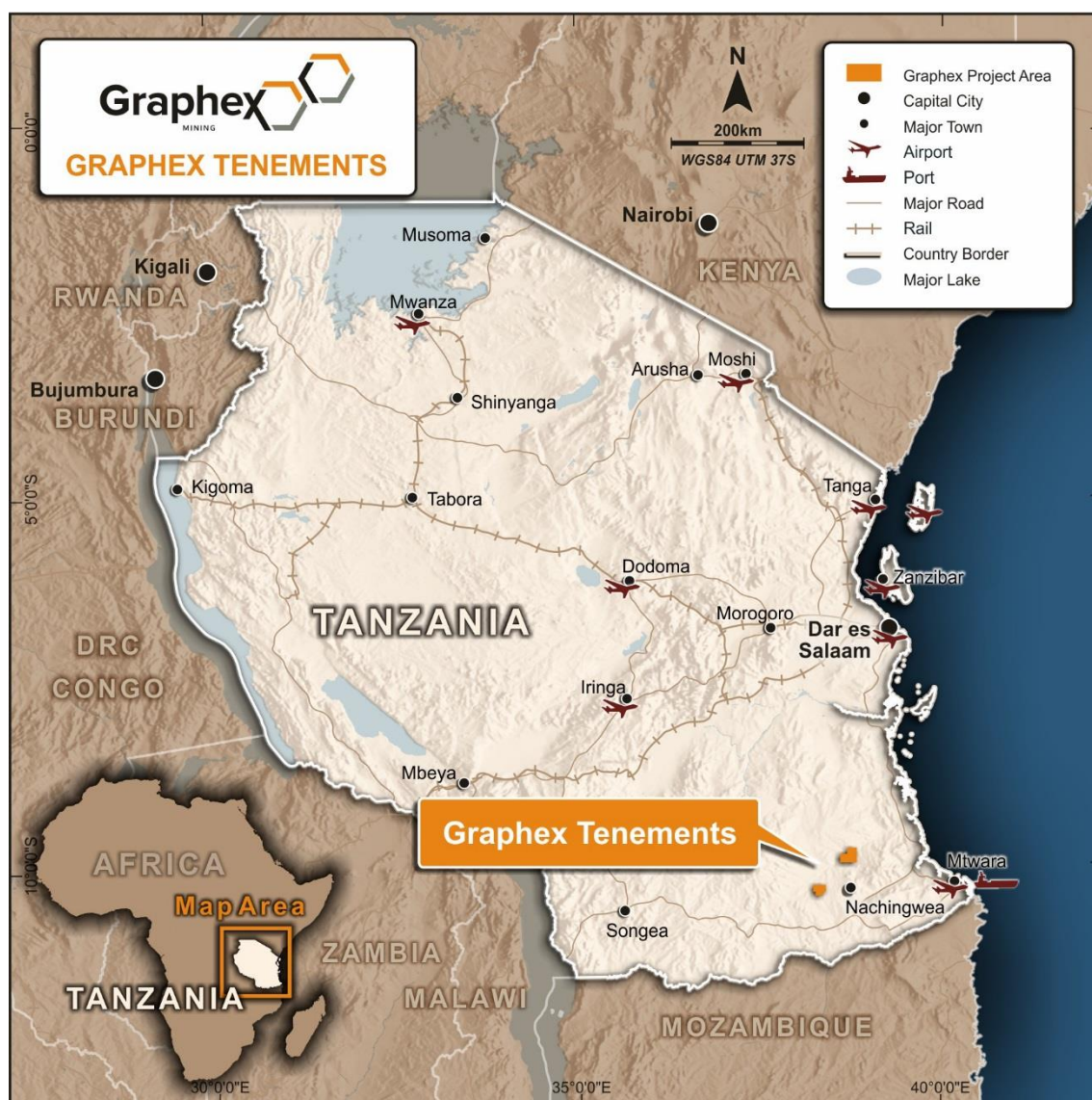
<sup>1</sup> Issued to subscribers under the IPO, vested 14 September 2016, exercisable at \$0.25, expiring 8 June 2019

<sup>2</sup> Issued to advisors, exercisable at \$0.25 and expiring on 9 September 2019, escrowed to 14 June 2018

<sup>3</sup> Issued to Directors and employees, exercisable at \$0.20 to 9 June 2019, 2,350,000 of which were issued to Directors and are escrowed to 14 June 2018

## Directors' report

Figure 1. Location of Graphex tenements



### Board and Management

Prior to listing, Graphex assembled a highly experienced board of directors (**Board**), with a balanced skill set across capital markets, project finance and development, mining operations and corporate transactions. The Board is also well equipped with members who have experience operating in Africa (specifically Tanzania) and conducting business in China.

The three member Graphex Board comprises:

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

### Chilalo Graphite Project

#### Ore Reserves and Mineral Resources

A maiden Ore Reserve was declared in June 2016. The Ore Reserve estimate was based only on the Indicated Resources of 5.1 Mt grading 11.9% total graphitic carbon (**TGC**) for 613,800 tonnes of contained graphite included in the high-grade Mineral Resource estimate. Also included in the high-grade Mineral Resource estimate are Inferred Resources of 4.1 Mt grading 9.1% TGC for 370,300 tonnes of contained graphite, as shown in the table below. It is noted that the Mineral Resources are inclusive of the Ore Reserves.

## Directors' report

### Annual Statement of Ore Reserves and Mineral Resources

| Shimba Deposit Mineral Resource estimate combined zones |                      |                     |         |                         |
|---------------------------------------------------------|----------------------|---------------------|---------|-------------------------|
| Domain                                                  | Classification       | Million Tonnes (Mt) | TGC (%) | Contained Graphite (Kt) |
| High Grade                                              | Indicated            | 5.1                 | 11.9    | 614                     |
|                                                         | Inferred             | 4.1                 | 9.1     | 370                     |
|                                                         | Indicated + Inferred | 9.2                 | 10.7    | 984                     |
| Low Grade                                               | Inferred             | 15.9                | 3.3     | 523                     |
| Total                                                   | Indicated + Inferred | 25.1                | 6.0     | 1,507                   |

| Chilalo Probable Ore Reserve |             |              |                         |
|------------------------------|-------------|--------------|-------------------------|
| Ore Reserves                 | Tonnes (Mt) | Grade (TGC%) | Contained Graphite (Kt) |
| Proved                       | 0           | 0            | 0                       |
| Probable                     | 4.7         | 11%          | 516                     |
| <b>Ore Reserves total</b>    | <b>4.7</b>  | <b>11%</b>   | <b>516</b>              |

Please refer to page 19 of this Annual Report for Mineral Resource and Ore Reserve Competent Persons' statements.

The maiden Mineral Resource at Chilalo was reported on 7 April 2015, prior to the IPO when the Project was under the control of IMX. During 2016, IMX completed an upgrade of the maiden Mineral Resource following a diamond drilling program and declared a maiden Ore Reserve. As at the date of this annual report, the Ore Reserve and Mineral Resources statement shown in the table above incorporates all changes to the Mineral Resources and Ore Reserves since those included in the IMX 2015 annual report.

The Company's Replacement Prospectus that was lodged on 10 May 2016 contains further information on the Mineral Resources and Ore Reserves estimates.

#### Pre-feasibility study

A pre-feasibility study completed in November 2015 by IMX, prior to the formation of Graphex, revealed a project that has strong cash flow and a short payback period underpinned by low capital intensity, a high quality product and highly competitive operating costs, as summarised below.

#### Pre-feasibility study: Operating and Financial Metrics

| Items                                   |        | PFS – Nov 2015 |
|-----------------------------------------|--------|----------------|
| Life of Mine                            | Yrs    | 10             |
| Average annual production (LOM)         | tpa    | 69,123         |
| Plant feed rate                         | tpa    | 630,000        |
| Average head grade (LOM)                | % TGC  | 10.85          |
| Average recovery                        | %      | 94             |
| Average concentrate grade               | % TGC  | 94             |
| LOM Revenue                             | US\$m  | 838            |
| LOM Pre-tax Net Cashflow                | US\$m  | 391            |
| Average annual EBITDA                   | US\$m  | 47             |
| Basket sales price                      | US\$/t | 1,217          |
| Operating cost per tonne of concentrate | US\$/t | 490            |
| Operating margin                        | US\$/t | 727            |

## Directors' report

| Items                           |       | PFS – Nov 2015  |
|---------------------------------|-------|-----------------|
| Pre-production capital cost     | US\$m | 74              |
| Pre-tax payback period          | Yrs   | 1 year 7 months |
| Pre-tax NPV (10% discount rate) | US\$m | 200             |
| Pre-tax IRR                     | %     | 62              |

### Offtake and financing discussions

Negotiations with CN Docking Joint Investment & Development Co. Ltd, a subsidiary of China National Building Material Group Corporation and China Gold Group Investment Co Ltd (together **Project Partners**) with regard to joint venture, offtake and finance for the development of Chilalo continue to progress. Most recently, the Project Partners completed due diligence on Chilalo graphite to their satisfaction, allowing the Company to advance negotiation and binding offtake agreement. This followed a recommitment by the parties to a Memorandum of Understanding that contained specific milestones to be achieved in progressing towards binding agreements and a site visit in June, where the Company hosted a number of representatives from the Project Partners and the Suzhou Design and Research Institute for the Non-Metallic Minerals Industry.

The Project Partners' interest in Chilalo comes from the coarse flake size distribution and superior expandability of graphite exhibited in testwork.

### Strategy

The Group's strategy is to maximise shareholder value through development of its Chilalo Graphite Project. The existing high-grade Ore Reserve and Mineral Resource and outstanding flake size distribution make Chilalo an excellent near-term development opportunity. The Group's short to medium-term strategic goals are to:

- Expand the Chilalo resource via a near-term drill program;
- Obtain binding offtake for up to 100% of planned graphite production;
- Secure funding for the development of Chilalo through a mix of strategic investment and debt;
- Complete a definitive feasibility study; and
- Bring Chilalo into production.

Since its admission to the official list of ASX, the Company has used available funds in a manner that is consistent with its business objectives.

### Information on Directors

| Mr Stephen Dennis BCom, LLB GDipAppFin (Finsia) – Non-Executive Chairman |                                                                                                                                                                                                                                                                                                                                                                                   |           |
|--------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Experience and expertise                                                 | Stephen Dennis has been actively involved in the mining industry for over 30 years. He has held senior management positions at MIM Holdings Limited, Minara Resources Limited and Brambles Australia Limited. Until recently, Mr Dennis was the Chief Executive Officer and Managing Director of CBH Resources Limited, the Australian subsidiary of Toho Zinc Co., Ltd of Japan. |           |
| Other current directorships                                              | Heron Resources Limited (Non-Executive Chairman)<br>Rox Resources Limited (Non-Executive Chairman)<br>Cott Oil and Gas Limited ( Non-Executive Chairman)                                                                                                                                                                                                                          |           |
| Former directorships in the last 3 years                                 | CBH Resources Limited                                                                                                                                                                                                                                                                                                                                                             |           |
| Special responsibilities                                                 | Chairman                                                                                                                                                                                                                                                                                                                                                                          |           |
| Interests in shares and options                                          | Ordinary shares                                                                                                                                                                                                                                                                                                                                                                   | 375,000   |
|                                                                          | Unlisted options                                                                                                                                                                                                                                                                                                                                                                  | 1,000,000 |
|                                                                          | Loyalty options pursuant to IPO                                                                                                                                                                                                                                                                                                                                                   | 124,999   |

## Directors' report

| <b>Mr Grant Davey BSc - Non-Executive Director</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |           |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Experience and expertise                           | Grant Davey has over 20 years of senior management and operational experience in the construction and operation of gold, platinum and coal mines in Africa, Australia, South America and Russia. More recently, he has been involved in venture capital investments in several Canadian and Australian listed exploration and mining projects. Mr Davey was instrumental in acquiring the Honeymoon Uranium Project in South Australia and was the Managing Director of Cradle Resources Limited and founder and Managing Director of the Panda Hill niobium project in Tanzania which is expected to commence construction in 2016. |           |
| Other current directorships                        | Boss Resources Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |           |
| Former directorships in the last 3 years           | Cradle Resources limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |           |
| Special responsibilities                           | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |           |
| Interests in shares and options                    | Ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 250,000   |
|                                                    | Unlisted options                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | 1,000,000 |
|                                                    | Loyalty options pursuant to IPO                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 83,333    |

| <b>Philip Hoskins BCom, CA, GDipAppFin (FINSIA) - Managing Director</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |           |
|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Experience and expertise                                                | Mr Hoskins commenced his career at a large international accounting firm and has since gained corporate experience with both Australian and international listed companies. He is a senior executive with 14 years of broad finance and commercial experience across resources exploration, project development and production as well as large-scale property developments requiring debt and equity financing. He was appointed as IMX's Managing Director in October 2015 after being Chief Executive Officer from September 2014, before which he spent almost three years as IMX's Chief Financial Officer. Mr Hoskins stepped down as IMX's Managing Director prior to the Company's admission to the official list of ASX. |           |
| Other current directorships                                             | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |           |
| Former directorships in the last 3 years                                | IMX Resources Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |           |
| Special responsibilities                                                | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |           |
| Interests in shares and options                                         | Ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 366,998   |
|                                                                         | Unlisted options                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | 1,585,000 |
|                                                                         | Loyalty options pursuant to IPO                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | 83,333    |

| <b>Nicholas Corlis, B. Sc (Hons), MSc, MAIG, MAICD – Former director</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |           |
|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Experience and expertise                                                 | Mr Corlis is a geologist with over 20 years of domestic and international experience in the resources industry across a broad range of commodities including, gold, iron ore, base metals, graphite and coal. He has significant experience in mineral exploration and project management; from project generation / M&A, discovery and resource definition, through to feasibility and development. His previous role was General Manager Business Development for Flinders Mines where he oversaw the discovery and delineation of a significant iron ore project. Prior to that, he held senior management roles with Perilya Limited, Golder Associates and WMC Limited. |           |
| Other current directorships                                              | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |           |
| Former directorships in the last 3 years                                 | IMX Resources Limited                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |           |
| Special responsibilities                                                 | Nil                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |           |
| Interests in shares and options                                          | Ordinary shares                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 113,004   |
|                                                                          | Unlisted options                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | 1,037,500 |
|                                                                          | Loyalty options pursuant to IPO                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | 16,666    |

## Directors' report

| Stuart McKenzie LLB, BEc. (Hons.), GradDipACG, AGIA, ACIS – Former director / current Company secretary |                                                                                                                                                                                                                                                            |         |
|---------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Experience and expertise                                                                                | Mr McKenzie has over 25 years of experience in senior commercial roles. He was previously Company Secretary with Anvil Mining Limited for almost six years, prior to which he held senior positions with Ok Tedi Mining Limited, Ernst and Young and HSBC. |         |
| Other current directorships                                                                             | Nil                                                                                                                                                                                                                                                        |         |
| Former directorships in the last 3 years                                                                | Nil                                                                                                                                                                                                                                                        |         |
| Special responsibilities                                                                                | Company Secretary                                                                                                                                                                                                                                          |         |
| Interests in shares and options                                                                         | Ordinary shares                                                                                                                                                                                                                                            | 142,200 |
|                                                                                                         | Unlisted options                                                                                                                                                                                                                                           | 925,000 |
|                                                                                                         | Loyalty options pursuant to IPO                                                                                                                                                                                                                            | 16,666  |

### Meetings of Directors

The number of meetings of the Company's Directors held during the period ended 30 June 2016 and the number of meetings attended by each Director is shown below:

|            | Meetings of Directors |          |
|------------|-----------------------|----------|
|            | Held                  | Attended |
| S Dennis   | 2                     | 2        |
| G Davey    | 2                     | 2        |
| P Hoskins  | 3                     | 3        |
| N Corlis   | 1                     | 1        |
| S McKenzie | 1                     | 1        |

As at the date of this report there is no audit and risk committee or remuneration committee. The Board has determined that given the size and composition of the Board and the scale of the Company's activities, the functions of those committees ought to be performed by the Board. For further information, please see the Company's Corporate Governance Statement.

### Remuneration report (audited)

#### (a) Key management personnel covered in this report

This Remuneration Report sets out information relating to the remuneration of the key management personnel (**KMP**) of the Group during the 2016 financial year. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company and Group, directly or indirectly. The KMP for the 2016 financial year are as set out below.

#### Non-Executive and Executive Directors

| Name      | Position               |
|-----------|------------------------|
| S Dennis  | Non-Executive Chairman |
| G Davey   | Non-Executive          |
| P Hoskins | Managing Director      |

#### Other KMP

| Name       | Position                                 |
|------------|------------------------------------------|
| C Knee     | Chief Financial Officer                  |
| N Corlis   | General Manager – Technical              |
| S McKenzie | Commercial Manager and Company Secretary |

There have been no changes to KMP since the end of the reporting period.

#### (b) Remuneration policy and link to performance

The Group's approach to remuneration is designed to attract and retain key executive talent, recognise the individual contributions of the Group's people, and motivate them to achieve strong performance aligned to the business strategy, whilst discouraging excessive risk taking.

## Directors' report

In summary, the Group's approach to remuneration is to:

- Provide remuneration that is competitive and consistent with market standards;
- Align remuneration with the Company's overall strategy and shareholder interests;
- Reward superior performance within an objective and measurable incentive framework;
- Ensure that executives understand the link between individual reward and Group and individual performance;
- Be at a level acceptable to shareholders; and
- Apply sufficiently flexible remuneration practices that enable the Company to respond to changing circumstances.

All Executive KMP remuneration is comprised of the following:

- Fixed (base remuneration):
  - Contractual salary; and
  - Legislated superannuation guarantee (9.5% of gross salary for 2016).
- At risk component:
  - Short-term incentive (STI) – described further in the table below; and
  - Long-term incentive (LTI) – described further in the table below.

| Element                   | Purpose                                                                       | Performance metrics                                                                                                                                                                                                     | Potential value                                                                                                                                                        |
|---------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Base (fixed) remuneration | Provide competitive market salary, including superannuation                   | Nil                                                                                                                                                                                                                     | Within industry averages for the position's required skill and experience. Third party advice is sought periodically to ensure these are at or close to market median. |
| STI                       | Equity based reward for 12 month performance                                  | Health and safety, corporate objectives, project offtake and funding. Company strategy is set at the Board level and is used to set the Managing Director's KPIs which are then cascaded down to the other Executives.  | Managing Director up to 40% of base remuneration, other KMP up to 20% of base remuneration.                                                                            |
| LTI                       | Alignment with growth in long-term shareholder value over a three year period | Accrue on achievement of major re-rating events for the Company, such as obtaining offtake and funding for Chilalo. KMP are eligible for up to 100% of LTI only if they are employees for the entire three year period. | Managing Director and other KMP up to 55% of base remuneration on an annual basis including one off grant of options at time of IPO.                                   |

### Balancing short-term and long-term performance

The Company considers performance based remuneration to be a critical component of the overall remuneration framework, by providing a remuneration structure that rewards employees for achieving goals that are aligned to the Group's strategy and objectives.

#### Short-term incentives

The STI scheme operates to link performance and reward with key measurable financial and non-financial performance indicators to provide employees with clear and understandable targets that are aligned with the Group's objectives.

With respect to options issued under the STI scheme during the 2016 financial year, the applicable performance indicators relate to the following areas of the Group's activities, performance against which determines STI outcomes:

## Directors' report

- Safety results at the Group's exploration projects;
- Securing a binding offtake agreement for the Chilalo Graphite Project;
- Procuring finance for development of the Chilalo Graphite Project;
- Capacity to finance the Group's strategy;
- Completion of a definitive feasibility study on the Chilalo Graphite Project; and
- Maintaining effective governance, risk management and compliance processes.

The Board sets the objectives of the Managing Director and these are then cascaded down through the organisation to ensure alignment of objectives. The STI performance objectives are communicated to Executive KMP at the beginning of the twelve month performance period, with performance evaluations conducted following the end of the respective twelve month performance period. As the remuneration plan was implemented during June 2016, assessments against the stated objectives will be reviewed at the end of the 2017 period.

STIs are in the form of zero exercise price options which vest on completion of the 12 month period. The number of options that vest is determined by assessment of individual performance against stated objectives to determine the percentage of objectives that has achieved. This percentage is then applied to the options granted in order to determine the number of options that vest. The employee then has two years in which to exercise the options for nil consideration. Each vested STI option represents a right to be issued one Graphex share.

### Long-term incentives

The Executive KMP remuneration structure also seeks to drive performance and align with shareholder interests through LTI equity based remuneration. The LTI scheme consists of zero exercise price options issued to key management personnel with one, two and three year vesting terms. The LTI scheme was implemented during the 2016 financial year. The value and/or vesting of LTI options is dependent on:

- Share price performance;
- Execution of binding offtake agreement for the development of Chilalo;
- Execution of project financing agreement for the development of Chilalo; and
- Commencement of commercial production at Chilalo.

Subject to performance against the above objectives, the options vest in three equal amounts at the end of the first, second and third anniversary of the grant date (9 June 2016) with all options expiring five years from the grant date. Each vested LTI option represents a right to be issued one Graphex share. There was also a one off issue of options as LTI's upon successful completion of the listing of the Company. These options vested on the grant date and expire on 9 June 2019.

### (c) Contractual arrangements with executive KMP's

| Component                                         | Managing Director                                                                                                                                                                                                                                             | Other KMP - Senior executives                                                                                                                                                                                                                               |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Fixed remuneration                                | \$260,000 plus superannuation                                                                                                                                                                                                                                 | \$170,000 to \$210,000 plus superannuation                                                                                                                                                                                                                  |
| Contract duration                                 | Ongoing contract                                                                                                                                                                                                                                              | Ongoing contract                                                                                                                                                                                                                                            |
| Notice by individual                              | 3 months                                                                                                                                                                                                                                                      | 3 months                                                                                                                                                                                                                                                    |
| Notice by Company                                 | 6 months                                                                                                                                                                                                                                                      | 3 months                                                                                                                                                                                                                                                    |
| Change of control bonus payment                   | 12 months fixed remuneration. In the event of a change of control, any unvested options will immediately vest on the date that the change of control event occurs. All options will become vested so as to permit the option holder to exercise such options. | 6 months fixed remuneration. In the event of a change of control, any unvested options will immediately vest on the date that the change of control event occurs. All options will become vested so as to permit the option holder to exercise such options |
| Termination of employment (with or without cause) | Unvested STIs and LTIs to be automatically forfeited unless the Board determines in its discretion to vest some or all of the options.                                                                                                                        |                                                                                                                                                                                                                                                             |

## Directors' report

### (d) Non-Executive Director arrangements

Non-Executive Directors receive an annual Director fee paid quarterly exclusive of superannuation. They do not receive performance-based pay other than the one off IPO share based payment for successful listing of the Company. As the Company is not of sufficient size to have separate audit and remuneration committees, no additional fees are paid in connection with the provision of these services.

The Non-Executive Directors fees are reviewed annually by the Board taking into account comparable roles and market data provided by the Board's independent remuneration adviser. The current Directors fees will next be reviewed in June 2017. Fees are as follows:

- Non-Executive Chairman – \$60,000 plus superannuation
- Non-Executive Director – \$40,000 plus superannuation

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment which summarises the key terms and conditions of the Non-Executive Director's appointment.

### (e) Remuneration expenses for key management personnel

The following table shows details of the remuneration expense recognised for the Group's KMP for the current financial period measured in accordance with the requirements of the accounting standards:

| Name                                   | Fixed remuneration |                               |                          | Variable                      | Total          |
|----------------------------------------|--------------------|-------------------------------|--------------------------|-------------------------------|----------------|
|                                        | Cash salary        | Annual and long service leave | Post-employment benefits | STI / LTI share based payment |                |
| <b>Non-executive directors</b>         |                    |                               |                          |                               |                |
| S Dennis <sup>1</sup>                  | 19,516             | -                             | 1,747                    | 125,000                       | 146,263        |
| G Davey <sup>1</sup>                   | 13,118             | -                             | 1,117                    | 125,000                       | 139,235        |
| <b>Executive directors</b>             |                    |                               |                          |                               |                |
| P Hoskins <sup>2</sup>                 | 21,667             | 1,645                         | 1,609                    | 52,745                        | 77,666         |
| <b>Other KMP</b>                       |                    |                               |                          |                               |                |
| N Corlis <sup>2</sup>                  | 17,500             | 1,328                         | 1,609                    | 35,966                        | 56,403         |
| S McKenzie <sup>2</sup>                | 13,508             | 2,485                         | 2,917                    | 35,292                        | 54,202         |
| C Knee <sup>2</sup>                    | 14,167             | 1,075                         | 1,346                    | 22,568                        | 39,156         |
| <b>Total executive and other KMP</b>   | <b>66,842</b>      | <b>6,533</b>                  | <b>7,481</b>             | <b>146,571</b>                | <b>227,427</b> |
| <b>Total NED remuneration</b>          | <b>32,634</b>      | <b>-</b>                      | <b>2,864</b>             | <b>250,000</b>                | <b>285,498</b> |
| <b>Total KMP remuneration expensed</b> | <b>99,476</b>      | <b>6,533</b>                  | <b>10,345</b>            | <b>396,571</b>                | <b>512,925</b> |

<sup>1</sup> Commenced 3 March 2016

<sup>2</sup> Commenced 1 June 2016

The Group has entered into a Deed of Co-operation with Indiana Resources Limited (**Indiana**) to share costs of the Other KMP. Mr Corlis, Mr McKenzie and Mr Knee all spend a portion of their time working for Indiana in order to minimise the costs for both companies. Under the Deed of Cooperation, the Other KMP are employees of the Company and their time spent working for Indiana is recharged to Indiana. Therefore the amounts above include the entire amount paid to the KMP and are not set off against amounts recharged to Indiana. The total amount recharged to Indiana for Other KMP for the period was \$14,927.

## Directors' report

### (f) Additional statutory information

#### Relative proportions of fixed and variable remuneration expense

The following table shows the relative proportions of remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense above:

| Name                     | Fixed remuneration | At risk remuneration - STI / LTI |
|--------------------------|--------------------|----------------------------------|
|                          | 2016               | 2016                             |
| <b>Managing Director</b> |                    |                                  |
| P Hoskins                | 30%                | 70%                              |
| <b>Other KMP</b>         |                    |                                  |
| N Corlis                 | 33%                | 67%                              |
| S McKenzie               | 30%                | 70%                              |
| C Knee                   | 39%                | 61%                              |

#### Performance based remuneration granted and forfeited

The remuneration of KMP was approved by the Board in March 2016. The first assessment of performance against the stated objectives will take place following the end of the 2017 period. Therefore, at June 2016 year end, the only options that have vested were the one-off options granted in connection with the successful IPO, with 100% of all such options having vested. At period-end no options held by KMP had been forfeited.

#### Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

| Grant date | Vesting date | Expiry date | Exercise price | Value per option at grant date | Performance achieved                   | % Vested |
|------------|--------------|-------------|----------------|--------------------------------|----------------------------------------|----------|
| 9-June-16  | 1-July-17    | 9-June-19   | Nil            | \$0.20                         | To be determined<br>To be <sup>1</sup> | n/a      |
| 9-June-16  | 1-July-17    | 9-June-21   | Nil            | \$0.20                         | determined <sup>1</sup>                | n/a      |
| 9-June-16  | 9-June-19    | 9-June-19   | \$0.20         | \$0.13                         | 100%                                   | nil      |
| 9-June-16  | 9-June-16    | 9-June-19   | \$0.20         | \$0.13                         | 100%                                   | 100%     |

<sup>1</sup> Options vest subject to achievement of objectives as outlined in section (b) above.

The number of options over ordinary shares in the Company provided as remuneration to KMP is shown below. The options carry no dividend or voting rights. See section (b) above for the conditions that must be satisfied for the options to vest. When exercisable, each option is convertible into one ordinary share of the Company.

#### Reconciliation of options held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of the 2016 period. All vested options were exercisable.

## Directors' report

| 2016                 | Balance at the start of the period |                         | Vested                 |                  |           | Forfeited |   |                            | Balance at end of period |          |
|----------------------|------------------------------------|-------------------------|------------------------|------------------|-----------|-----------|---|----------------------------|--------------------------|----------|
| Name and Grant dates | Unvested                           | Granted as compensation | Number                 | %                | Exercised | Number    | % | Other changes <sup>1</sup> | Vested                   | Unvested |
| <b>S Dennis</b>      |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 1,000,000               | 1,000,000 <sup>2</sup> | 100 <sup>2</sup> | -         | -         | - | -                          | 1,000,000                | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 124,999                    | -                        | 124,999  |
| <b>G Davey</b>       |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 1,000,000               | 1,000,000 <sup>2</sup> | 100 <sup>2</sup> | -         | -         | - | -                          | 1,000,000                | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 83,333                     | -                        | 83,333   |
| <b>P Hoskins</b>     |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 520,000                 | -                      | -                | -         | -         | - | -                          | -                        | 520,000  |
| 9-June-16            | -                                  | 715,000                 | -                      | -                | -         | -         | - | -                          | -                        | 715,000  |
| 9-June-16            | -                                  | 350,000                 | 350,000 <sup>2</sup>   | 100 <sup>2</sup> | -         | -         | - | -                          | 350,000                  | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 83,333                     | -                        | 83,333   |
| <b>N Corlis</b>      |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 210,000                 | -                      | -                | -         | -         | - | -                          | -                        | 210,000  |
| 9-June-16            | -                                  | 577,500                 | -                      | -                | -         | -         | - | -                          | -                        | 577,500  |
| 9-June-16            | -                                  | 250,000                 | 250,000                | 100              | -         | -         | - | -                          | 250,000                  | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 16,666                     | -                        | 16,666   |
| <b>S McKenzie</b>    |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 180,000                 | -                      | -                | -         | -         | - | -                          | -                        | 180,000  |
| 9-June-16            | -                                  | 495,000                 | -                      | -                | -         | -         | - | -                          | -                        | 495,000  |
| 9-June-16            | -                                  | 250,000                 | 250,000                | 100              | -         | -         | - | -                          | 250,000                  | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 16,666                     | -                        | 16,666   |
| <b>C Knee</b>        |                                    |                         |                        |                  |           |           |   |                            |                          |          |
| 9-June-16            | -                                  | 170,000                 | -                      | -                | -         | -         | - | -                          | -                        | 170,000  |
| 9-June-16            | -                                  | 467,500                 | -                      | -                | -         | -         | - | -                          | -                        | 467,500  |
| 9-June-16            | -                                  | 150,000                 | 150,000                | 100              | -         | -         | - | -                          | 150,000                  | -        |
| 9-June-16            | -                                  | -                       | -                      | -                | -         | -         | - | 16,666                     | -                        | 16,666   |

<sup>1</sup> KMP purchased shares in the IPO under the terms of the Replacement Prospectus. For each three shares acquired under the IPO, the holder received one attaching Loyalty Option. The Loyalty Options vested on 14 September 2016 subject to the number of shares held on the vesting date and are exercisable at \$0.25 to 8 June 2019.

<sup>2</sup> Vested but cannot be exercised as they are held in escrow to 14 June 2018 as disclosed in the Company's Replacement Prospectus.

## Directors' report

### Shareholdings

| Name       | Balance at start of period | Received during the period on the exercise of options | Other changes during the period | Balance at end of the period |
|------------|----------------------------|-------------------------------------------------------|---------------------------------|------------------------------|
| S Dennis   | -                          | -                                                     | 375,000                         | 375,000                      |
| G Davey    | -                          | -                                                     | 250,000                         | 250,000                      |
| P Hoskins  | -                          | -                                                     | 366,554                         | 366,554                      |
| N Corlis   | -                          | -                                                     | 113,004                         | 113,004                      |
| S McKenzie | -                          | -                                                     | 142,200                         | 142,200                      |
| C Knee     | -                          | -                                                     | 73,652                          | 73,652                       |

None of the shares in the above table are held nominally by the Directors or any of the other KMP.

### Loans to KMP

There were no loans made to Directors or KMP.

### Reliance on external remuneration consultants

In performing its role, the Board may seek advice from independent remuneration consultants where appropriate, to make recommendations as to the nature and amount of remuneration payable to KMPs. Remuneration consultants are engaged by, and report directly to the Board. In 2016, the Board did not engage an independent remuneration consultant to review the Company's entire remuneration structure. A comprehensive review was performed in 2014 by the Company's parent, IMX, prior to Graphex listing on the ASX. The Board believes these remuneration recommendations are still relevant and applicable, and all current salaries are in line with these previous recommendations.

### Shares under option

#### Unissued ordinary shares

Unissued ordinary shares of the Company under option held by Directors and KMP that formed part of remuneration at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option |
|----------------------|-------------|-----------------------|---------------------|
| 9-June-16            | 9-June-19   | Nil                   | 1,080,000           |
| 9-June-16            | 9-June-21   | Nil                   | 2,255,000           |
| 9-June-16            | 9-June-19   | \$0.20                | 1,000,000           |
| 9-June-16            | 9-June-19   | \$0.20                | 2,000,000           |

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

### END OF REMUNERATION REPORT

## Directors' report

### Insurance of officers and indemnities

The Graphex constitution allows the Company to indemnify each Director or officer of the Company, to the extent permitted by law, against liability incurred in or arising out of the conduct of the business of the Company or the discharge of the duties of the Directors or officers.

The Group has granted indemnities under deeds of indemnity with its current Directors and officers. In conformity with the constitution, each deed of indemnity indemnifies the relevant Director or officer to the full extent permitted by law. Where applicable, each deed of indemnity indemnifies the relevant Director, officer or employee to the fullest extent permitted by law for liabilities incurred whilst acting as a director, officer or employee of the Company, any of its related bodies corporate and any outside entity, where such an office is held at the request of the Company.

The Group has a policy that it will, as a general rule, support and hold harmless an employee who, while acting in good faith, incurs personal liability to others as a result of working for the Group.

No indemnity has been granted to an auditor of the Group in their capacity as auditors of the Group.

During the period, the Group paid insurance premiums (inclusive of fees and charges) in respect of directors' and officers' liability insurance of \$56,504.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PwC) for audit and non-audit services provided during the period are set out below.

The Board has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

## Directors' report

|                                                   | 2016<br>\$    | 2015<br>\$ |
|---------------------------------------------------|---------------|------------|
| <b>(a) PricewaterhouseCoopers Australia (PwC)</b> |               |            |
| <b>(i) Audit and assurance services</b>           |               |            |
| Audit of financial statements - Australia         | 28,000        | -          |
| Audit of financial statements - Tanzania          | 8,000         | -          |
| <b>Total audit and assurance remuneration</b>     | <b>36,000</b> | <b>-</b>   |
| <b>(ii) Taxation services</b>                     |               |            |

Subsequent to period end, PwC was appointed to complete the Company's 2016 income tax return. Fees were not paid or payable in relation to this engagement as at 30 June 2016.

During the period, the Company's previous parent IMX engaged PwC for tax compliance services and to obtain a Private and Class ruling in relation to the spin-off of Graphex. These amounts were settled by IMX. The Company has engaged PwC to perform tax compliance services however made no payment in relation to services provided during the 2016 financial year.

### Auditor independence

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 23.

### Rounding amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### Competent persons' statement

Information in this annual report that relates to exploration results at the Chilalo Project is based on data collected under the supervision of Mr Nick Corlis, in his capacity as Executive Director, Exploration (prior to the formation of Graphex) and in his capacity as General Manager – Technical (following the listing of Graphex). Mr Corlis, BSc (Hons) MSc, is a registered member of the Australian Institute of Geoscientists and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person under the JORC Code 2012. Mr Corlis has verified the data underlying the information contained in this report and approves and consents to the inclusion of the data in the form and context in which it appears.

The information in this announcement that relates to in situ Mineral Resources for Chilalo is based on information compiled by Mr. Grant Louw under the direction and supervision of Dr Andrew Scogings, who are both full-time employees of CSA Global Pty Ltd. Dr Scogings takes overall responsibility for the report. Dr Scogings is a Member of both the Australian Institute of Geoscientists and Australasian Institute of Mining and Metallurgy and has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code 2012). Dr Scogings consents to the inclusion of such information in this announcement in the form and context in which it appears.

The information in this report that relates to the Ore Reserve at the Chilalo Project is based on information compiled by Mr Karl van Olden, a Competent Person, who is a Fellow of The Australasian Institute of Mining and Metallurgy. Karl van Olden is employed by CSA Global Pty Ltd, an independent consulting company. Mr van Olden has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code 2012. Mr van Olden consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

## Directors' report

### Ore Reserves and Mineral Resources Governance

Graphex reviews its Mineral Resources and Ore Reserves estimates on an annual basis. The Annual Statement of Mineral Resources and Ore Reserves is prepared in accordance with the JORC Code 2012 and the ASX Listing Rules.

Competent Persons named by the Company are members of the Australian Institute of Mining and Metallurgy and/or the Australian Institute of Geoscientists, and qualify as Competent Persons as defined under the JORC Code 2012.

The Company engages external consultants and Competent Persons to prepare and calculate estimates of its Mineral Resources and Ore Reserves. These estimates and underlying assumptions are reviewed by the Directors and management for reasonableness and accuracy. The results of the Mineral Resources and Ore Reserves estimates are then reported in accordance with the JORC Code 2012 and the ASX Listing Rules. Where material changes occur during the period to a project, including the project's size, title, exploration results or other technical information, previous resource estimates and market disclosures are reviewed for completeness. The Company reviews its Mineral Resources and Ore Reserves as at 30 June each year and where a material change has occurred in the assumptions or data used in previously reported Mineral Resources and Ore Reserves, a revised estimate will be prepared as part of the annual review process.

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



Stephen Dennis  
Chairman of the Board  
PERTH  
On the 29th day of September 2016

## Corporate governance statement

Graphex and the Board are committed to achieving and demonstrating the highest standards of corporate governance. Graphex has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2016 corporate governance statement is dated as at 30 June 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The 2016 corporate governance statement was approved by the Board on 30 May 2016. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed on the Company's website at [www.graphexmining.com.au/corporate-governance/](http://www.graphexmining.com.au/corporate-governance/).



## Auditor's Independence Declaration

As lead auditor for the audit of Graphex Mining Limited for the period 21 January 2016 to 30 June 2016, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Ben Gargett', written over a light blue horizontal line.

Ben Gargett  
Partner  
PricewaterhouseCoopers

Perth  
29 September 2016

## Consolidated statement of profit or loss and other comprehensive income for the period ended 30 June 2016

|                                                                     | Notes | From 21<br>January 2016<br>to 30 June<br>2016<br>\$'000 |
|---------------------------------------------------------------------|-------|---------------------------------------------------------|
| <b>Continuing operations</b>                                        |       |                                                         |
| Interest income                                                     |       | 3                                                       |
| Corporate and administration expenses                               |       | (291)                                                   |
| Business development                                                |       | (17)                                                    |
| Transaction costs                                                   | 1     | (398)                                                   |
| Exploration expenses                                                |       | (155)                                                   |
| Share based payments                                                |       | (397)                                                   |
| Other expenses                                                      |       | (1)                                                     |
| <b>Loss before income tax</b>                                       |       | <b>(1,256)</b>                                          |
| Income tax expense                                                  | 3     | -                                                       |
| <b>Loss for the period</b>                                          |       | <b>(1,256)</b>                                          |
| <br><b>Other comprehensive income</b>                               |       |                                                         |
| <i>Items that may be reclassified to profit or loss</i>             |       |                                                         |
| Exchange differences on translation of foreign operations           |       | (3)                                                     |
| <b>Total comprehensive loss for the period</b>                      |       | <b>(1,259)</b>                                          |
| <br><b>Net loss is attributable to:</b>                             |       |                                                         |
| Owners of Graphex Mining Limited                                    |       | <b>(1,259)</b>                                          |
| <br><b>Total comprehensive loss is attributable to:</b>             |       |                                                         |
| Owners of Graphex Mining Limited                                    |       | <b>(1,259)</b>                                          |
| <br><b>Earnings per share attributable to owners of the Company</b> |       | <b>\$</b>                                               |
| Basis EPS                                                           | 24    | (0.40)                                                  |
| Diluted EPS                                                         | 24    | (0.40)                                                  |

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

## Consolidated balance sheet

as at 30 June 2016

|                                  | Notes | 2016<br>\$'000 |
|----------------------------------|-------|----------------|
| <b>ASSETS</b>                    |       |                |
| <b>Current assets</b>            |       |                |
| Cash and cash equivalents        | 4     | 5,075          |
| Trade and other receivables      | 5     | 203            |
| <b>Total current assets</b>      |       | <b>5,278</b>   |
| <b>Non-current assets</b>        |       |                |
| Property, plant and equipment    | 6     | 168            |
| Exploration and evaluation       | 7     | 5,000          |
| <b>Total non-current assets</b>  |       | <b>5,168</b>   |
| <b>Total assets</b>              |       | <b>10,446</b>  |
| <b>LIABILITIES</b>               |       |                |
| <b>Current liabilities</b>       |       |                |
| Trade and other payables         | 8     | (695)          |
| Provisions                       | 9     | (149)          |
| <b>Total Current liabilities</b> |       | <b>(844)</b>   |
| <b>Total liabilities</b>         |       | <b>(844)</b>   |
| <b>Net assets</b>                |       | <b>9,602</b>   |
| <b>EQUITY</b>                    |       |                |
| Share capital                    | 10    | 9,775          |
| Reserves                         | 11    | 1,083          |
| Retained earnings                | 12    | (1,256)        |
| <b>Total equity</b>              |       | <b>9,602</b>   |

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

## Consolidated statement of changes in equity for the period ended 30 June 2016

|                                                              | Notes | Contributed<br>equity<br>\$'000 | Foreign<br>currency<br>translation<br>reserve<br>\$'000 | Share based<br>payment<br>reserve<br>\$'000 | Retained<br>earnings<br>\$'000 | Total equity<br>\$'000 |
|--------------------------------------------------------------|-------|---------------------------------|---------------------------------------------------------|---------------------------------------------|--------------------------------|------------------------|
| <b>Balance at 21 January 2016</b>                            |       | -                               | -                                                       | -                                           | -                              | -                      |
| <b>Total comprehensive income for the period:</b>            |       |                                 |                                                         |                                             |                                |                        |
| Loss for the period                                          |       | -                               | -                                                       | -                                           | (1,256)                        | (1,256)                |
| Foreign exchange translation differences                     |       | -                               | (3)                                                     | -                                           | -                              | (3)                    |
| <b>Total comprehensive income for the period</b>             |       | -                               | (3)                                                     | -                                           | (1,256)                        | (1,259)                |
| <b>Transactions with owners in their capacity as owners:</b> |       |                                 |                                                         |                                             |                                |                        |
| Issue of shares net of transaction costs                     | 11    | 9,775                           | -                                                       | -                                           | -                              | 9,775                  |
| Employee share schemes - value of employee services          | 22(b) | -                               | -                                                       | 397                                         | -                              | 397                    |
| Options issued to consultants                                | 22(b) | -                               | -                                                       | 689                                         | -                              | 689                    |
| <b>Balance at 30 June 2016</b>                               |       | <b>9,775</b>                    | <b>(3)</b>                                              | <b>1,086</b>                                | <b>(1,256)</b>                 | <b>9,602</b>           |

The above consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

## Consolidated statement of cash flows

for the period ended 30 June 2016

|                                                               | Notes     | From 21<br>January 2016<br>to 30 June<br>2016<br>\$'000 |
|---------------------------------------------------------------|-----------|---------------------------------------------------------|
| <b>Cash flows from operating activities</b>                   |           |                                                         |
| Payments to suppliers and employees                           |           | (100)                                                   |
| Payment of exploration expenditure                            |           | (69)                                                    |
| Interest income                                               |           | 3                                                       |
| <b>Net cash (outflow) from operating activities</b>           | <b>13</b> | <b>(166)</b>                                            |
| <b>Cash flows from investing activities</b>                   |           |                                                         |
| Payment for property, plant and equipment                     |           | (45)                                                    |
| Payment for acquisition of tenements                          |           | (1,000)                                                 |
| <b>Net cash (outflow) from investing activities</b>           |           | <b>(1,045)</b>                                          |
| <b>Cash flows from financing activities</b>                   |           |                                                         |
| Transaction costs associated with IPO                         |           | (273)                                                   |
| Proceeds from the issue of ordinary shares                    |           | 7,000                                                   |
| Share issue transaction costs                                 |           | (437)                                                   |
| <b>Net cash flow from financing activities</b>                |           | <b>6,290</b>                                            |
| <b>Net increase in cash and cash equivalents</b>              |           | <b>5,079</b>                                            |
| Cash and cash equivalents at the beginning of the period      |           | -                                                       |
| Effects of exchange rate changes on cash and cash equivalents |           | (4)                                                     |
| Cash and cash equivalents at the end of the period            | <b>4</b>  | <b>5,075</b>                                            |

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

## Notes to the financial statements

### CALCULATIONS AND EXPLANATIONS OF BALANCES

This section provides additional information about the individual line items in the financial statements that the Directors consider most relevant in the context of the entity including:

- a) accounting policies that are relevant for the understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction;
- b) analysis and sub-totals, including segment information; and
- c) information about estimates and judgements made in relation to particular items.

#### 1. Material expense items

##### (a) Transaction costs

|                                           | 2016<br>\$'000 |
|-------------------------------------------|----------------|
| IPO consultant costs                      | 247            |
| ASX listing fees                          | 26             |
| Share based payments to corporate advisor | 125            |
|                                           | <u>398</u>     |

As part of the IPO, a range of third party consultants were utilised to assist the Company in a number of areas, including but not limited to:

- Assistance with preparation of prospectus documents;
- Technical assessment report;
- Investigating accountants report;
- General legal counsel;
- ASX and ASIC fees;
- Printing and mailing; and
- Corporate advisory services.

Options issued to the Company's lead brokers and corporate advisors are valued on a basis consistent with note 22(a). Options were issued with a \$0.25 exercise price, vesting immediately with an expiry date of 9 June 2019. Such options are held in escrow to 14 June 2018. The share based payments expensed above relate only to corporate advice not directly related to the IPO. All share based payments that directly relate to IPO activities such as those made to lead brokers are recognised as share issue costs as outlined in note 10.

#### 2. Segment information

Management has determined the operating segments based on the reports reviewed by the chief operating decision makers, being the Directors. The Group's reportable segments in accordance with AASB 8 are as follows:

- Exploration – Group's exploration carried out in Tanzania; and
- Unallocated – to manage the corporate affairs of the Group.

## Notes to the financial statements

The segments have applied the same accounting policies as applied to the Group and disclosed in note 26 to these financial statements.

|                                        | 30-Jun-16               |                |                |
|----------------------------------------|-------------------------|----------------|----------------|
|                                        | Exploration<br>Tanzania | Unallocated    | Total          |
|                                        | \$'000                  | \$'000         | \$'000         |
| Other income                           | -                       | 3              | 3              |
| <b>Total income</b>                    | <b>-</b>                | <b>3</b>       | <b>3</b>       |
| Depreciation and amortisation          | (3)                     | (1)            | (4)            |
| Share based payments                   | -                       | (397)          | (397)          |
| Transaction costs                      | -                       | (398)          | (398)          |
| Exploration expenses                   | (155)                   | -              | (155)          |
| Other expenses                         | (88)                    | (217)          | (305)          |
| Income tax                             | -                       | -              | -              |
| <b>Segment loss</b>                    | <b>(246)</b>            | <b>(1,010)</b> | <b>(1,256)</b> |
| <b>Segment assets</b>                  | <b>5,165</b>            | <b>5,281</b>   | <b>10,446</b>  |
| <b>Segment liabilities</b>             | <b>(92)</b>             | <b>(752)</b>   | <b>(844)</b>   |
| <b>Additions to non-current assets</b> |                         |                |                |
| Plant and equipment                    | 125                     | 43             | 168            |

### 3. Income tax expense

|                                                    | 2016<br>\$'000 |
|----------------------------------------------------|----------------|
| <b>(a) Accounting loss before tax</b>              |                |
| Loss from continuing operations                    | (1,256)        |
| Taxed at the parent entities income tax rate (30%) | (377)          |
| Non-deductible expense - share based payments      | 119            |
| Net deferred tax assets not recognised             | 258            |
| <b>Total current tax expense</b>                   | <b>-</b>       |

No income tax is currently payable by the Group. The Directors have considered it prudent not to bring to account the deferred tax asset related to income tax losses and exploration deductions until it is probable that assessable income will be earned of a nature and amount to enable such benefit to be realised. Losses in relation to the remainder of the Group have not been brought to account.

#### (b) Significant estimate

The Group is subject to income taxes of Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is not certain. The Group recognises provision for potential tax issues based on estimates of amounts that were initially recorded. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax position in the period in which the determination is made.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

## Notes to the financial statements

|                                     | 2016<br>\$'000 |
|-------------------------------------|----------------|
| <b>(c) Deferred income tax</b>      |                |
| Accruals                            | 11             |
| Provision for employee entitlements | 7              |
| Section 40-880 costs <sup>1</sup>   | 103            |
| Carry forward tax losses            | 258            |
| Gross deferred tax asset            | 379            |
| Net DTA not brought to account      | (379)          |
| Net deferred tax asset              | -              |

<sup>1</sup> Costs associated with capital raising activities deductible over five years.

### 4. Cash and cash equivalents

|              |       |
|--------------|-------|
| Cash at bank | 5,075 |
|--------------|-------|

Refer to note 15 for the Group's exposure to interest rate and credit risk.

### 5. Trade and other receivables

|                   |     |
|-------------------|-----|
| Other receivables | 187 |
| Prepayments       | 12  |
| Security bond     | 4   |
|                   | 203 |

Other receivables include a \$110,000 GST receivable. This relates largely to the input tax credits claimed on certain transaction costs associated with the IPO.

### 6. Property, plant and equipment

|                                  | Plant and<br>equipment<br>\$'000 | Furniture and<br>fittings<br>\$'000 | Total<br>\$'000 |
|----------------------------------|----------------------------------|-------------------------------------|-----------------|
| <b>Non-current</b>               |                                  |                                     |                 |
| <b>At 30 June 2016</b>           |                                  |                                     |                 |
| Cost or fair value               | 114                              | 58                                  | 172             |
| Accumulated depreciation         | (2)                              | (2)                                 | (4)             |
| <b>Net book amount</b>           | 112                              | 56                                  | 168             |
| <b>Period ended 30 June 2016</b> |                                  |                                     |                 |
| Opening net book amount          | -                                | -                                   | -               |
| Additions                        | 114                              | 58                                  | 172             |
| Depreciation charge              | (2)                              | (2)                                 | (4)             |
| <b>Closing net book amount</b>   | 112                              | 56                                  | 168             |

## Notes to the financial statements

### 7. Exploration and evaluation expenditure

|                                                                     | 2016<br>\$'000 |
|---------------------------------------------------------------------|----------------|
| <b>(a) Reconciliation of exploration and evaluation expenditure</b> |                |
| Carrying amount at beginning of the period                          | -              |
| Acquisition of tenements                                            | 5,000          |
| Carrying amount at the end of the period                            | 5,000          |

During the period, the Company acquired six tenements, including the Chilalo Graphite Project, from its then parent company IMX. The asset is recorded at its acquisition cost of \$5 million, being the consideration paid for the tenement assets, comprising \$1 million in cash and \$4 million in share capital that was distributed *in-specie* to IMX shareholders upon the Company's admission to the official list of the ASX. The Company has accounted for this asset acquisition in accordance with the accounting policy in Note 26(e).

#### (b) Significant estimate

The future recoverability of capitalised exploration and evaluation expenditure is dependent upon a number of factors.

Factors that could impact future recoverability include the level of reserves and resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environment restoration obligations) and changes to commodity prices and foreign exchange rates.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which the determination is made.

### 8. Trade and other payables

|                |       |
|----------------|-------|
| Creditors      | (470) |
| Accruals       | (194) |
| Other payables | (31)  |
|                | (695) |

### 9. Provisions

|                   |       |
|-------------------|-------|
| Employee benefits | (149) |
|-------------------|-------|

### 10. Share capital

|                                                        | 2016<br>Shares | 2016<br>\$'000 |
|--------------------------------------------------------|----------------|----------------|
| <b>(a) Issued and paid up capital</b>                  |                |                |
| Ordinary fully paid shares                             | 55,000,000     | 9,775          |
| <b>(b) Movement in ordinary shares</b>                 |                |                |
| Opening balance at 21 January 2016                     | -              | -              |
| Issue of shares in IPO                                 | 35,000,000     | 7,000          |
| Issue of shares as consideration for tenement purchase | 20,000,000     | 4,000          |
|                                                        | 55,000,000     | 11,000         |
| Less: Transaction costs arising on share issues        | -              | (1,225)        |
|                                                        | 55,000,000     | 9,775          |

Both issues of shares during the period occurred at an issue price of \$0.20 per share. Proceeds from the IPO were received after the Company was admitted to the official list of the ASX on 9 June 2016. The issue of shares to IMX as consideration for the tenements acquired by the Company was also completed on this date, with the shares being distributed *in-specie* to IMX shareholders.

## Notes to the financial statements

### (c) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote. Upon a poll, each fully paid share has one vote.

### 11. Reserves

The following table shows a breakdown of the balance sheet line item 'reserves' and the movements in these reserves during the period. A description of the nature and purpose of each reserve is provided below.

|                                                      | Share based<br>payments | Foreign<br>currency<br>translation | Total reserves |
|------------------------------------------------------|-------------------------|------------------------------------|----------------|
| <b>At 21 January 2016</b>                            | -                       | -                                  | -              |
| Translation of foreign subsidiaries                  | -                       | (3)                                | (3)            |
| <b>Other comprehensive income</b>                    | -                       | (3)                                | (3)            |
| Transactions with owners in their capacity as owners | -                       | -                                  | -              |
| Employee share based payments expense                | 397                     | -                                  | 397            |
| Consultant share based payment expense               | 689                     | -                                  | 689            |
| <b>At 30 June 2016</b>                               | <b>1,086</b>            | <b>(3)</b>                         | <b>1,083</b>   |

#### (a) Nature and purpose of reserves

##### (i) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of the Company's net investment in a foreign subsidiary.

##### (ii) Share based payment reserve

The share based remuneration reserve is used to recognise the fair value of options issued.

2016  
\$'000

### 12. Retained earnings

|                             |              |
|-----------------------------|--------------|
| Balance at 21 January 2016  | -            |
| Net loss for the period     | 1,256        |
| <b>Balance 30 June 2016</b> | <b>1,256</b> |

## Notes to the financial statements

### 13. Cash flow information

**(a) Reconciliation of operating loss after income tax to the net cash flows from operating activities:**

|                                                           | 2016<br>\$'000 |
|-----------------------------------------------------------|----------------|
| <b>Loss for the period</b>                                | <b>(1,256)</b> |
| <i>Adjustments for:</i>                                   |                |
| Depreciation                                              | 4              |
| Non-cash employee benefits expense - share based payments | 397            |
| Non-cash consultants expense - share based payments       | 398            |
| Net exchange differences                                  | 1              |
| <i>Changes in operating assets and liabilities:</i>       |                |
| (Increase) in trade and other receivables                 | (203)          |
| Increase in trade and other payables                      | 471            |
| Increase in provisions                                    | 22             |
| Net cash (outflow) from operating activities              | <u>(166)</u>   |

**(b) Non-cash investing and financing activities**

In March 2016, the Company entered into an agreement with IMX to acquire 100% beneficial ownership of the Chilalo Graphite Project, other graphite tenements and various minor assets for 20,000,000 shares at a deemed issue price of \$0.20 per share and \$1,000,000 cash.

## Notes to the financial statements

### RISK

This section discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance

#### 14. Critical estimates, judgements and errors

The preparation of financial statements requires the use of accounting estimates, which by definition, will seldom equal the actual results. Management is also required to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions proving to be incorrect. Detailed information about each of these estimates and judgements is included in notes 1 to 25 together with information about the basis of calculation for each affected line item in the financial statements.

##### (a) Significant estimates and judgements

The areas involving significant estimates and judgements are:

- Estimation of current tax payable and current tax expense – note 3(b);
- Recoverability of exploration and evaluation assets – note 7(b); and
- Share based payments – note 22.

#### 15. Financial risk management

The Company and Group's activities expose it to a variety of financial risks, including market, credit and liquidity risk. For the Group, market risk includes:

- Interest rate risk;
- Foreign currency risk; and
- Liquidity risk.

Financial risk management is carried out by the Group's Managing Director and Chief Financial Officer, in close co-operation with the Board. The Group obtains independent external advice as required to assist it in understanding and managing its exposures and risks.

The Group held the following financial instruments at reporting date:

|                                       |             | 2016<br>\$'000 |
|---------------------------------------|-------------|----------------|
| <i>Financial Assets</i>               | <b>Note</b> |                |
| Cash and cash equivalents             | 4           | 5,075          |
| Trade and other receivables – current | 5           | 203            |
| Total Financial Assets                |             | 5,278          |
| <i>Financial Liabilities</i>          |             |                |
| Trade and other payables              | 8           | (695)          |
| Total Financial Liabilities           |             | (695)          |

#### Market rate risk

##### (a) Interest rate risk

The Group and the Company are exposed to interest rate volatility on deposits. Deposits at variable rates expose the Group and the Company to cash flow interest rate risk. Deposits at fixed rates expose the Group to fair value interest rate risk.

## Notes to the financial statements

|  | Effective<br>Average<br>Interest Rate<br>(%) | Variable<br>Interest Rate<br>\$'000 | Fixed Interest<br>Rate<br>\$'000 | Non-Interest<br>Bearing<br>\$'000 | Total<br>\$'000 |
|--|----------------------------------------------|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
|--|----------------------------------------------|-------------------------------------|----------------------------------|-----------------------------------|-----------------|

### 2016 (consolidated)

#### Financial Assets

|                           |       |              |          |            |              |
|---------------------------|-------|--------------|----------|------------|--------------|
| Cash and cash equivalents | 1.05% | 4,813        | -        | 262        | 5,075        |
| Security bonds            | 0%    | -            | -        | 4          | 4            |
|                           |       | <b>4,813</b> | <b>-</b> | <b>266</b> | <b>5,079</b> |

### Sensitivity Analysis

The following tables summarise the sensitivity of the Group's financial assets to interest rate risk. Had the relevant variables, as illustrated in the tables, moved with all other variables held constant, post-tax loss and equity would have been affected as shown below.

| 2016 (Consolidated) |                    | Interest Rate Risk      |        | Interest Rate Risk      |        |
|---------------------|--------------------|-------------------------|--------|-------------------------|--------|
|                     |                    | -100 basis points (-1%) |        | +100 basis points (+1%) |        |
|                     | Carrying<br>Amount | Net Profit /<br>(Loss)  | Equity | Net Profit /<br>(Loss)  | Equity |
|                     | \$'000             | \$'000                  | \$'000 | \$'000                  | \$'000 |

#### Financial Assets

|                           |              |            |            |          |          |
|---------------------------|--------------|------------|------------|----------|----------|
| Cash and cash equivalents | 5,075        | (4)        | (4)        | 4        | 4        |
|                           | <b>5,075</b> | <b>(4)</b> | <b>(4)</b> | <b>4</b> | <b>4</b> |

### (b) Foreign exchange risk

The Group is exposed to fluctuations in foreign currencies arising from costs incurred in currencies other than Australian dollars, the Group's presentation currency.

The Group operates internationally and is primarily exposed to foreign exchange risk arising from currency exposures to the United States dollar and Tanzanian shilling.

The Group has not formalised a foreign currency risk management policy and it holds only limited amounts of cash in foreign currencies at any point in time. The Group monitors foreign currency expenditure in light of exchange rate movements.

|  | 10% Strengthening |                        | 10% Weakening |                        |
|--|-------------------|------------------------|---------------|------------------------|
|  | Equity            | Net Profit /<br>(Loss) | Equity        | Net Profit /<br>(Loss) |
|  | \$'000            | \$'000                 | \$'000        | \$'000                 |

### 2016 (Consolidated)

|                    |     |    |    |      |
|--------------------|-----|----|----|------|
| USD (10% movement) | (8) | 18 | 10 | (22) |
| TZS (10% movement) | -   | -  | -  | -    |

### (c) Liquidity risk

The liquidity position of the Group is managed to ensure sufficient liquid funds are available to meet the Group's financial commitments in a timely and cost effective manner.

The Group's treasury function continually reviews the Group's liquidity position, including cash flow forecasts, to determine the forecast liquidity position and maintain appropriate liquidity levels.

## Notes to the financial statements

| Contractual maturities of financial liabilities | Less than 1 year | Between 1 and 2 years | Total contractual cash flows | Carrying amount |
|-------------------------------------------------|------------------|-----------------------|------------------------------|-----------------|
| At 30 June 2016                                 | \$'000           | \$'000                | \$'000                       | \$'000          |
| Trade and other payables                        | 695              | -                     | 695                          | 695             |
|                                                 | <b>695</b>       | <b>-</b>              | <b>695</b>                   | <b>695</b>      |

### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement, or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) (level 2); and
- (c) Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Group does not recognise any financial assets under levels 1, 2 or 3 and the carrying value of those shown above are considered to approximate fair value.

## 16. Capital management

### (a) Risk management

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The Group is currently focused on the exploration and development of its Chilalo Graphite Project. As the Group's development activities at Chilalo continue, finance and offtake arrangements will be critical to balancing the funding of the Group whilst also minimising shareholder dilution.

The Company has welcomed equity investment from major stakeholders so that goals are aligned and there is a vested interest in the Group's success. Current stakeholders that are also shareholders include major suppliers for exploration, project management and feasibility studies advisors, corporate advisors, Directors, management and Group staff of the Group.

The Company monitors its total shares on issue, market capitalisation and enterprise value on a regular basis so as to maintain a critical balance between having its strategy fully funded and minimising existing shareholder dilution.

### (b) Dividends

Up until the date of this report, no dividend has been declared or paid by the Company.

## Notes to the financial statements

### GROUP STRUCTURE

This section provides information which will help users understand how the Group structure affects the financial position and performance of the Group as a whole.

A list of significant subsidiaries is provided below.

#### 17. Interests in other entities

| Name                           | Country of incorporation | Class of shares | Equity Holding<br>2016<br>% |
|--------------------------------|--------------------------|-----------------|-----------------------------|
| Graphex Mining UK No.1 Limited | United Kingdom           | Ordinary        | 100                         |
| Ngwenza Tanzania Limited       | Tanzania                 | Ordinary        | 100                         |

All subsidiaries were registered during the period with 100% of share capital of each of the entities being held by the Group from the date of incorporation.

## Notes to the financial statements

### UNRECOGNISED ITEMS

This section provides information about items that are not recognised in the financial statements as they do not yet satisfy the recognition criteria.

In addition to the items and transactions disclosed below, there are also unrecognised tax amounts – see note 3.

#### 18. Contingent liabilities

The Group did not have any contingent liabilities as at 30 June 2016.

#### 19. Commitments

2016  
\$'000

##### (a) Lease and operating contract expenditure commitments

Operating lease (non-cancellable), minimum lease payments

|                           |           |
|---------------------------|-----------|
| - not later than one year | 41        |
| - beyond one year         | 4         |
|                           | <u>45</u> |

The Group leases office premises with a fixed term lease expiring 4 August 2017. There is an option to extend this lease whereby rental payments may be increased each year at either a fixed rate or to reflect market rentals under the terms of the lease.

##### (b) Exploration commitments

The Company is required to meet certain minimum expenditure commitments on the mineral exploration assets in which it has an interest. The minimum expenditure commitment is outlined in the Prospecting Licences. Outstanding exploration commitments are as follows:

|                           |            |
|---------------------------|------------|
| - not later than one year | 813        |
| - beyond one year         | -          |
|                           | <u>813</u> |

##### (c) Exploration lease rentals

|                           |           |
|---------------------------|-----------|
| - not later than one year | 47        |
| - beyond one year         | -         |
|                           | <u>47</u> |

The Company pays an annual lease amount for the tenements it holds. The leases can be relinquished on or before the anniversary date, therefore there are no contractual commitments beyond one year.

#### 20. Events occurring after reporting dates

Since the end of the 2016 financial year and up to the date of this report, no matter or circumstance has arisen which significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial year(s).

## Notes to the financial statements

### OTHER INFORMATION

This section includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

#### 21. Related party transactions

##### (a) Parent entity

Graphex Mining Limited is the ultimate Australian parent entity of the Group. Graphex Mining Limited is a company limited by shares that is incorporated and domiciled in Australia.

##### (b) Group transactions

Controlled entities made payments and received funds on behalf of Graphex and other controlled entities by way of inter-company loan accounts with each controlled entity. These loans are unsecured, bear no interest and are repayable on demand, however demand for repayment is not expected in the next twelve months.

##### (c) Key management personnel compensation

|                              | 2016<br>\$     |
|------------------------------|----------------|
| Short-term employee benefits | 106,009        |
| Post-employment benefits     | 10,344         |
| Share-based payments         | 396,570        |
|                              | <u>512,923</u> |

Detailed remuneration disclosures are provided in the Remuneration Report on pages 14 to 21.

#### 22. Share-based payments

##### (a) Employee option plan

Information on the Graphex Mining Limited Option Plan (the **Plan**) was set out in the Company's Replacement Prospectus lodged on 10 May 2016. Given the disclosure of the Plan in the Replacement Prospectus, the issue of shares under the Plan rules does not count towards the Company's share issuance capacity under ASX listing Rules 7.1 and 7.1A. The Plan is designed to

- assist and reward the retention and motivation of employees;
- link reward to shareholder value creation; and
- align the interests of employees with shareholders of the Group by providing an opportunity for employees to receive an equity interest in the Company in the form of Options.

Under the Plan, participants are granted options which only vest if certain performance criteria are satisfied. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

The number of STI options that vest is linked to performance against shorter term strategic objectives of the Company and a performance assessment of employees against specific KPI's relevant to that position. Once vested, the options remain exercisable for a period of two years.

The number of LTI options that vest depends on performance against a number of Board approved Company objectives, including concluding an offtake agreement, funding the Chilalo Graphite Project and bringing the project into production.

To exercise an option, an employee must deliver a signed notice of exercise and, subject to a cashless exercise of options, pay the option exercise price prior to the expiry date. An option may specify that at the time of exercise, the employee may elect not to be required to provide payment of the option exercise price. Alternatively, the Company will transfer or issue to the employee that number of shares equal in value to the positive difference between the market value of the shares at the time of exercise and the option exercise price that would otherwise be payable to exercise those options.

## Notes to the financial statements

The Board has determined that STI options and LTI options will be equity settled to ensure alignment with shareholders' interests and to preserve cash.

Options are granted under the Plan for no consideration and carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share subject to the payment of any applicable exercise price. Set out below are summaries of options granted under the Plan:

|                             | 2016                            |                        |
|-----------------------------|---------------------------------|------------------------|
|                             | Weighted average exercise price | Number of options '000 |
| As at 21 January            | -                               | -                      |
| Granted during the period   | \$0.17 <sup>1</sup>             | 12,365                 |
| Exercised during the period | -                               | -                      |
| Forfeited during the period | -                               | -                      |
| <b>As at 30 June</b>        | <b>\$0.17</b>                   | <b>12,365</b>          |

<sup>1</sup> Options granted carried either a \$0.20, \$0.25 or nil exercise price.

No options expired during the period covered by the table above.

Options outstanding at the end of the period have the following expiry date and exercise prices:

| Grant date | Expiry date | Exercise price | Options 30 June 2016 '000 |
|------------|-------------|----------------|---------------------------|
| 9-Jun-16   | 9-Jun-19    | Nil            | 1,114                     |
| 9-Jun-16   | 9-Jun-21    | Nil            | 2,324                     |
| 9-Jun-16   | 9-Jun-19    | \$0.20         | 1,000                     |
| 9-Jun-16   | 9-Jun-19    | \$0.20         | 2,000                     |
| 9-Jun-16   | 9-Jun-19    | \$0.25         | 5,927                     |

Weighted average remaining contractual life of options outstanding at period end is 3.67 years.

### **Fair value of options granted**

There were two types of options granted during the period. The first of these types was zero priced options where the options can be exercised for nil consideration after vesting. Given the nil exercise price the fair value of these options are reflected by the five day volume weighted average share price (**VWAP**) at the date of issue. These options were granted on the date on which the Company was admitted to the official list of ASX, therefore, the fair value of these options is reflected by the IPO listing price of \$0.20.

The second type of options granted during the period were cashless exercise price options which have an exercise price of \$0.20 and \$0.25 and are valued using the Black-Scholes options pricing methodology that takes into account, exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the risk free interest rate for the term of the option and the correlations and volatilities of the peer group companies. The holder, at their discretion, may elect to exercise the options without paying the exercise price. Cashless exercise allows a participant to elect that in lieu of making payment of the total exercise price payable on exercise of their options, the participant will be issued that number of shares equal in value to the difference between the market value of the underlying shares that would be issued at the time of exercise and the exercise price that would otherwise be payable. The fair value of cashless exercise price options has been calculated as \$0.125 per option for options with a \$0.20 exercise price and \$0.116 for options with a \$0.25 exercise price. The model inputs for options granted during the period ended 30 June 2016 included:

- (a) Exercise price: \$0.20 and \$0.25
- (b) Grant date: 9 June 2016
- (c) Expiry date: 9 June 2019
- (d) Share price at grant (listing) date: \$0.20
- (e) Expected price volatility of the Company's shares: 100%
- (f) Risk free interest rate: 1.87%

## Notes to the financial statements

The expected price volatility was determined by reference to the Company's peer group of graphite companies listed on the ASX. Price volatility for the Company could not be used as it had no trading history. The risk free interest rate was determined by reference to coupon rates for Australian government bonds with the same or similar term to the options.

### (b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions during the period were as follows:

|                                                                            | 2016<br>\$'000 |
|----------------------------------------------------------------------------|----------------|
| Options issued under the Plan                                              | 397            |
| Options issued to consultants recognised in transaction costs <sup>1</sup> | 125            |
|                                                                            | <b>522</b>     |

<sup>1</sup> Options issued to contractors were those issued to the Company's corporate advisor and lead brokers to the Company's IPO as disclosed in the Replacement Prospectus. A portion of the options issued as consideration for capital raising associated with the IPO are included as share issue costs as disclosed in note 10(b).

## 23. Remuneration of auditors

During the period the following fees were paid and payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

### (a) PricewaterhouseCoopers Australia (PwC)

|                                               | 2016<br>\$    |
|-----------------------------------------------|---------------|
| <b>(i) Audit and assurance services</b>       |               |
| Audit of financial statements                 | 28,000        |
| <b>Total audit and assurance remuneration</b> | <b>28,000</b> |

#### (ii) Taxation services

Subsequent to period-end PwC were appointed to complete the Company's 2016 income tax return. Fees were not paid or payable in relation to this engagement as at 30 June 2016.

### (b) Network firms of PwC

|                                               |              |
|-----------------------------------------------|--------------|
| <b>(i) Audit and assurance services</b>       |              |
| Audit of financial statements                 | 8,000        |
| <b>Total audit and assurance remuneration</b> | <b>8,000</b> |

During the period, the Company's previous parent, IMX, engaged PwC for tax compliance services and to obtain a Private and Class Ruling in relation to the spin-off of Graphex. These amounts were settled by IMX. The Company has engaged PwC to perform tax compliance services however made no payment in relation to services provided during the 2016 financial year. It is the Group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group are important. These assignments are principally tax advice, or where PwC is awarded assignments on a competitive basis. It is the Group's policy to seek multiple quotes for all major consulting projects.

## Notes to the financial statements

### 24. Earnings per share

2016  
\$

#### (a) Basic earnings per share

From continuing operations attributable to ordinary equity holders (0.40)

The weighted average number of shares used to calculate both the basic and diluted earnings per share is 3,164,384. Shares in the Company were issued on 9 June 2016, resulting in a much lower weighted average number of shares as compared to actual shares on issue disclosed in note 10.

#### (b) Fully diluted earnings per share

From continuing operations attributable to ordinary equity holders (0.40)

#### (c) Information concerning the classification of securities

Options granted to employees under the Plan and those issued to contractors are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share with the assumption all such options will vest, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 22.

### 25. Parent entity financial information

The individual financial statements for the parent entities show the following aggregate amounts:

#### (a) Summary of financial information

2016  
\$'000

##### *Balance sheet*

|                     |        |
|---------------------|--------|
| Current assets      | 5,278  |
| Total assets        | 10,510 |
| Current liabilities | (752)  |
| Total liabilities   | (752)  |

##### *Shareholders' equity*

|                          |                |
|--------------------------|----------------|
| Issued capital           | 9,775          |
| Reserves                 | 1,086          |
| Retained earnings        | (1,103)        |
|                          | <u>9,758</u>   |
| Loss for the period      | (1,103)        |
| Total comprehensive loss | <u>(1,103)</u> |

#### (b) Guarantees

The parent had no guarantees during the period.

#### (c) Commitments

Of the commitments in note 19, all of the operating leases disclosed in note 19(a) related to the parent, Graphex. These related to the fixed term leases of the Company's office premises and photocopier/printer lease.

## Notes to the financial statements

### 26. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent they have not already been disclosed in the other notes above. The financial statements are for the Group consisting of Graphex Mining Limited (**Graphex**) and its subsidiaries.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Graphex is a for-profit entity for the purpose of preparing the financial statements. The Company was incorporated on 21 January 2016 and subsequently became a reporting entity on 14 June 2016. The numbers presented in these financial statements are from the Date of Incorporation (**DOI**) to balance date being the 30 June 2016.

#### (i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### (ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for Share-based payments as disclosed in note 22.

#### (iii) New and amended standards adopted by the group

All mandatory new Accounting Standards and Pronouncements effective for financial years commencing 1 July 2015 were adopted in full by the Group. None of the standards that applied for the first time materially changed the accounting policies or disclosure of the Group.

The group elected to adopt the following three amendments early:

- AASB 2014-1 Amendments to Australian Accounting Standards;
- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle; and
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures.

#### (iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

| Reference                                     | Summary                                                                                                                                                                                                                                                                                         | Application date of standard | Impact on Group financial report                                                                                                                                   | Application date for Group |
|-----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| AASB 9 Financial Instruments                  | AASB 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, and supplements the new general hedge accounting requirements previously published.                                          | 1 January 2018               | The application of the standard at the operative date is not expected to have a significant impact on the Group's accounting for financial assets and liabilities. | 1 July 2018                |
| AASB 15 Revenue from Contracts with Customers | The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. | 1 January 2018               | The application of the standard is not expected to have a significant on the Group as it does not currently generate revenue.                                      | 1 July 2018                |

## Notes to the financial statements

| Reference      | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                | Application date of standard | Impact on Group financial report                                                                                                                                                                            | Application date for Group |
|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| AASB 16 Leases | 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.<br>The accounting for lessors will not significantly change. | 1 January 2019               | At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make a more detailed assessment of the impact over the next twelve months. | 1 July 2019                |

### (b) Principles of consolidation and equity accounting

#### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Property, plant and equipment

#### (i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and costs directly attributable to bringing the asset to a working condition for their intended use.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

#### (ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

#### (iii) Depreciation

Depreciation of plant and equipment is calculated on a straight line basis so as to write off the net costs of each asset over the expected useful life. The rates vary between 2% and 50% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

### (d) Impairment

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Comprehensive Income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## Notes to the financial statements

### (e) Exploration and evaluation costs

Costs arising from the acquisition of exploration and evaluation activities are carried forward where these activities have not, at reporting date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves. The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Ongoing exploration activities are expensed as incurred.

The Directors believe that this policy results in the carrying value of exploration expenditure more appropriately reflecting the definition of an asset, being future benefits controlled by the Group. All costs carried forward are in respect of areas of interest in the exploration and evaluation phases and accordingly, production has not commenced.

Exploration and evaluation assets shall be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount, in particular when exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area.

Where tenements or part of an area of interest are disposed of, the proceeds of this partial disposal will reduce the value of the asset by the fair value of those proceeds. This recognises that part of the future economic benefit of the asset has effectively been disposed.

### (f) Operating leases

Operating leases are not recognised in the Group's consolidated balance sheet.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis. Contingent rentals are recognised as an expense in the period in which they are incurred.

### (g) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

#### **Current tax**

Current tax is the expected tax payable of the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

#### **Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **Tax exposures**

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made. The Company and its wholly owned Australian resident entities are not part of a tax consolidated group.

### (h) Other taxes

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT), unless the GST / VAT incurred is not recoverable from taxation authorities. In this case it is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

## Notes to the financial statements

Receivables and payables are stated inclusive of the amount of GST / VAT receivable or payable. The net amount of GST / VAT recoverable from, or payable to, taxation authorities is included with other receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Consolidated Statement of Cash Flows inclusive of GST / VAT. The GST / VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, taxation authorities are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST / VAT recoverable from, or payable to taxation authorities. The net of GST / VAT payable and receivable is remitted to the appropriate tax body in accordance with legislative requirements.

### **(i) Foreign currency translation**

#### ***Functional and presentation currency***

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

#### ***Foreign currency transactions***

Transactions in foreign currencies are translated to the respective financial currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss. However, foreign currency differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges are recognised in other comprehensive income.

#### ***Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportion of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

### **(j) Accounts payable**

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost when the Group becomes obliged to make payments resulting from the purchase of goods and services. The amounts are non-interest-bearing, unsecured and are usually paid within 30 days of recognition.

### **(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

### **(l) Employee benefits**

#### ***Wages, salaries and annual leave***

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are

## Notes to the financial statements

measured at the amounts expected to be paid, inclusive of on costs, when the liabilities are settled. The expense for non-accumulating sick leave is recognised when the leave is taken and measured at the rates paid or payable.

### **Long-term employee benefits**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

### **Share-based payment transactions**

The fair value of options previously granted under the Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the Directors, employees or contractors become unconditionally entitled to the options.

The fair value of the options at grant date is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the consolidated statement of comprehensive income with a corresponding adjustment to equity.

The fair value of these equity instruments does not necessarily relate to the actual value that may be received in future by the recipients. The Company has elected to account for share based payments issued to non-employees in accordance with the share based payments standard.

### **(m) Revenue recognition**

Interest revenue is recognised as it accrues in profit or loss, using the effective interest method. Revenue from sale of goods and disposal of assets is recognised when persuasive evidence, usually in the form of an executed sales agreement, or an arrangement exists, indicating there has been a transfer of risks and rewards to the customer, no further work or processing is required by the Group, the quantity and quality of the goods has been determined with reasonable accuracy, the price is fixed or determinable and collectability is reasonably assured. This is generally when title passes.

### **(n) Trade and other receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### **(o) Earnings per share (EPS)**

#### **Basic earnings per share**

Basic EPS is calculated as the profit / (loss) attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, divided by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the period.

## Notes to the financial statements

### ***Diluted earnings per share***

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **(p) Cash and cash equivalents**

For consolidated statement of cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

### **(q) Financial instruments**

#### ***(i) Non-derivative financial assets***

The Group initially recognises loans and receivables and deposits on the date that they originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and in the case of assets classified as held-to-maturity investments, re-evaluates this designation at each reporting date.

#### ***Loans and receivables***

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables (see notes 4 and 5).

When an investment is derecognised, the cumulative gain or loss in equity is transferred to the consolidated statement of comprehensive income. Fair value is determined by reference to the quoted price at the reporting date.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and at call deposits with original maturities of three months or less.

#### ***(ii) Non-derivative financial liabilities***

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise loans from related parties and trade and other payables.

#### ***(iii) Share capital***

##### ***Ordinary shares***

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

## Notes to the financial statements

### **(r) Comparative figures**

The financial statements do not contain comparative information as the Company was registered for the first time during the 2016 financial year.

### **(s) Segment reporting**

Segment results that are reported to the Group's Managing Director (the chief operating decision maker) include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

### **(t) Parent entity information**

The financial information for the parent entity, Graphex Mining Limited, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements.

### **(u) Rounding**

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## Directors declaration

In the opinion of the Directors:

- (a) the consolidated financial statements and notes set out on pages 22 to 47 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date, and
- (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; and

Note 26(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



Stephen Dennis

Chairman

PERTH

On this 29<sup>th</sup> day of September 2016



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

### ***Report on the financial report***

We have audited the accompanying financial report of Graphex Mining Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period 21 January 2016 to 30 June 2016, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Graphex Mining Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 26, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

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



## **Independent auditor's report to the members of Graphex Mining Limited (continued)**

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Graphex Mining Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the period ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 26.

### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 10 to 16 of the directors' report for the period ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Graphex Mining Limited for the period ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Ben Gargett  
Partner

Perth  
29 September 2016

## ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 22 September 2016.

### (a) DISTRIBUTION OF EQUITY SECURITIES

#### Ordinary Shares

|                                                                   |   |          | Number of<br>holders | Number of<br>shares |
|-------------------------------------------------------------------|---|----------|----------------------|---------------------|
| 1                                                                 | - | 1,000    | 2,622                | 434,749             |
| 1,001                                                             | - | 5,000    | 648                  | 1,443,360           |
| 5,001                                                             | - | 10,000   | 204                  | 1,612,466           |
| 10,001                                                            | - | 100,000  | 496                  | 15,844,153          |
| 100,001                                                           |   | and over | 90                   | 36,165,272          |
|                                                                   |   |          | 4,060                | 55,500,000          |
| Number of holders holding less than a marketable parcel of shares |   |          | 2,794                | 628,444             |

#### Unlisted Loyalty Options

|         |   |          | Number of<br>holders | Number of<br>Unlisted Loyalty<br>Options |
|---------|---|----------|----------------------|------------------------------------------|
| 1       | - | 1,000    | 2                    | 1,066                                    |
| 1,001   | - | 5,000    | 95                   | 346,044                                  |
| 5,001   | - | 10,000   | 70                   | 566,944                                  |
| 10,001  | - | 100,000  | 134                  | 4,495,576                                |
| 100,001 |   | and over | 11                   | 3,227,827                                |
|         |   |          | 312                  | 8,636,917                                |

#### Unlisted Options

|         |   |          | Number of<br>holders | Number of Unlisted<br>Options |
|---------|---|----------|----------------------|-------------------------------|
| 1       | - | 10,000   | 2                    | 117,357                       |
| 10,001  | - | 100,000  | 10                   | 479,070                       |
| 100,001 |   | and over | 13                   | 11,768,889                    |
|         |   |          | 25                   | 12,365,316                    |

## ASX Additional Information

### (b) TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest holders of quoted shares are:

| Rank                                                      | Name                                                   | Number of shares  | % of shares  |
|-----------------------------------------------------------|--------------------------------------------------------|-------------------|--------------|
| 1.                                                        | J P MORGAN NOMINEES AUSTRALIA LIMITED                  | 4,499,486         | 8.11         |
| 2.                                                        | MMG EXPLORATION HOLDINGS LIMITED                       | 3,546,000         | 6.39         |
| 3.                                                        | ONE MANAGED INVESTMENT FUNDS                           | 2,879,832         | 5.19         |
| 4.                                                        | DR CHRISTOPHER KONG-LENG SHUN                          | 2,385,117         | 4.30         |
| 5.                                                        | BPM COMMODITIES LIMITED                                | 1,360,000         | 2.45         |
| 6.                                                        | MR TIMOTHY MURRAY                                      | 1,132,355         | 2.04         |
| 7.                                                        | MR JAMIE PHILLIP BOYTON                                | 1,000,000         | 1.80         |
| 8.                                                        | CAPE BOUVARD EQUITIES PTY LTD                          | 1,000,000         | 1.80         |
| 9.                                                        | NERO RESOURCE FUND PTY LTD <NERO RESOURCE FUND A/C>    | 1,000,000         | 1.80         |
| 10.                                                       | BNP PARIBAS NOMS PTY LTD <DRP>                         | 898,620           | 1.62         |
| 11.                                                       | CLARKSON'S BOATHOUSE PTY LTD <CLARKSON SUPER FUND A/C> | 646,778           | 1.17         |
| 12.                                                       | GEOFFREY LEVY                                          | 646,500           | 1.16         |
| 13.                                                       | MR CONSTANTINOS CASIOU <CASIOU INVESTMENT A/C>         | 625,000           | 1.13         |
| 14.                                                       | SICHUAN TAIFENG GROUP CO LIMITED                       | 543,698           | 0.98         |
| 15.                                                       | MRS SHARA SUNDELL                                      | 486,361           | 0.88         |
| 16.                                                       | HOTSPUR SUPER PTY LTD <THE RONSMERE SUPER FUND A/C>    | 475,000           | 0.86         |
| 17.                                                       | LEET INVESTMENTS PTY LTD <SUPERANNUATION FUND A/C>     | 427,500           | 0.77         |
| 18.                                                       | MR MATTHEW LLEWELLYN BURSTON                           | 405,224           | 0.73         |
| 19.                                                       | JUAD PTY LTD <HAYES HEARSE SUPER FUND A/C>             | 404,029           | 0.73         |
| 20.                                                       | MR STEPHEN BRUCE DENNIS                                | 375,000           | 0.68         |
| <b>Total Top 20 holders of ORDINARY FULLY PAID SHARES</b> |                                                        | <b>24,736,500</b> | <b>44.57</b> |
| <b>Total Remaining Holders Balance</b>                    |                                                        | <b>30,763,500</b> | <b>55.43</b> |

### (c) SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

|                                  |       |
|----------------------------------|-------|
| MMG EXPLORATION HOLDINGS LIMITED | 6.39% |
| ONE MANAGED INVESTMENT FUNDS     | 5.19% |

### (d) VOTING RIGHTS

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands. Options have no voting rights until such time as they are exercised and shares have been issued.

### (e) TENEMENT SCHEDULE

| Tenement Number | Tenement name | Locality | Group Ownership |
|-----------------|---------------|----------|-----------------|
| PL 6073 / 2009  | Chilalo       | Tanzania | 100%            |
| PL 6158 / 2009  | Kiperere East | Tanzania | 100%            |
| PL 9929 / 2014  | Chikwale      | Tanzania | 100%            |
| PL 9946 / 2014  | Machangaja    | Tanzania | 100%            |
| PL 8628 / 2012  | Kipendengwa   | Tanzania | 100%            |
| PL 5447 / 2008  | Noli SE       | Tanzania | 100%            |