

15 May 2018

Exploration Update for Sri Lankan Graphite Projects

Highlights

- Completion of a 1720 line kilometre high resolution airborne electromagnetic (HDTEM) survey
- Reconnaissance drilling to test highest priority HDTEM targets on return of results
- Down Hole Electromagnetic (DHEM) survey highlights potential extensions to Pathakada mineralisation
- New phase of diamond drilling to commence at Pathakada in June Quarter
- Mapping of several high priority target areas has located numerous deep historical workings and visible high-grade vein graphite on surface

Margosa Graphite Limited (Margosa or Company) is pleased to provide the following exploration update for its graphite project areas in Sri Lanka.

Sri Lankan Graphite Projects

The single largest high-resolution Helicopter-borne Time Domain Electromagnetic (HTDEM) survey, focused on defining the next generation of graphite deposits in Sri Lanka, was completed in October 2017. This survey was successfully carried out by New Resolution Geophysics (NRG) Pty Ltd of South Africa on behalf of Margosa and led to the collection of 1720 line kilometres of electromagnetic and magnetic data.

Following the delivery of the final processed datasets from NRG in late December 2017, Margosa's Australian geophysical consultants, Southern Geoscience Consultants (SGC) Pty Ltd, have commenced modelling with a view of generating ranked exploration targets for each of the six priority project areas flown. These results along with mapping and ground truthing will be used to plan reconnaissance drill programs and further detailed ground geophysical surveys (if required).

Coincident with the timing of the airborne survey, a Down Hole Electromagnetic (DHEM) survey was carried out at the Company's Pathakada Project, 40km southeast of Colombo. This program, which was completed by Perth based GEM Geophysics, surveyed nine diamond holes previously drilled by Margosa, which tested a strong conductivity anomaly that was delineated during a ground electromagnetic (TEM) survey over the area in 2013. The DHEM survey was focused on developing a more accurate model for the Pathakada graphite mineralisation as well as locating any untested off hole conductors.

Results of modelling, reported by SGC, interpret a complex geological setting with two distinct conductive plate orientations from south to north over the surveyed area. In the southern area the most noticeable features of the conductive plates are that they are buried at 50-70 metres depth and dip towards the northeast between 45 to 70 degrees. Whilst in the northern area the conductive plates appear to be buried between 75 and 120 metres and dip shallowly 20 degrees to the east northeast.

In Figure 1, the location of drill hole PT-07 DHEM target (red plate) coincides with the strongest surface TEM response as annotated on the diagram. This strong late-time conductive response is located north northeast of where PT-07 intersected significant widths of graphite mineralisation. The interpretation is that the centre of the conductive mineralisation is located down-dip of previous drilling, which appears to have only tested the 'top-edge' of the target mineralisation.

Following the results of the SGC report, a diamond drilling campaign is planned to commence in the June Quarter, with the aim of extending the graphite mineralisation down dip and to the east northeast of Pathakada. Additionally, a second late time conductivity anomaly of similar dimension and amplitude to that recorded at Pathakada is located 900 metres to the northwest. This anomaly has only been tested with one shallow diamond drill hole and warrants further drill testing following the results of the DHEM survey.

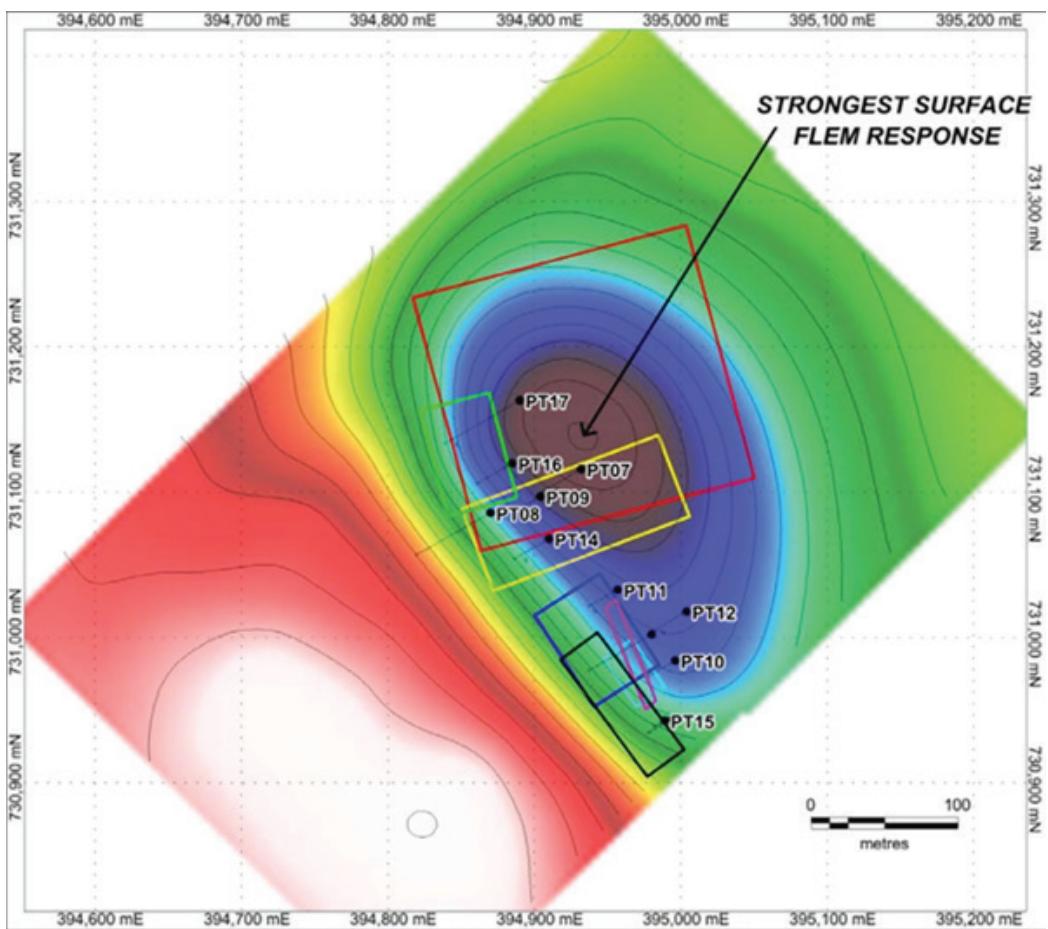


Figure 1. 2013 Ground TEM data and 2017 DHEM plate modelling with the 2017 drill holes.

Margosa's Managing Director, Peter Venn, commented: "This exciting new DHEM interpretation highlights that previous drilling has only tested a small section of the strongest conductor plates, and that the mineralisation at Pathakada likely remains open to the north and east. We look forward to drill testing and extending the existing high-grade vein graphite mineralisation at Pathakada, with a view to outlining an economic graphite deposit in the near term."

Finally, in preparation of receiving the final modelling and target analysis from the HDTEM survey, the Margosa Exploration team have completed further ground truthing and mapping over a number of the Company's higher priority areas in southwest Sri Lanka. This work has discovered many deep historical shafts within the Company's licences that are believed to date back more than 140 years. Some of these workings have reported depths of more than 200 metres with evidence of high grade vein graphite stockpiles on the surface.

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