

25 February 2020

FINANCING UPDATE

Graphex Mining Limited (ASX: GPX) (**'Graphex'** or the **'Company'**) is pleased to provide an update with respect to financing for the development of its Chilalo Graphite Project (**'Chilalo Project'**) located in south-east Tanzania.

In October 2018, Graphex reached agreement with funds managed by global private investment firm Castlake, L.P. (the **'Financier'**) on funding arrangements for the development of the Chilalo Project (**'Funding Arrangements'**) (ASX announcement 29 October 2018).

The key elements of the Funding Arrangements included:

- A loan note subscription agreement to raise US\$5 million from the issue of secured Interim Loan Notes (**'Interim Loan Notes'**); and
- A term sheet setting out the proposed terms on which the Financier and other market participants (subject to definitive transaction documentation and the satisfaction of agreed conditions) provide up to US\$40 million in equity and up to US\$40 million from the issue of senior secured loan notes (**'Senior Funding Package'**).

Proceeds from the Interim Loan Notes have been used to advance the Chilalo Project, including an increase in the Mineral Resource (ASX announcement 28 August 2019) and in the Ore Reserve and completion of the recently released definitive feasibility study (**'DFS'**).

The availability of the Senior Funding Package is subject to definitive transaction documentation, due diligence and satisfaction of certain other conditions precedent, the more material of which are set out below, together with a summary on the status of those respective conditions:

- **Completion of a DFS**

On 29 January 2020, the Company released the results of the DFS on its Chilalo Project (ASX announcement 29 January 2020). The DFS was prepared to a bankable standard to support a decision to mine and finance. The Financier has commenced its due diligence review of the DFS.

Preparation of the DFS was overseen by the Project Steering Committee, the membership of which included the Financier's nominee to the Graphex board of directors, Mr Daniel Saint Don. During preparation of the DFS the Financier appointed technical specialists to investigate certain aspects of the DFS.

- **Resolution of issues relating to Tanzania's mining legislation**

In July 2017, the Government of Tanzania (**'GoT'**) enacted legislation which amended the legislative and regulatory framework for resources companies operating in Tanzania (**'Amending Legislation'**).

The Amending Legislation was supplemented by regulations that were released in January 2018 (**'Regulations'**).

Graphex identified a number of key issues associated with the Amending Legislation and the Regulations that are central to the ability of resources companies operating in Tanzania to obtain the finance required for project development. Over the past two and a half years, the Company has worked extensively with the GoT to obtain the certainty on these key issues required by project financiers in a manner that strikes a fair balance between the requirements of companies seeking to develop resources projects and the interests of the GoT.

These key issues and the current position with respect to those key issues are summarised below:

- *GoT's free carried interest* – the Company has received correspondence from the Mining Commission confirming that the GoT free carried interest is set at 16%. Graphex has begun making arrangements to accommodate the GoT free carried interest.
- *Export of mineral concentrate* – section 3.3 of “*The Mining (Mineral Value Addition) Guidelines, 2019*” which were published as subsidiary legislation on 25 January 2019 state that graphite concentrate may be exported so long as the TGC grade exceeds 65%. As concentrate produced from the Chilalo Project is expected to have a grade of not less than 95%, product from Chilalo is suitable for export.
- *Bank account arrangements* – the Company has been working closely with the Mining Commission, Ministry of Minerals and the Bank of Tanzania and, following meetings held in late January in Tanzania, expects to receive the necessary approvals for a structure of bank account arrangements that meets the requirements of both the financing documents and the GoT.
- *Local content* – the Company has engaged extensively with the Mining Commission on a proposal under which the Company can meet its local content obligations without compromising the cost, quality and timing of the development of the Chilalo Project. Following meetings with the Mining Commission and Ministry of Minerals held in late January in Tanzania, the Company expects to shortly receive approval of the GoT for such a proposal.

Other lower level issues including the operation of the Integrity Pledge, the GoT lien, the ownership of mineral data and the application of stabilisation agreements have been clarified.

The Company expects to shortly provide further information on the legal and regulatory framework in Tanzania, however believes that there has been a significant improvement in the investment climate in Tanzania. This view is based on its own engagement with the GoT and from the recently announced settlement agreed between the GoT and Barrick Gold Corporation. Graphex is confident that the current legal and regulatory framework in Tanzania will not obstruct financing for the Chilalo Project, the latter being an important development that has increased investor confidence in Tanzania.

- **Execution of material contracts including off-take, mining and EPC**

- *Offtake agreements* – Graphex considers that sales agreements cannot be truly binding until price negotiations are conducted in the months prior to production commencement. While a number of graphite companies have reported binding offtake agreements, the lack of certainty provided by these pre-construction graphite sales agreements has been cited as a key reason that project finance has been difficult to obtain for many graphite companies.

The Company continues to progress through the various stages of work required to deliver true binding sales agreements. In addition to detailed market research and metallurgical testwork, this has included identification of potential customers and delivery of sample material to enable test work to be carried out by potential customers. This is expected to be followed by negotiation of major terms, agreement on a delivery schedule, negotiation on price and provision of trial shipments from commercial production to confirm results from sample testwork conducted earlier in the engagement. A number of these steps cannot take place pre-construction.

Graphex has communicated regularly with the Financier regarding the Company's approach to marketing, including the sale of expandable graphite and micronised graphite as set out in the DFS announcement of 29 January 2020. The Company also accompanied the Financier on a visit to China as part of its initial due diligence and provided introductions to the Company's specialist marketing consultants.

The Company is confident that its multi-faceted marketing strategy will maximise the value of Chilalo product and has been designed to ensure that it will have the support of the Financier.

- *Mining contract* – Graphex believes that tendering and negotiating a mining contract prior to securing project finance is likely to receive less focus from potential mining contractors. A more cost-effective outcome with greater certainty will be achieved if the engagement with potential mining contractors occurs after project finance is in place.
- *Engineering, Procurement and Construction ('EPC') contract for the processing plant* – flake size is a key driver of revenue and maximising the percentage of coarse flake material produced at Chilalo is fundamental to the design of the processing plant. In addition, with EPC contractors unlikely to guarantee the performance of the processing plant with respect to flake size, the Company considers it prudent that it retains control over design of the processing plant.

The Project Steering Committee has supported the Company's approach to both the mining contract and the EPC contract for the processing plant.

Further to the above conditions precedent to the Senior Funding Package, should the Financier complete its due diligence and elect to proceed with project finance for the development of Chilalo, the parties will be required to enter into definitive transaction documents.

Next Steps

Since entering into agreement with the Financier in October 2018, the Company has focused its efforts on satisfying the associated conditions precedent, the majority of which has entailed completion of the DFS, development of the marketing strategy and working with the GoT to secure mutually acceptable outcomes on the application of the Amending Legislation and Regulations.

The Company is now supporting the Financier in its remaining due diligence and carrying out low cost work to investigate opportunities to optimise the results of the DFS.

By order of the Board.



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About Graphex Mining

Graphex Mining Limited (ASX:GPX) is an Australian resources company listed on the Australian Securities Exchange. Graphex owns the world-class Chilalo Graphite Project, located in south-east Tanzania (see Figure on following page).

Since the initial discovery of Chilalo in 2014, Graphex has adopted a clear and differentiated strategy of understanding end markets and seeking to partner with strategic investors to enable delivery of the Chilalo Project. Underpinned by a high proportion of large flake material with exceptional expansion characteristics, the Company has targeted the expandable graphite market, which among many applications, is ideally suited to the manufacture of high-value graphite foils and flame-retardant materials.

Graphex has strategically targeted these expandable graphite applications based on their attractive growth and value characteristics. The size and growth expectations of the expandable graphite market applications, the premium prices for large flake graphite in general and the suitability of Chilalo graphite for the production of expandable graphite applications has meant that the Company has prioritised supplying the expandable graphite market as the primary focus.

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Chilalo Large Flake Graphite Project, Located in Tanzania

