

24 May 2017

## TERMS AGREED FOR LANDMARK JOINT VENTURE AND OFFTAKE TRANSACTION

### CHILALO GRAPHITE PROJECT IDEALLY POSITIONED FOR DEVELOPMENT

#### Highlights

- Execution of a non-binding term sheet for an equity joint venture, offtake and prospective financing for the Chilalo Graphite Project with a Chinese syndicate, led by CN Docking Joint Investment and Development Co Ltd, a subsidiary of China National Building Materials Group
- Key terms include:
  - A syndicate led by CN Docking to make an equity investment of US\$18-20M (A\$24-27M) for a 50% interest in the Chilalo Project, via a project-level incorporated joint venture
  - Debt guarantees (if required) to be provided by both parties for the targeted project finance of up to 65% of the final pre-production capital costs
  - Offtake agreement for the purchase of a minimum of 50% of the Chilalo product at market prices. Assistance to be provided to the joint venture to procure product sales for the remainder of production
  - Both Graphex and CN Docking to exercise best endeavours to conclude formal legal documents within three months
- Within 10 days the sum of HK\$100M (US\$13M) is to be deposited into a nominated bank account and designated specifically for investment into the proposed joint venture
- Commencement of preparation of legal documents and finalisation of remaining conditions now under way
- Once finalised, Graphex will be uniquely placed to proceed with development of Chilalo

Graphex Mining Limited (ASX: GPX) is pleased to announce that it has signed a non-binding term sheet (the 'Term Sheet') which sets out a number of the key commercial terms relating to the proposed joint venture, offtake and prospective financing for the Chilalo Graphite Project. The Term Sheet has been signed by CN Docking Joint Investment & Development Co. Ltd ('CN Docking'), a subsidiary of China National Building Materials Group. CN Docking intends to lead a syndicate of Chinese investors through a new special purpose investment entity.

Graphex Managing Director, Phil Hoskins, commented: "We are extremely pleased to have signed a term sheet with CN Docking, which lays out key commercial terms for a joint venture, offtake and prospective financing arrangements for Chilalo. This is an important milestone for Graphex, and paves the way for the early development of Chilalo with minimal dilution to our shareholders."

*This commitment from such a high calibre partner is supportive of the quality of the Chilalo Graphite Project and is testament to the market opportunity we have been relentlessly focussed on for some time – supplying coarse flake graphite direct to the Chinese expandable graphite market.”*

The Term Sheet follows the completion of a comprehensive due diligence program that included:

- A five-day site visit including meetings with various Tanzanian Government departments and officials, logistics providers and the Mtwara Port Authority;
- Detailed metallurgical testwork that confirmed the marketability of Chilalo graphite; and
- A feasibility study completed by CN Docking to assess the technical and economic viability of the Chilalo Project.

Commenting on the importance of securing a strategic partner such as CN Docking, Mr Hoskins added, *“The significance of securing CN Docking as our partner, with its strategic relationships in China, should not be underestimated. Our shareholders will benefit from their extensive knowledge of the Chinese graphite market and their strategic interest in graphite as well as downstream applications such as flame retardant building materials – a key driver of future demand for flake graphite. This relationship is expected to provide strategic opportunities that will enable long-term shareholder value creation well beyond the initial first stage development of Chilalo which is a world class deposit.”*

### **Joint Venture and Finance**

The key points of the Term Sheet relating to joint venture and prospective project financing are summarised below:

- Equity investment of US\$18-20M (A\$24-27M) (**‘Equity Investment Amount’**) directly into wholly owned Graphex subsidiary, Ngwena Tanzania Limited, for a 50% equity interest in Ngwena Tanzania (i.e. a project-level joint venture). The level of the final equity investment within the proposed range is dependent on the documented governance structure for the joint venture company; and
- The parties are targeting project debt for up to 65% of the pre-production capital costs. The Chinese investment syndicate is primarily responsible for procuring Chinese debt and Graphex for seeking project finance proposals ex-China. If required, both parties have agreed they will provide parent company guarantees to assist in securing project finance.

Once completed, these arrangements are expected to address 100% of the financing requirements for the construction and commissioning of the Chilalo Graphite Project.

The joint venture expects to appoint an experienced Chinese company to undertake project EPC (engineering, procurement and construction). As part of the final engineering design and associated EPC appointment, the Company is targeting a reduction in capital expenditure from the previously reported capital expenditure estimates.

### **Offtake**

The Term Sheet contemplates execution of an offtake agreement for a minimum of 50% of Chilalo product, with agreement to be finalised immediately prior to a decision to mine being made by the joint venture company.

For the portion of any product not taken by the Chinese joint venture partner, assistance will be provided to the joint venture in procuring the remaining offtake.

Testwork commissioned by CN Docking has confirmed that Chilalo product is suitable for multiple expandable graphite products including graphite foil, graphite paper, seals, gaskets and flame retardants.

## **Additional terms**

Graphex has been advised that within ten days, HK\$100M (US\$13M) will be deposited into a nominated bank account by the Chinese syndicate. These funds represent the initial tranche of funding that is specifically designated for investment into the proposed joint venture.

In addition, a break fee of US\$1,800,000 shall be payable if either party executes an alternative transaction within three months of the Term Sheet.

## **Next Steps**

The parties will now move forward with the preparation of detailed documentation. The parties are targeting execution of formal legal agreements within three months. Whilst there is no certainty that a binding arrangement will eventuate, both parties are confident that this will be achieved.

Following conclusion of legal documentation and payment of the Equity Investment Amount, the joint venture parties will proceed with the work streams that are required to reach a decision to mine, including finalising project optimisation, detailed engineering and design, EPC arrangements, and securing project finance.



## **PHIL HOSKINS**

### **Managing Director**

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## **About Graphex**

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

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

For more information, visit [www.graphexmining.com.au](http://www.graphexmining.com.au).