

29 October 2018

GRAPHEX AGREES FUNDING PACKAGE TO FULLY FUND CHILALO

HIGHLIGHTS

- **US\$5 million to be raised immediately from the issue of secured Interim Loan Notes**
- **US\$80 million senior funding package is expected to fully fund Chilalo through to production:**
 - **Up to US\$40 million of senior secured loan notes; and**
 - **Up to US\$40 million of equity**

Graphex Mining Limited (ASX: GPX) (**'Graphex'** or the **'Company'**) is pleased to announce that it has entered into a Loan Note Subscription Agreement with funds managed by global private investment firm Castlelake, L.P. (the **'Castlelake Funds'**) to raise US\$5 million from the issue of secured Interim Loan Notes which becomes available immediately. The Company has also signed a term sheet setting out the proposed terms on which the Castlelake Funds and other market participants (subject to the satisfaction of agreed conditions) provide up to US\$40 million in equity and up to US\$40 million from the issue of senior secured loan notes (**'Senior Funding Package'**).

The Company's Managing Director Mr Phil Hoskins commented, *"We are pleased to have agreed this financing transaction, which represents a major milestone for our Company. We can now proceed with completion of the bankable feasibility study (BFS) with a view to Graphex becoming a leading supplier of premium, coarse flake graphite."*

We take great confidence from the commitment of a global private investment firm, which follows a period of extensive due diligence. We believe this transaction affirms the quality of the Chilalo project, the premium product it will produce, the graphite market opportunity identified by the Company and confidence in the Company's ability to reach a satisfactory resolution in Tanzania."

Proceeds from the Interim Loan Notes are to be used to advance the project to be able to satisfy the conditions precedent to the Senior Funding Package. The more material conditions, in addition to customary conditions precedent, that need to be satisfied for the Senior Funding Package include:

- Entry into definitive transaction documents – the term sheet for the Senior Funding Package is to be converted into transaction documents;
- Completion of a BFS;
- Certain Castlelake approvals and completion of ongoing Castlelake due diligence to its satisfaction;

- Resolution of issues relating to Tanzania’s mining legislation – a detailed submission has been provided to the Tanzanian Government and Graphex expects to present the submission to Government officials in the near future; and
- Execution of material contracts including off-take, mining and EPC amongst others.

Satisfaction of these conditions (and other customary conditions), are required to proceed with the Senior Funding Package, allowing the commencement of mine construction and providing a pathway to production.

The final financing amount for the Senior Funding Package will be determined by the BFS and is expected to fund all associated costs and allowances typical for the construction of a mining project.

If the conditions to the Senior Funding Package are not satisfied within two years, the amount outstanding under the Interim Loan Notes becomes immediately payable. If the Senior Funding Package conditions are satisfied, the Interim Loan Notes can be capitalised into the Senior Funding Package or repaid in cash.

The term sheet calls for no more than 50% of the Senior Funding Package to be provided by way of secured loan notes (i.e. the debt to equity ratio will not exceed 50/50). When all the conditions to the Senior Funding Package have been satisfied, the Company, subject to shareholder approval, will go to market for an equity raising and depending on market conditions target to limit the Castlake Funds to 40% of the total issued share capital. The pricing of the equity raising is detailed in Appendix A, however is subject to a ceiling price of \$0.28 per share. The Company intends to provide existing shareholders with an opportunity to participate in the equity raising on the same terms as the Castlake Funds.

Key terms and conditions of the Interim Loan Notes and the Senior Funding Package are set out in Appendix A to this announcement.

Graphex is being advised by Azure Capital as financial adviser and King & Wood Mallesons as legal adviser.

The Chilalo Mining Licence was granted in February 2017 and is valid and in good standing. With other key approvals in place, satisfaction of the conditions to the Senior Funding Package will see Chilalo strongly positioned for development.

The recently released pre-feasibility study demonstrates that the Chilalo Project generates exceptional economics, as shown in the table below:

Table 1. Chilalo Project: key financial metrics¹

Item	Measure	PFS
Post-tax NPV (10% discount rate)	US\$m	349
Post-tax internal rate of return (IRR)	%	131
Post-tax payback period	years	0.84
Life of mine	years	8.5

¹ Refer to the ASX announcement “Updated Pre-Feasibility Study Confirms Exceptional Economics of Chilalo Project” dated 20 September 2018. Graphex confirms that it is not aware of any new information or data that materially affects the information in that announcement and that all material assumptions and technical parameters underpinning the production targets and forecast financial information based on production targets in that announcement continue to apply and have not materially changed.



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About Castlelake

Castlelake L.P. is a global private investment firm focused on investments in alternative assets, sub-performing loans, dislocated industries and special situations, and is an experienced leader in aircraft ownership and servicing. With primary offices in Minneapolis and London, the Castlelake team comprises more than 140 professionals. As of June 30, 2018, Castlelake manages private funds and debt vehicles with approximately \$13.7 billion in assets.



Appendix A – Key terms and conditions

Interim Loan Notes

Issuer / Borrower	Graphex Mining Limited (Graphex).
Loan Note Holder	The Castlake Funds.
Loan Note Amount	US\$5 million in tranches of not less than US\$1m per tranche.
Use of Funds	Proceeds from the Interim Loan Notes shall be used to position the Chilalo Project for construction, by funding activities that will facilitate the satisfaction of conditions precedent to the Senior Funding Package.
Term	Two (2) years (expiry 29 October 2020).
Interest Rate	15% interest on drawn funds and a 4% commitment fee on undrawn funds, Graphex can elect to capitalise interest and commitment fees.
Fees	Loan Note Holders to receive a structuring fee of 2% of the Loan Notes and an issuer discount of 7.5% of the Loan Notes. Graphex can elect to capitalise fees.
Interim Loan Note Optional Conversion	If the disbursement of the senior Loan Note Amount occurs prior to the Interim Loan Note term expiry (2 years), Graphex can elect to convert the Interim Loan Notes into senior Loan Notes.
Shares	1,645,000 ordinary shares in Graphex, at no cost.
Security	Security over the shares in a subsidiary company that indirectly owns the Chilalo Project and over any intercompany loans owing to Graphex.
Board seat	The right to appoint 1 director to the Graphex Board.
Conditions Precedent (to first drawdown)	Customary for a transaction of this nature.
Events of Default	Customary for a transaction of this nature.

Proposed Senior Funding Package

Issuer / Borrower	Graphex Mining Limited (Graphex) or a subsidiary.
Loan Note Holder / Investor	The Castllake Funds and others pursuant to the market raise.
Senior Funding Package	<ul style="list-style-type: none"> Up to US\$40 million of Senior Secured Loan Notes; and Up to US\$40 million equity investment. <p>Additional terms:</p> <ul style="list-style-type: none"> Graphex has the discretion to undertake a market equity raising to supplement (and partially substitute) the Castllake Funds' equity investment provided that the Castllake Funds' eventual shareholding in Graphex is not less than 40%; and Debt shall be equal to or less than the total equity investment by the Castllake Funds and other investors (i.e. debt to equity ratio not to exceed 50/50).
Use of Funds	Proceeds from the equity investment and the Senior Secured Loan Notes shall be used to fund the construction and development of the Chilalo Project.
Issue Price	The equity raising will be conducted at a price equal to the lower of: <ul style="list-style-type: none"> The lowest price at which shares are (or will be) issued under a market equity raising prior to the Castllake Funds' equity investment; A 10% discount to the 15-day VWAP of Graphex shares up to the satisfaction of the conditions precedent; and A\$0.28 per share.
Term of Senior Loan Notes	Three (3) years from first drawdown which is expected to be within the first 3-4 months of construction.
Interest Rate	15%. Interest shall be capitalised until the earlier of: <ul style="list-style-type: none"> 18 months from initial drawdown; and The date of commercial production.
Fees	Loan Note Holders to receive a structuring fee of 2% of the Loan Note Amount and an issuer discount of 7.5% of the Loan Note Amount. Graphex can elect to capitalise fees.
Equity Investment Warrants	At the earlier of 2 years from 29 October 2018 and the date of the closing of Castllake Funds' equity investment, 6,705,000 warrants will be granted to the Castllake Funds with a five (5) year expiry and exercise price equal to the lower of: <ul style="list-style-type: none"> A\$0.20; and

	<ul style="list-style-type: none"> the 30% discount to 5-day VWAP of Graphex shares up to the issue date of the warrants.
Senior Loan Note Warrants	<p>At the earlier of 2.5 years from 29 October 2018 and the date of the closing of the Senior Loan Notes, 6,705,000 warrants will be granted to the Castllake Funds with five (5) year expiry and exercise price equal to the lower of:</p> <ul style="list-style-type: none"> A\$0.20; and the 30% discount to the 5-day VWAP of Graphex shares up to the issue date of the warrants.
Security for Senior Loan Notes	Customary senior level security against all assets and accounts of Graphex and its subsidiaries.
Early Repayment of Senior Loan Notes	No early repayment within first 24 months without make whole provision (if early repayment of loan is made within the first 24 months, interest for the first 24 months is due). Early repayment after 24 months does not require make whole provision.
Relationship Agreement	<p>Graphex and the Castllake Funds to enter into an agreement that provides the Castllake Funds with the following rights whilst its shareholding exceeds 15%:</p> <ul style="list-style-type: none"> The right to appoint up to 2 directors to the Graphex Board; and Top Up Right entitling the Castllake Funds to subscribe for its <i>pro rata</i> share of certain issuances of equity securities subject to receipt of any necessary ASX waivers.
Conditions Precedent to Equity Investment	<ul style="list-style-type: none"> Any necessary shareholder approvals having been obtained, including under item 7 of section 611 of the Corporations Act; Completion of BFS; Graphex reaching satisfactory agreement with the Tanzanian Government regarding issues associated with legislation governing the mining industry; Execution of material contracts (offtake, mining, EPC); Completion of ongoing Castllake due diligence; Certain Castllake approvals; and Other customary conditions.
Conditions Precedent to Senior Loan Notes	<ul style="list-style-type: none"> Completion of the Equity Investment; Registration and perfection of security; Repayment of Interim Loan Notes; No outstanding project review events; and Other customary conditions.
Events of Default under Senior Loan Notes	Customary events of default.