



NATURAL GRAPHITE MARKET UPDATE AND OPERATIONAL RESPONSE

Syrah Resources Limited (**ASX: SYR**) ("Syrah" or "Company"), provides an update on the current natural flake graphite market and its planned near term operational response.

Key Features

- Sudden and material decrease in spot natural flake graphite prices in China driven primarily by depreciation of Chinese Yuan and Chinese inventory level concerns have impacted price negotiations and contract renewals, with potential for further weakening of prices into Q4 2019.
- In response to current market conditions, Syrah will:
 - Significantly reduce graphite production volumes in Q4 2019 to approximately 5kt per month;
 - Perform an immediate review of further structural cost reduction at the Balama Graphite Operation ("Balama") and across the Company; and
 - Conduct a strategic and operational review for 2020, with further details provided in Syrah's Q3 2019 Quarterly Activities Update to be released on 22 October 2019.
- Cash and available liquidity in conjunction with a cost reduction program provides Syrah the opportunity to adjust near term production.

Natural Flake Graphite Market and Prices

Spot natural flake graphite ("graphite") prices in China have suddenly and materially decreased across all flake sizes impacting existing contract price re-negotiations and contract renewal discussions.

China, the world's largest consumer and producer of natural graphite, transitioned to a net importer of graphite products in January 2019, ahead of Syrah's expectations. In the 6 months to June 2019, China imported 105kt⁽¹⁾ of graphite, of which 75% was from Syrah, primarily consumed in the battery supply chain. Despite this, recent developments have impacted the graphite market:

- Recent sharp depreciation of the Chinese Yuan and concern over further potential decline is placing downward pressure on US\$ denominated pricing negotiations with Chinese customers;
- Additional production from Madagascar and a seasonal increase in domestic Chinese production has added to market supply;
- Cuts in Chinese electric vehicle subsidies, which came into effect at the end of June, have impacted near term graphite demand growth for lithium-ion batteries in China; and
- International trade tensions and tariffs continue to weigh on consumer sentiment.



These factors imply that despite strong demand growth, graphite supply growth has outpaced demand in the current market, consistent with recent observations in other battery raw materials.

Despite near term challenges experienced by the raw material battery sector, lithium-ion battery demand remains positive with significant growth expected, exhibited by the continuing evolution of strategic partnerships and capacity plans in Europe and North America. Automotive OEMs continue to focus their production on electric vehicle models and the expected total battery mega factory capacity pipeline to 2023 is 1,234.8 GWh⁽²⁾.

(1) Source: Qizheng Information Technology Co., Ltd

(2) Source: Benchmark Mineral Intelligence August 2019

Syrah's Operational Response

Syrah's 2019 graphite production strategy and ramp up has been driven by increasing production in line with market demand, unit cost reduction through increased volume, and optimisation of carbon grade and product mix for relative pricing benefit. Given the current price indications, Syrah will maintain production focused on value over volume and disciplined cash conservation. Syrah's near term operational plan is as follows:

- Conduct an orderly reduction in production volume to the end of Q3 2019.
- Significantly reduce production in Q4 2019 to approximately 5kt per month to maintain operations allowing for:
 - Reduced volumes to focus on further increasing fixed carbon grade and product quality to develop value in use differentiation for Syrah; and
 - Manage Syrah supply to allow for pricing differentials based on quality, grade and consistency of Syrah's product.
- Perform an immediate review of further structural cost reduction at Balama and across the Company;
- Syrah will work closely with customers, suppliers, employees and other stakeholders in managing the impact of revised operational plans; and
- Conduct a strategic and operational review for 2020, with further details provided in Syrah's Q3 2019 Quarterly Activities Update to be released on 22 October 2019.

Q3 2019 Preliminary Update

Syrah continues to implement its production improvement initiatives achieving strong progress of process plant stability, product mix and improved fixed carbon grade distribution with stable recovery levels. The logistic supply chain is achieving rates ~ 240ktpa demonstrating capability and improvements to date.

- Q3 2019 production and sales volume (subject to final shipping schedules) of approximately 45kt.



- Q3 2019 weighted average price, unexpectedly reduced to approximately US\$400/t versus US\$457/t in Q2 2019, downgraded for Chinese customer-driven price adjustment for tonnage shipped in the latter part of Q3 in response to foreign exchange impact and market balance.
- Vidalia Battery Anode Material facility construction nearing completion and commissioning underway. Commitment retained to delivering purified spherical graphite for qualification to capture strategic value in ex-China production.

Cash and Liquidity

- Cash and available liquidity in conjunction with a cost reduction program provides Syrah the opportunity to adjust near term production.
- Cash forecast as at 30 September 2019 has been revised to ~US\$60 million (from ~US\$64 million) with additional available liquidity of A\$55.8 million (US\$38.2 million) from the completion of the Convertible Note (refer to ASX announcement 19 June 2019).

Non-Cash Impairment and Inventory Write Down

In preparation of Syrah's 2019 Interim Financial Report, the Company has conducted its regular review of the carrying value of assets. Based on revised near term pricing forecasts, Syrah estimates a non-cash post tax impairment of property, plant and equipment and mining assets of approximately US\$60-US\$70 million and an inventory write down of approximately US\$5 million.

Syrah will release its 2019 Interim Financial Report on 13 September 2019.

CEO Comment

Shaun Verner, Managing Director and CEO said, *"In response to the sudden and material decrease in spot graphite prices impacting price negotiations and contract renewals, we have taken immediate action to reduce our production volumes in Q4 2019 to levels sufficient to maintain operations and continue our production optimisation activities. During this period, we will focus on further increases to product grade and consistency to drive our product differentiation. Although a difficult decision, we believe that this action is in the best interests of shareholders to preserve long term value."*

He added, *"Balama hosts the world's most significant graphite ore body with a mine life of over 50 years. Our available liquidity and cost reduction initiatives allow for flexibility to manage our near term production volumes in line with demand growth, and to ensure that price premiums reflect Syrah's long term supply of high quality graphite."*



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About Syrah Resources

Syrah Resources Limited (ASX code: SYR) is an Australian-based industrial minerals and technology company. Syrah owns and developed the Balama Graphite Project (Balama) in Mozambique. Balama transitioned to operations with sales and shipments to a global customer base including the battery anode producers, from the start of 2018. Syrah produced over 100,000 tonnes of natural graphite in 2018 and is the largest and first major new natural graphite operation developed outside of China. Balama will be the leading global producer of high purity graphite. Balama production is targeted to supply traditional industrial graphite markets and emerging technology markets. Syrah is also progressing its downstream Battery Anode Material strategy with first production of spherical graphite achieved in December 2018 from its plant in Louisiana, USA. Syrah has successfully completed extensive product certification test work with several major battery producers for the use of Balama spherical graphite in the anode of lithium-ion batteries. For further information, visit www.syrahresources.com.au

Forward Looking Statement

This document contains certain forward-looking statements. The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Forward-looking statements in this document include statements regarding: the timetable and outcome of the offer and the use of the proceeds thereof; the capital and operating costs, timetable and operating metrics for the Balama Graphite Operation; the viability of future opportunities such as spherical graphite, future agreements; future market supply and demand; and future mineral prices. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this document are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Forward-looking statements, including projections, guidance on future earnings and estimates are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. This document contains such statements that are subject to risk factors associated with the mineral and Resources exploration, development and production industry. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results or trends to differ materially, including but not limited to the following risks: dependence on commodity prices, availability of funding, impact of inflation on costs, exploration risks, including the risks of obtaining necessary licences and diminishing quantities or grades of Reserves, risks associated with remoteness, environmental regulation risk, currency and exchange rate



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