



SYRAH OPERATIONAL REVIEW AND RESTRUCTURE

Syrah Resources Limited (**ASX: SYR**) ("Syrah" or "Company") announces that in response to a sudden and material drop in flake graphite prices during Q3 2019¹, a structural review of the Company has been completed. Syrah is implementing a series of significant measures to enable the continued build of a sustainable business in the lithium-ion battery supply chain, despite very challenging conditions. Syrah remains committed to the Balama asset in Mozambique and the Vidalia Battery Anode Material plant development, whilst continuing to operate in a safe and sustainable manner.

Syrah has released this information today to allow the management team at Balama to commence consultation with impacted employees over the weekend.

Key Features

- Significant reduction in production in Q4 2019 and into 2020 allowing the natural graphite market to rebalance, with focus on product quality differentiation and value-in-use.
- Currently planned 2020 production of 120kt – 150kt subject to market conditions. Close monitoring of graphite market, enabling nimble response to changing conditions including ability to resume production ramp up.
- ~US\$22 million (>20%) Balama annualised cost reduction at 15kt per month versus 2019 YTD cost base (average production 15kt per month) and ~US\$1.5 million corporate overhead annualised reduction.
- Total direct cost to implement ~ US\$1.5 million, majority implementation completed by end 2019.
- Benefits of cost savings to commence from January 2020.
- Continuation of Battery Anode Material (BAM) production and product development to capitalise on investment to and capability developed date, critical for continuity of customer engagement.
- Consultation with employees, Mozambique Government, local communities and other key stakeholders to ensure support and continuity.
- Further review of Balama cost base as operation stabilises at lower volumes into 2020.

Balama Graphite Operation Restructure

- Total Balama annualised savings ~US\$22 million versus average monthly production of 15kt 9MYTD 2019, including ~US\$7 million fixed cost reduction.
 - C1 operating cash cost¹ reduction >20% compared to 9M YTD 2019 average.
 - Immediate head count reduction of ~30% at Balama and associated staff costs.



- Contractor renegotiations.
- Mining and processing reconfigurations.
- Further review of cost base as operation stabilises at lower volumes into 2020.

Corporate Restructure

- Reduced Corporate overheads, delivers an annualised cost reduction ~US\$1.5 million (>20%), primarily due to Executive Management head count reduction.
- Given the longer than planned transition from project development to positive cashflow and profitability, a significant restructure of corporate executive roles has been undertaken.
- Ongoing Executive Committee will comprise of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Operating Officer (COO), with an executive transition role in place to coordinate the change.
- The accountabilities of the Chief Commercial Officer, Chief Legal Officer, and Chief People Officer will be allocated amongst the CEO, CFO, and COO and other senior management.
- Proposal to amend Non-Executive Directors compensation to conserve cash and align with shareholders' interests.

Outlook

Balama

- Capitalise on operational control and improvement program achievements to date.
- Focus on further increase in product quality differentiation to support pricing to achieve earliest possible positive cash flow.
- Immediate action to produce at minimum continual production levels in Q4 2019 at ~5kt per month².
- Near term targets adjusted for known performance to date and for lower level of production as process plant reconfigured.
- Currently planned 2020 production³ of 120kt to 150kt subject to market conditions.
 - Recovery ~75%.
 - Fixed carbon grade range 95% to 97% with ongoing trials for 98%.
- Continue to monitor and assess market rebalancing to inform production volumes in response to market demand.

**Sales and Marketing**

- Contracting strategy and price realisation to reflect market balance, further increase in product quality differentiation and cost at sustainable production volumes.
- Continued diversification of sales volume and customer base ex China.
- Increased technical marketing and analysis resourcing.

Battery Anode Material (BAM) Project

- Commitment to the Battery Anode Material Project (BAM) strengthens commercial timeline and strategic development of the business case, through product delivered to qualification.
- Optimisation of purified spherical graphite samples for potential customers, and ongoing battery supply chain engagement in Q4 2019.
- BAM 2020 Outlook
 - Expected qualification of purified spherical graphite.
 - Strategic focus on customer development and partnership opportunities.
 - Production of final anode active material and delivery to customer qualification.
 - Final optimised feasibility study for commercial scale facility
- Investment in BAM capex, product development, customer engagement and Vidalia operations from Q4 2019 to the end of 2020 total spend ~US\$13 million (of which ~US\$6 million incurred in Q4 2019).

Cash and Liquidity

- Cash forecast as at 31 December 2019 ~ US\$78 million (refer to separate Q3 2019 Activities Update and Appendix 5B released today).
- Cost reduction initiatives implementation mainly completed in Q4 2019 with majority benefits of savings to commence from January 2020.
- Balance sheet and cost reduction initiatives provides flexibility to manage production volumes in response to market conditions.

(1) Refer to ASX announcement "Natural Graphite Market Update and Operational Response" 10 September 2019.

(2) Cash operating cost Free on Board (FOB) Nacala, excluding government royalties and taxes.

(3) Refer to ASX announcement 29 March 2019 "Graphite Mineral Resources and Ore Reserves Update". All material assumptions underpinning the production target in this announcement continue to apply, other than as updated in subsequent ASX announcements.

**Managing Director and CEO Comments**

Shaun Verner, Managing Director and CEO said, *"In light of the deep structural change currently occurring in the graphite market, Syrah has taken clear and disciplined action to temporarily reduce production volumes to allow the market to rebalance. We remain committed to the Balama asset and our long term position in Mozambique. We will continue to operate Balama, the world's best natural graphite asset, in a safe, sustainable and responsible manner to continue to build the sustainability of this operation."*

He added, *"We have completed a structural review across the Company, allowing for safe and efficient operations with a reduced cost base. The majority of savings are expected to be realised from the beginning of 2020. Regrettably, this will result in a head count reduction at Balama and the Executive Team and we are commencing immediate consultation with employees and key stakeholders to ensure a smooth transition."*

"We have been operating for 21 months and have built a solid knowledge base of the Balama ore body, plant equipment performance and process control, with a strong operations management team embedding some significant improvements in recovery and product grade recently. We aim to continue to capitalise on our production improvement plan with the ability to quickly ramp up production in response to market conditions."

"It is still too early to gauge the pace of market reaction, however we will continue to actively monitor and review market conditions and manage our production volume accordingly. Our product quality differentiation and consistent volume capability will enable optimal price realisation that supports the relative value-in-use of our products. As operations stabilise at the lower volumes and a different ramp up profile, we will continue to review further cost reduction initiatives to continue to progress towards a cashflow positive position as quickly as possible, despite the challenges of operating at capacity utilisation levels far below design."

"We have invested much effort and capital into our downstream Battery Anode Material (BAM) project since 2015 and built a significant product development, proprietary technology and operations position. The completion of construction at our Vidalia plant in Louisiana, and qualification will facilitate continued progress of strategic and customer engagement momentum."

"Finally, on behalf of the Board, I would like to acknowledge the significant effort and contribution by all employees and stakeholders in the development of Balama and our BAM strategy, through a challenging time."

**Conference Call Details**

Syrah Resources Limited, Managing Director and Chief Executive Officer Shaun Verner will host a conference call discussing the Operational Review update at 10:00am AEDT on Monday 21 October 2019.

Registration Link: <http://apac.directeventreg.com/registration/event/1659555>

Conference ID: 1659555

For further information, contact Syrah Resources:

Contact: +61 3 9670 7264

Email: enquiries@syrahresources.com.au

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. To date, Syrah has produced over 240,000 tonnes of natural graphite 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

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