

ASX Announcement / Media Release

26 October 2023

China to implement export controls on graphite products

Highlights

- **Permanent China export controls on designated graphite products including natural graphite and spherical graphite used in the battery supply chain**
- **China is the most significant global participant in natural graphite and spherical graphite markets globally**
- **Any disruption to China export supply would impact global battery and industrial markets for graphite products**
- **Near-term China supply uncertainties benefit Syrah's development and commercial position.**

Syrah Resources Limited (ASX:SYR) ("Syrah" or "Company") notes the announcement on Friday, 20 October 2023 by the Ministry of Commerce ("MOFCOM")¹ and General Administration of Customs ("GACC") in China regarding export controls for designated "dual-use" graphite products used in commercial and defense applications citing safeguarding of natural security and interests. Following MOFCOM's and GACC's announcement, as the largest supplier of natural graphite products outside China, and the most advanced vertically integrated supplier of natural graphite active anode materials ("AAM"), Syrah commenced interactions with Chinese and ex-China customers in battery and industrial markets to investigate the immediate and longer term supply impacts of the graphite export controls, and the consequences for Syrah.

Overview of China graphite export controls

The Company understands that the export controls will apply to natural graphite and its products, including uncoated spherical graphite, coated spherical graphite and expandable graphite, from 1 December 2023. Existing temporary China export controls for high purity, high density and high strength synthetic graphite materials will be applied permanently.

Under the graphite export controls, Chinese exporters cannot export the designated graphite products outside China, irrespective of destination, without a license. Export licensing procedures require submission of an application and supporting documentation such as export contracts, technical product specifications, proof of end users and end use, and introduction to importers and end users. Exporting designated graphite materials without a license will result in the imposition of administrative penalties to the exporter in accordance with relevant laws and regulations, and may potentially result in criminal liability.

These controls introduce significantly higher uncertainty, administrative barriers and delays in export supply of the designated graphite materials from China and heighten the criticality of ex-China supply of graphite materials for the lithium-ion battery chain in particular. Near-term dislocation of existing graphite supply to higher priced alternatives may disrupt trade-flows and product segments. The introduction of a discretionary export licensing process also increases the control that the Chinese Government has over China graphite supply to ex-China customers going forward.

MOFCOM and GACC also announced that current export controls and licensing procedures on five types of less sensitive graphite materials used in steel, metallurgy and chemical end-markets will be lifted from 1 December 2023.

¹ <http://www.mofcom.gov.cn/article/zcfb/zcblgg/202310/20231003447368.shtml>.

China exports of natural graphite and its products

China is the largest natural graphite producer globally and is a significant natural graphite exporter. It also dominates global production and export of uncoated spherical graphite (or anode precursor), coated purified spherical graphite (or natural graphite AAM) and synthetic graphite AAM.

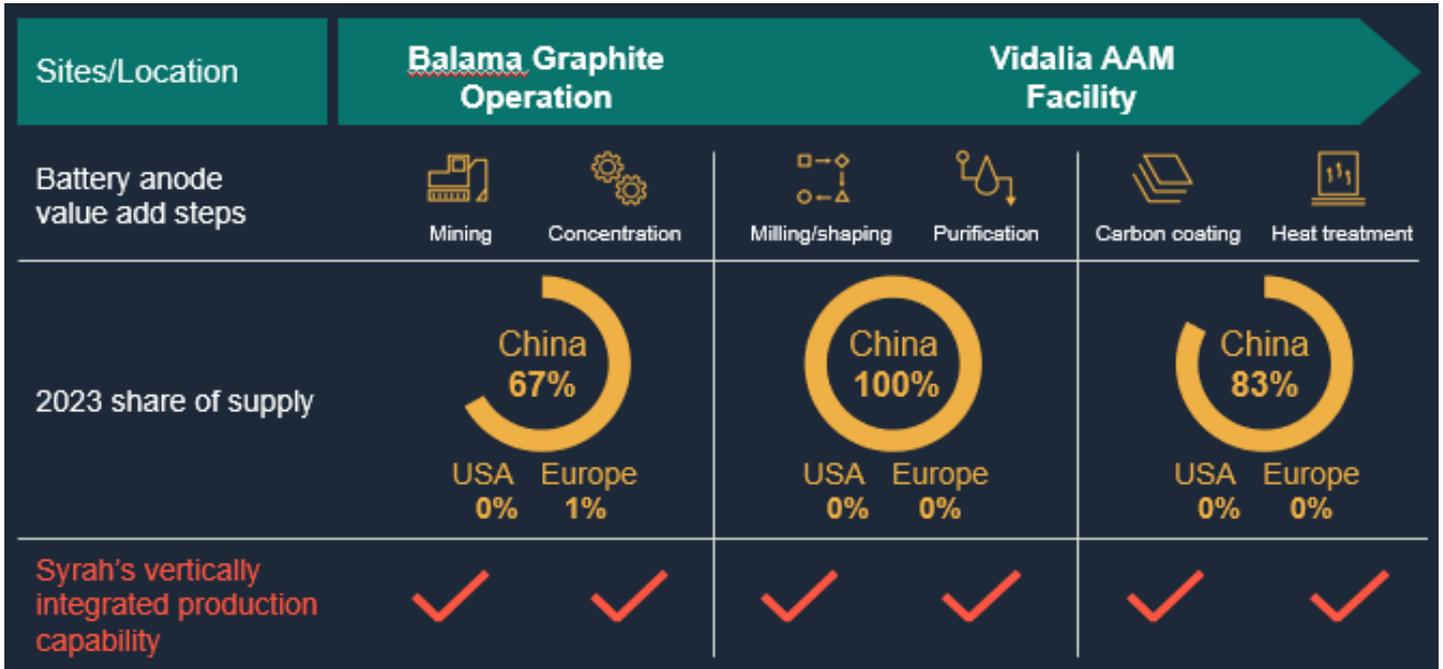


Figure 1: China natural graphite, natural graphite anode precursor and natural graphite AAM share of production².

China exports over:

- 100kt per annum natural graphite, principally to Japan, South Korea, USA, India and Europe;
- 60kt per annum spherical graphite, principally to Japan, South Korea and USA; and
- 80kt per annum AAM (principally to Japan, South Korea and USA)³.

Major purchasers of Chinese anode precursor and AAM used in batteries are based in Korea, Japan, USA and Europe. As China is the sole export supplier of spherical graphite, any interruption to or restriction of spherical graphite exports would immediately impact ex-China natural graphite AAM production, with no alternative source of supply available to South Korean and Japanese consumers. Further, given China's significant export of natural graphite products into the global industrial market (refractories, foundries, lubricants, expandable products, and recarburizer), any interruption to export volumes of natural graphite would be a significant supply impact for industrial customers.

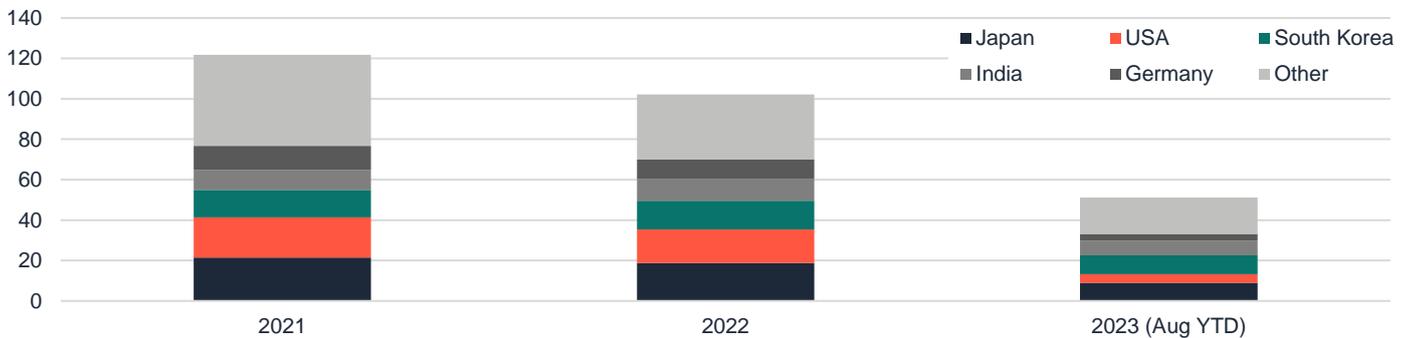


Figure 2: China natural graphite exports (kt)⁴.

² Source: Benchmark Mineral Intelligence.

³ Based on Chinese customs data for 2021, 2022 and 2023 (August year to date).

⁴ Source: Datamyne and Chinese customs data. Natural graphite exports include high purity and expandable graphite.

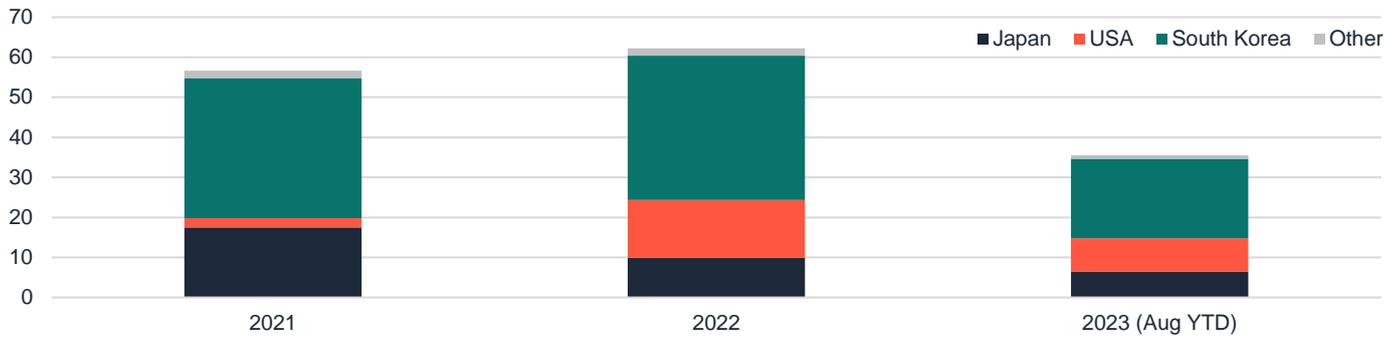


Figure 3: China spherical graphite exports (kt)⁴.

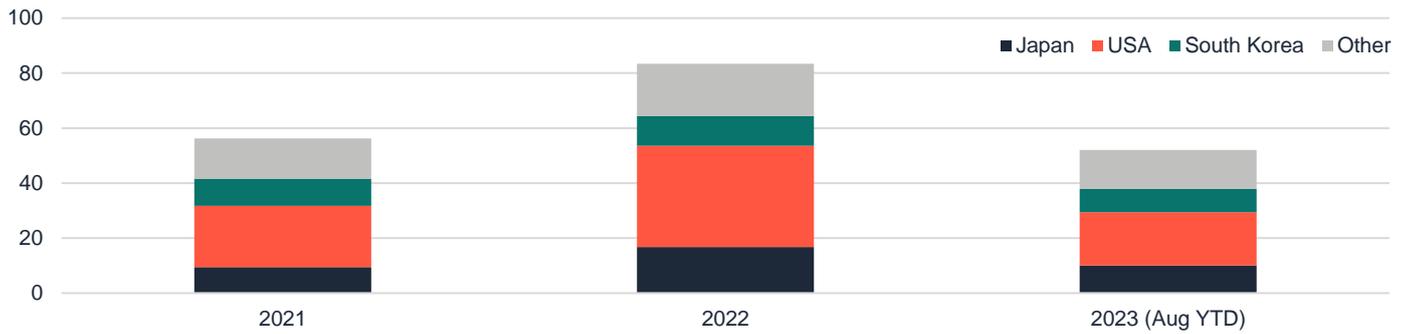


Figure 4: China natural graphite AAM exports (kt)⁴.

Given the lack of ex-China AAM production capacity developed to date, all lithium-ion battery manufacturers outside of China are highly reliant on Chinese graphite products and suppliers, either directly via China AAM supply or indirectly via China anode precursor supply finished in South Korea and Japan. Major Chinese anode companies such as BTR, Shanshan and Putailai are important suppliers to the global battery manufacturing supply chain, exporting AAM to battery companies with manufacturing facilities outside of China. Any disruption or reduction in China anode precursor or AAM export supply without replacement supply would impact battery production outside China.

Following the announcement of the China graphite export controls, the Korean Ministry of Trade announced its intention to establish connections with African countries, such as Mozambique, to address potential shortages in graphite supply and a US House Select Committee review this week also noted the need to quickly diversify battery supply sourcing.

Chinese domestic natural graphite production from the major producing mines exhibits significant seasonality (due to winter temperature, water availability), and production volume from the major producers has not materially changed over the past three years.

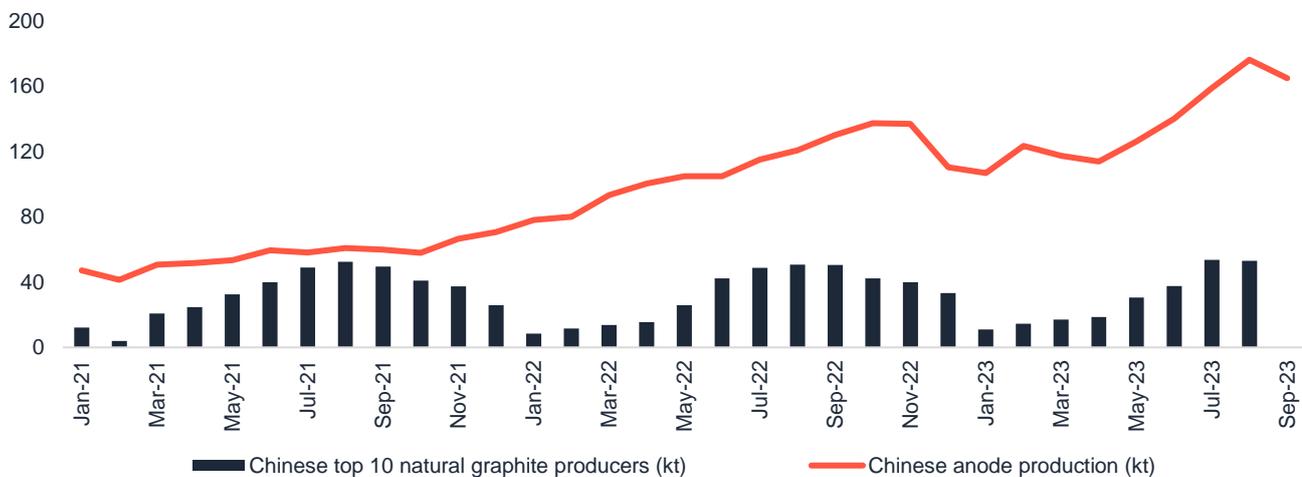


Figure 5: China natural graphite production versus China AAM production⁵.

⁵ Source: ICCSino. Includes all graphite production including graphite used in battery and industrial markets.

As natural graphite consumption in China grew in line with increased AAM demand, driven by EV penetration, through 2022 and into early 2023, China became a net importer of natural graphite, with imports for consumption in the battery supply chain, exceeding exports into industrial markets. At the same time, China's export of spherical graphite also grew into USA and South Korea, whilst declining into Japan. Through 2023, high domestic production volume of lower grade synthetic graphite AAM progressively decreased demand for natural graphite, until spherical graphite producers increased processing capacity utilisation in the September 2023 quarter on improved demand. Export controls of synthetic graphite AAM products for battery manufacturing may further impact the already margin-challenged synthetic graphite AAM market in China, as Syrah's recent discussions with anode producers exhibited a focus on export market growth to support profitability.

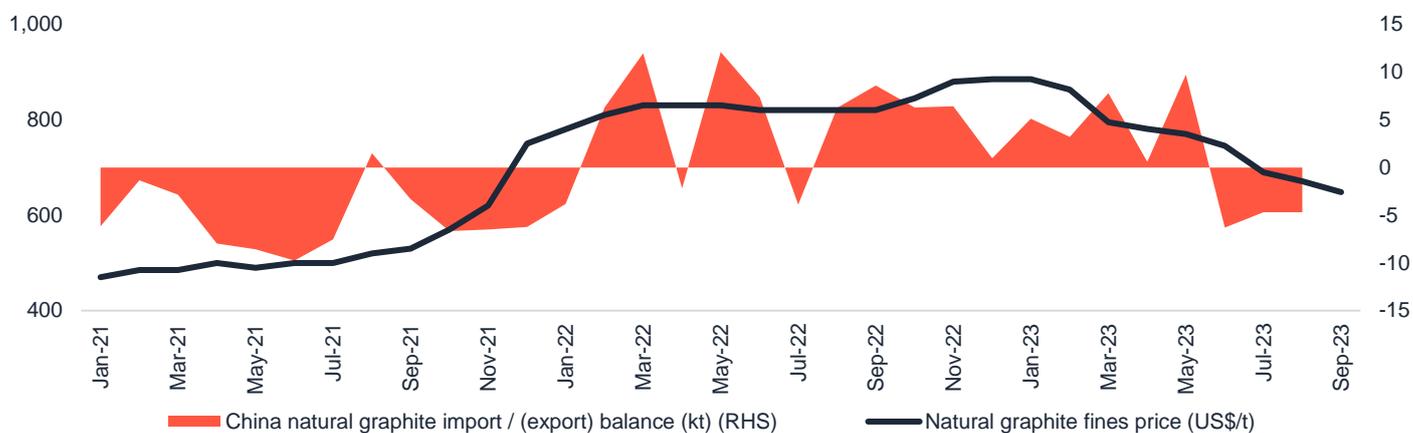


Figure 6: Natural graphite fines prices versus China natural graphite import / (export) balance⁶.

Market feedback and assessment of potential Implications

Syrah's direct assessment, informed by feedback from discussions with customers, traders, analysts, and other market participants indicates that, ahead of the export controls coming into effect on 1 December, there is likely to be increased inventory purchasing by ex-China natural graphite buyers to mitigate near-term disruptions to China export supply caused by the export controls, as well as the forthcoming winter period of lower Chinese natural graphite production. Chinese natural graphite producers are likely to export higher than usual volumes in the immediate period prior to the introduction of the graphite export controls, but this alone will not alleviate customer concern. Uncertainty regarding the impact of the controls on Chinese supply is expected to continue into 2024, as export permitting processes are progressively implemented and any restrictions become evident.

The China graphite export controls heighten the focus of existing and new ex-China merchant (non-integrated) spherical processors (and AAM producers) to secure reliable long-term supply of ex-China natural graphite feed, and are likely to accelerate Syrah's transition to a higher proportion of natural graphite sales volumes ex-China. The export controls are expected to result in favourable commercial outcomes in natural graphite sales with ex-China customers due to uncertainty around supply. In addition, the potential accelerated support in funding or commercial offtake for these facilities from government or customer sources, is likely to be partially dependent on natural graphite supply certainty, further strengthening Syrah's sales position from Balama.

The Company does not anticipate that there will be a meaningful impact on Balama natural graphite demand from China in the near-term considering sustained growth in domestic Chinese EV demand and AAM production, and reduced natural graphite availability through the winter period of lower Chinese natural graphite production. Over the longer term, China import demand for natural graphite will be supported by stagnating domestic production capacity, rising domestic production costs, and continued expansions of natural graphite AAM processing capacity requiring high quality natural graphite feed.

Battery manufacturers in USA, Europe and Asia (ex-China) are largely reliant on China AAM exports. Furthermore, major AAM producers in Korea and Japan presently source essentially all anode precursor from China. The USA currently has no domestic production of natural graphite and, prior to Syrah's Vidalia AAM facility being commissioned, no value-added

⁶ Source: Asia Metals (Price Reporting Agency) and ICCSino. China FOB prices for natural graphite fines (94% grade; -100mesh). Syrah's historical weighted average sales prices include sales under a mix of contract types and pricing mechanisms and are not necessarily representative of natural graphite spot prices nor consistent with the natural graphite price assessments of price reporting agencies. Furthermore, prices of China sales, within Syrah's historical weighted average sales prices, are exclusive of China VAT.

processing capacity for natural graphite AAM. Critically, there is no substitute for graphite in a lithium-ion battery that has been technically developed or commercialised, and it is expected that battery manufacturers will need to continue to consume graphite in high volumes in the production of lithium-ion cells over the long-term. Considering the current structure of the global anode supply chain and the uncertainties of China anode precursor and AAM supply as a result of graphite export controls, Syrah will benefit from even greater focus by customers to secure AAM supply from its AAM facility in Vidalia, USA over immediate and longer term horizons.

Although the impacts of implementation are not yet known, the announced graphite export controls in China are increasing Government and private sector attention on the strategic importance of Syrah as a unique ex-China natural graphite and AAM supplier in the battery supply chain.

This release was authorised on behalf of the Syrah Board by

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About Syrah

Syrah (ASX code: SYR) is an Australian Securities Exchange listed industrial minerals and technology company with its flagship Balama Graphite Operation in Mozambique and a downstream Active Anode Material Facility in the United States. Syrah's vision is to be the world's leading supplier of superior quality graphite and anode material products, working closely with customers and the supply chain to add value in battery and industrial markets.

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This document contains certain forward looking statements. The words "expect", "anticipate", "estimate", "intend", "believe", "guidance", "should", "could", "may", "will", "predict", "plan", "targets" and other similar expressions are intended to identify forward looking statements. 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.

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