



SYRAH RESOURCES

Syrah Resources Limited
ABN 77 125 242 284

INTERIM REPORT
for the half-year ended 30 June 2019

Directors' report	2
Auditor's independence declaration	6
Condensed consolidated statement of comprehensive income	7
Condensed consolidated balance sheet	8
Condensed consolidated statement of changes in equity	9
Condensed consolidated statement of cash flows	10
Notes to the condensed consolidated financial statements	11
Directors' declaration	33
Independent auditor's review report	34

DIRECTORS' REPORT

The directors present their report on the Syrah Resources Limited Group ("Syrah", "the Group" or "the consolidated entity"), consisting of Syrah Resources Limited ("the Company") and the entities it controlled at the end of, or during, the half-year ended 30 June 2019. This interim report is presented in United States Dollars (USD) unless otherwise stated.

Directors

The following persons were directors of the Company during the whole of the half-year period and up to the date of this report, unless otherwise stated:

James Askew	Non-Executive Chairman
Shaun Verner	Managing Director
Sam Riggall	Non-Executive Director
José Manuel Caldeira	Non-Executive Director
Lisa Bahash	Non-Executive Director
Sara Watts	Non-Executive Director (appointed 3 June 2019)
Christina Lampe-Onnerud	Non-Executive Director (ceased 25 March 2019)

Principal activities

The principal continuing activities of the consolidated entity consisted of:

- Mining and processing of natural graphite from the Balama Graphite Operation ("Balama") in Mozambique;
- Sales of natural flake graphite and ongoing development of logistics, sales and marketing arrangements with targeted customers;
- Progressing a downstream Battery Anode Material (BAM) strategy including production of spherical graphite from Balama feedstock for customer qualification purposes, ongoing product development and initial feasibility study of a commercial scale BAM facility; and
- Evaluation of mineral resources including potential production of Vanadium as a by-product from the graphite production processes at Balama, with Vanadium currently reporting to tailings.

REVIEW OF OPERATIONS

Statement of comprehensive income

The loss for the consolidated entity after income tax amounted to \$81.4 million during the interim financial period ended 30 June 2019 (interim period ending 30 June 2018: \$8.3 million loss).

Balama transitioned to operations on 1 January 2018 following the achievement of first production of coarse and fine flake graphite in late 2017 and declared commercial production effective on 1 January 2019. All revenues derived from the sale of graphite prior to the declaration of commercial production on 1 January 2019 were offset against costs incurred and capitalised against project development costs, while revenues derived since 1 January 2019 are recognised as revenue in the period in which they are earned, and costs of sales are also recognised separately.

During the interim financial period, Balama produced 92,000 tonnes (2018: 32,400 tonnes) of graphite, sold and shipped 101,000 tonnes (2018: 16,000 tonnes), with a further 7,000 tonnes (2018: 7,000 tonnes) of sales orders awaiting shipment at the Port of Nacala in Mozambique as at 30 June 2019.

Revenue reported for the interim financial period comprised sales of natural graphite products of \$46.9 million (2018: nil).

Cost of sales reported for the interim financial period was \$57.7 million (2018: nil), mainly comprised of mining and production costs of \$42.6 million (2018: nil), logistics costs of \$7.5 million (2018: nil), and depreciation and amortisation expense relating to Balama of \$6.4 million (2018: nil).

Total expenses for the interim financial period were \$15.7 million (2018: \$8.8 million) and included the following:

- Distribution costs of \$6.6 million (2018: nil), of which \$5.3 million (2018: nil) were shipping costs;
- Administrative expenses of \$4.3 million (2018: \$8.6 million), of which \$3.0 million (2018: \$5.9 million) related to employee benefits; and,
- Write-down of inventories due to valuation of inventories at the lower of cost or net realisable value of \$4.8 million (2018: nil).

The Group recorded a pre-tax impairment of the carrying value of assets relating to Balama of \$96.9 million (2018: nil), impacting Mining Assets and Property, Plant and Equipment as a result of short term pricing expectations and resulting production volume management, largely due to impacts relating to CNY devaluation and natural graphite market imbalance.

Net finance income of \$0.1 million (2018: net finance income of \$0.6 million) related to income from investment in term deposits of \$0.7 million (2018: \$0.6 million), offset by finance expense relating to the adoption of new accounting standard AASB 16 *Leases* of \$0.6 million (2018: nil).

The total comprehensive loss attributable to shareholders of Syrah Resources Limited for the interim financial period was \$81.6 million (2018: \$9.0 million) and included a non-cash loss of \$0.2 million (2018: \$0.7 million) on the translation of the holding company's financial statements from Australian dollars (AUD) to a United States dollars (USD) presentation currency due to the weakening of the AUD against the USD during the interim financial period.

Statement of financial position

Total assets of the consolidated entity as at 30 June 2019 were \$420.5 million (31 December 2018: \$473.8 million).

The consolidated entity's cash and cash equivalents as at 30 June 2019 were \$64.7 million (31 December 2018: \$77.1 million) and working capital, being current assets less current liabilities, was \$70.2 million (31 December 2018: \$71.8 million). The net reduction in cash and cash equivalents and working capital is a result of the continuing investment in production ramp-up of Balama and the ongoing development of the group's downstream Battery Anode Material (BAM) project, offset by proceeds received from the Institutional Entitlement Offer.

Trade and other receivables were slightly lower at \$12.3 million as at 30 June 2019 (31 December 2018: \$12.4 million) with an increase in trade receivables to \$8.3 million at 30 June 2019 (31 December 2018: \$6.8 million) reflecting the increase in sales volume offset by a reduction in prepayments to \$2.8 million (2018: \$4.3 million).

Inventories were \$14.8 million as at 30 June 2019 (2018: nil), following the declaration of commercial production.

Property, plant and equipment as at 30 June 2019 was \$133.8 million (31 December 2018: \$31.4 million), with the majority of the increase relating to the transfer of project development and construction costs of Balama, and the capitalisation of costs associated with progression of downstream Battery Anode Material (BAM) strategies, offset by the impairment recognised in relation to Balama.

Mining assets decreased during the interim financial period to \$120.9 million as at 30 June 2019 (31 December 2018: \$331.2 million) mainly due to the completion of project development and construction of Balama, which resulted in a transfer to property, plant and equipment and inventories, and the impairment recognised in relation to Balama.

Non-current trade and other receivables decreased during the interim financial period to \$20.2 million as at 30 June 2019 (31 December 2018: \$20.8 million) with the balance principally comprising input tax credits (Value Added Tax) credits paid in Mozambique. An amount of \$4.5 million relating to an earlier pre-construction claim was recovered during the interim period (amount recovered during 6 months to 31 December 2018: \$5.6 million). The Group believes the input tax credits carried on the balance sheet are recoverable and continues to engage with relevant authorities in Mozambique to progress the recovery process.

The consolidated entity had total liabilities of \$40.1 million as 30 June 2019 (31 December 2018: \$28.6 million), which included trade and other payables of \$18.4 million (31 December 2018: \$15.9 million); a provision for decommissioning and rehabilitation of Balama of \$8.5 million (31 December 2018: \$6.6 million); and a lease liability of \$12.6 million (31 December 2018: \$5.6 million).

Total equity of the consolidated entity as at 30 June 2019 was \$380.4 million (31 December 2018: \$445.2 million), with the decrease attributable to net comprehensive loss for the period of \$81.4 million, offset by a net increase of \$17.7 million in contributed equity primarily as a result of the completion of the institutional component of the entitlement offer.

Statement of cash flows

Cash flow from operating activities

Net cash outflow from operating activities during the interim financial period ended 30 June 2019 was \$10.2 million (2018: \$6.4 million) and principally consisted of receipts from the sale of natural graphite products, offset by payments relating to expenses from operating Balama, as well as corporate office, compliance and other employee benefits expenses.

Cash flow from investing activities

Net cash outflow from investing activities during the interim financial period ended 30 June 2019 was \$17.8 million (2018: \$48.2 million) and principally consisted of payments for progression of the downstream BAM project, and the payment of creditors from production ramp-up activities at Balama prior to the declaration of commercial production.

Cash flow from financing activities

Net cash inflow from financing activities during the interim financial period ended 30 June 2019 was \$15.6 million and principally consisted of net proceeds received from the institutional entitlement offer of \$17.1 million and the payment of finance lease liabilities.

Significant changes in state of affairs

There were no other significant changes in the nature of activities or state of affairs of the consolidated entity during the half-year period other than those included in the review of operations.

Matters subsequent to the end of the interim financial period

On 11 July 2019, Syrah Resources Limited announced the successful completion of its fully underwritten 1-for-5 pro rata accelerated non-renounceable entitlement offer, with the closure of the retail component of the Entitlement offer representing the final stage of the approximately A\$55.8 million (US\$39.2 million) Entitlement Offer. The institutional component of the Entitlement Offer closed on 20 June 2019.

On 22 July 2019, in accordance with the Mining Agreement between Syrah Resources Limited and the Government of the Republic of Mozambique, Syrah announced the execution of a Quotaholders' Agreement between Syrah and its subsidiaries and a Government of Mozambique entity relating to a 5% non-diluting free carried interest in Syrah's subsidiary Twigg Exploration and Mining Limitada.

On 1 August 2019, a resolution was passed at a General Meeting approving a capital raising of A\$55.8 million by the issue of a convertible note to AustralianSuper Pty Ltd as trustee for AustralianSuper (refer ASX announcement dated 1 August 2019).

On 6 September 2019, the securities of Syrah Resources Limited were placed in a trading halt pending an announcement to the market regarding natural graphite market conditions and the Group's operational response.

On 10 September 2019, the Company announced that in response to a sudden and material decrease in spot natural flake graphite prices in China, it will conduct an orderly reduction in production volume to the end of the third quarter 2019 and significantly reduce production in the fourth quarter of 2019. The Company also stated it will conduct a review of further immediate cost savings and an operational review for 2020.

No other event has occurred subsequent to 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the state of affairs in future financial periods.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the "rounding off" of amounts in the Directors' Report and the Condensed Consolidated Financial Statements. Amounts in the Directors' Report and the Condensed Consolidated Financial Statements have been rounded off in accordance with this Instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.



Shaun Verner
Managing Director

Melbourne, Australia
13 September 2019



Auditor's Independence Declaration

As lead auditor for the review of Syrah Resources Limited for the half-year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Syrah Resources Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'John O'Donoghue', is written over a light blue horizontal line.

John O'Donoghue
Partner
PricewaterhouseCoopers

Melbourne
13 September 2019

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE HALF-YEAR ENDED 30 JUNE 2019**

	NOTES	30 JUNE 2019 US\$'000	30 JUNE 2018 US\$'000
Revenue from continuing operations			
Revenue	3	46,854	-
Cost of sales	4	(57,673)	-
Gross profit / (loss)		(10,819)	-
Distribution costs	5	(6,602)	-
Administrative expenses	6	(4,303)	(8,631)
Other income / (expenses)		12	(172)
Write-down of inventories		(4,767)	-
Total expenses		(15,660)	(8,803)
Impairment of assets	9	(96,868)	-
Profit / (loss) before net finance income and income tax		(123,347)	(8,803)
Finance income		652	571
Finance expenses		(575)	-
Net finance income / (expense)		77	571
Profit / (loss) before income tax		(123,270)	(8,232)
Income tax benefit / (expense)	7	41,842	(105)
Loss after income tax for the half-year attributable to the owners of Syrah Resources Limited		(81,428)	(8,337)
Other comprehensive income			
<i>Items that may be reclassified subsequently to the profit or loss</i>			
Exchange differences on translation of foreign subsidiaries	10(b)	(153)	(690)
Other comprehensive (loss)/income for the period, net of tax		(153)	(690)
Total comprehensive (loss) / income for the period attributable to the owners of Syrah Resources Limited		(81,581)	(9,027)
Loss per share for loss attributable to the owners of Syrah Resources Limited			
		Cents	Cents
Basic loss per share		(23.63)	(2.80)
Diluted loss per share		(23.63)	(2.80)

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEET
 AS AT 30 JUNE 2019

	NOTES	30 JUNE 2019 US\$'000	31 DECEMBER 2018 US\$'000
Assets			
Current assets			
Cash and cash equivalents	8(a)	64,689	77,149
Trade and other receivables	8(b)	12,291	12,446
Inventories	9(a)	14,798	-
Available-for-sale financial assets		177	82
Total current assets		91,955	89,677
Non-current assets			
Trade and other receivables	8(b)	20,242	20,771
Property, plant and equipment	9(b)	133,752	31,442
Mining assets	9(c)	120,855	331,202
Right-of-use-assets	1(b)	11,192	-
Intangible assets		180	225
Deferred tax assets	9(d)	42,294	452
Total non-current assets		328,515	384,092
Total assets		420,470	473,769
Liabilities			
Current liabilities			
Trade and other payables	8(c)	18,426	15,926
Lease liabilities	8(d)	2,788	1,490
Provisions	9(e)	507	451
Total current liabilities		21,721	17,867
Non-current liabilities			
Lease liabilities	8(d)	9,822	4,102
Provisions	9(e)	8,518	6,590
Total non-current liabilities		18,340	10,692
Total liabilities		40,061	28,559
Net assets		380,409	445,210
Equity			
Issued capital	10(a)	542,766	525,085
Reserves	10(b)	(5,215)	(2,656)
Accumulated losses		(157,142)	(77,219)
Total equity		380,409	445,210

The above condensed consolidated balance sheet should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 FOR HALF-YEAR ENDED 30 JUNE 2019

	CONTRIBUTED EQUITY US\$'000	ACCUMULATED LOSSES US\$'000	RESERVES US\$'000	TOTAL EQUITY US\$'000
Balance at 1 January 2019	525,085	(77,219)	(2,656)	445,210
Change in accounting policy (Note 1(b))	-	(628)	-	(628)
Restated total equity at 1 January 2019	525,085	(77,847)	(2,656)	444,582
Loss after income tax expense for the period	-	(81,428)	-	(81,428)
Other comprehensive income for the period, net of tax	-	-	(153)	(153)
Total comprehensive income for the period	-	(81,428)	(153)	(81,581)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	16,850	-	-	16,850
Share-based payments	-	-	558	558
Transfers from share-based payment reserve				
- Issuance of shares	831	-	(831)	-
- Expired/ lapsed options	-	-	-	-
- Transfer of expired/lapsed options	-	2,133	(2,133)	-
	17,681	2,133	(2,406)	17,408
Balance at 30 June 2019	542,766	(157,142)	(5,215)	380,409
Balance at 1 January 2018	452,601	(50,674)	(9,290)	392,636
Loss after income tax expense for the period	-	(8,337)	-	(8,337)
Other comprehensive income for the period, net of tax	-	-	(690)	(690)
Total comprehensive income for the period	-	(8,337)	(690)	(9,027)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	-	2,483	2,483
Transfers from share-based payment reserve				
- Issuance of shares	1,255	-	(1,255)	-
- Expired/ lapsed options	-	1,492	(1,492)	-
	1,255	1,492	(264)	2,483
Balance at 30 June 2018	453,856	(57,519)	(10,244)	386,092

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE HALF-YEAR ENDED 30 JUNE 2019**

		30 JUNE 2019	30 JUNE 2018
	NOTES	US\$'000	US\$'000
Cash flows from operating activities			
Receipts from customers		38,521	-
Payments to suppliers and employees (inclusive of goods and services tax)		(49,518)	(7,097)
Interest received		784	652
Net cash inflow / (outflow) from operating activities		(10,213)	(6,445)
Cash flows from investing activities			
Payments for property, plant and equipment		(12,989)	(8,348)
Payments for mining assets		(4,786)	(39,828)
Payments for intangible assets		(1)	(8)
Net cash inflow / (outflow) from investing activities		(17,776)	(48,184)
Cash flows from financing activities			
Proceeds from issue of shares		17,634	-
Share issue transaction costs		(573)	-
Payment for interest		(575)	-
Payment of lease liabilities		(899)	(138)
Net cash inflow / (outflow) from financing activities		15,587	(138)
Net (decrease) / increase in cash and cash equivalents		(12,402)	(54,767)
Cash and cash equivalents at the beginning of the half-year		77,149	111,912
Effects of exchange rate changes on cash and cash equivalents		(58)	(447)
Cash and cash equivalents at the end of the half-year	8(a)	64,689	56,698

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These condensed consolidated financial statements are the consolidated financial statements of the consolidated entity consisting of Syrah Resources Limited and its subsidiaries. The condensed consolidated financial statements are presented in United States Dollars (USD).

Syrah Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at Level 28, 360 Collins Street, Melbourne, Victoria 3000. Its shares are listed on the Australian Securities Exchange (ASX: SYR).

NOTE 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Basis of preparation

The condensed consolidated interim financial report for the half-year reporting period ended 30 June 2019 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2018 and any public announcements made by Syrah during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(i) New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 *Leases*. The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the group's accounting policies and did not require retrospective adjustments.

(b) Changes in accounting policies

This note explains the impact of the adoption of AASB 16 *Leases* on the group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

The group has adopted AASB 16 *Leases* retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies (continued)

(i) Adjustments recognised on adoption of AASB 16 Leases

On adoption of AASB 16 Leases, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using an estimate of the group's incremental borrowing rate as of 1 January 2019. The weighted average Group's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6%.

For leases previously classified as finance leases the group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. There were no changes to the carrying amount of right of use asset and the liability at the date of initial application.

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The recognised right-of-use assets relate to the following type of assets:

	2019
	\$'000
Operating lease commitments disclosed as at 31 December 2018	29,447
(Less): short-term leases recognised on a straight-line basis as expense	(17)
(Less): low value leases recognised on a straight-line basis as expense	(4)
Discounted using the Group's incremental borrowing rate of 6%	(21,596)
Lease liabilities recognised on applying AASB 16 Leases	7,830
Add: finance lease liabilities recognised as at 31 December 2018	5,592
Lease liabilities recognised as at 1 January 2019	13,422

	30 JUNE 2019	1 JANUARY 2019
	\$'000	\$'000
Properties	6,336	7,202
Equipment	4,856	5,393
Total right-of-use assets	11,192	12,595

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

	1 JANUARY 2019
	\$'000
Increase / (decrease) in property, plant and equipment	(5,393)
Increase / (decrease) in right-of-use assets	12,595
(Increase) / decrease in lease liabilities	(7,830)
(Increase) / decrease in accumulated losses	(628)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies (continued)

(ii) Impact on segment disclosure and earnings per share

Adoption of AASB 16 impacted the Balama and Corporate segments (but not BAM) with segment loss, segment assets and segment liabilities for the interim period ended 30 June 2019 all increasing as a result of the change in accounting policy, as follows:

	ADJUSTED SEGMENT LOSS USD\$'000	SEGMENT ASSETS USD\$'000	SEGMENT LIABILITIES USD\$'000
Balama	(1,374)	10,861	(12,234)
Corporate	(81)	331	(376)
Total	(1,455)	11,192	(12,610)

Earnings per share decreased by 0.39c per share for the six months to 30 June 2019 as a result of the adoption of AASB 16 *Leases*.

(iii) The Group's leasing activities and how these are accounted for

The Group leases property, warehouses and equipment. Rental contracts are typically made for fixed periods of 2 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- The lease payments are discounted using Group's incremental borrowing rate, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies (continued)

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment.

(c) Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in the presentation in the current period.

(d) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim financial statements, are the same as those adopted in the most recent Annual Financial Report for the year ended 31 December 2018 unless otherwise stated in this report.

The Group assessed the progress of commissioning and production ramp-up activities to determine when the project moves into the commercial production stage. The major criteria to be considered in terms of declaring commercial production include, but may not be limited to, the following:

1. All major capital expenditures to allow the mine to operate at up to name-plate capacity have been completed.
2. The process plant, and other key areas of infrastructure have been transferred to the control of the Operations team from the Commissioning team.
3. The plant is capable of continuously operating at or near planned throughput levels.
4. Ore head grades and process plant recoveries are consistently at or near expected levels for a continuous period.
5. Production consistently achieves grades and quality specifications at expected levels for a continuous period and have satisfied commercial scale verification tests by key customers and end-users.
6. Operating costs are under control and within expectations.

In line with above, the commencement of commercial production was determined to be 1 January 2019. Upon commencement of commercial production stage, the capitalisation of certain mine construction and operation costs net of sales receipts ceased and costs have been either attributed to inventory or expensed in the period in which they are incurred, except for capitalised costs related to property, plant and equipment additions that provide a future economic benefit, and exploration and evaluation expenditure that meets the criteria for capitalisation. At this point depreciation and amortisation of previously capitalised costs also commenced.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 2. SEGMENT INFORMATION

(a) Description of segments

Management has determined and presented operating segments based on the reports reviewed by the Executive Management Team, who are the Group's chief operating decision makers in terms of assessing performance and allocating resources. The Board of Directors reviews the performance of the Group on a similar basis.

The Group primarily monitors performance according to the following segments:

Balama	Production, distribution and sale of natural flake graphite from the Balama Graphite Operation in Mozambique.
BAM	Ongoing assessment and development of downstream Battery Anode Material (BAM) opportunities for natural flake graphite including the development of a processing facility in the USA.
Corporate	Corporate administration and investing activities, which currently includes assessment and development of downstream opportunities for graphite, including the BAM project.

(b) Segment information provided to the Executive Management Team

	BALAMA US\$'000	BAM US\$'000	CORPORATE US\$'000	CONSOLIDATED US\$'000
Half-year ended 30 June 2019				
Total segment revenue	46,902	-	-	46,902
Inter-segment revenue	(48)	-	-	(48)
Revenue from external customers	46,854	-	-	46,854
Total segment result before income tax expense	(119,626)	29	(3,673)	(123,270)
Half-year ended 30 June 2018				
Total segment revenue	-	-	-	-
Inter-segment revenue	-	-	-	-
Revenue from external customers	-	-	-	-
Total segment result before income tax expense	(2,167)	99	(6,164)	(8,232)
Total segment assets				
30 June 2019	310,956	43,947	65,567	420,470
31 December 2018	369,452	30,334	73,983	473,769
Total segment liabilities				
30 June 2019	(33,437)	(4,424)	(2,200)	(40,061)
31 December 2018	(24,430)	(2,851)	(1,278)	(28,559)

Sales between segments are carried out at arm's length and are eliminated on consolidation. Segment assets are allocated based on the operations of the segment and the physical location of the asset.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 3. REVENUE

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
Sales of natural graphite products	46,854	-
	<u>46,854</u>	<u>-</u>

For the half-year period ended 30 June 2018, Balama was in the production ramp-up phase and had not achieved commercial production. All revenues derived from the sale of graphite prior to the declaration of commercial production were offset against costs incurred and capitalised to mining assets.

The Company announced the declaration of commercial production at Balama effective from 1 January 2019 and consequently all revenues from the sale of graphite products are recognised as revenue in the period in which they are earned.

(a) Geographical information

Segment revenues from sales to external customers based on the geographical location of the port of discharge

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
China	37,192	-
Asia (excl. China)	4,586	-
Europe	4,632	-
Americas	444	-
	<u>46,854</u>	<u>-</u>

(b) Major customer information

Revenues from four major customers in China, which individually accounted for approximately 10% or greater of total segment revenues, amounted to \$26.6 million arising from the sale of natural graphite products on a CIF basis.

NOTE 4. COST OF SALES

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
Mining and production costs	42,625	-
Logistics costs	7,503	-
Government royalties	786	-
Depreciation and amortisation expense	6,360	-
Changes in inventories	399	-
	<u>57,673</u>	<u>-</u>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 5. DISTRIBUTION COSTS

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
Shipping costs	5,258	-
Depreciation and amortisation	45	-
Other selling costs	1,299	-
	6,602	-

NOTE 6. ADMINISTRATIVE EXPENSES

The loss before income tax from continuing operations includes the following specific expenses:

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
<i>Employee benefits expense</i>		
Salaries and wages	2,144	2,909
Share-based payments	558	2,589
Employee entitlements	152	217
Defined contribution superannuation expense	115	161
Total employee benefits expenses	2,969	5,876
<i>Legal and consulting expenses</i>		
Legal expenses	69	200
Consulting expenses	546	704
Total legal and consulting expenses	615	904
Other administrative expenses	719	1,851
Total administrative expenses	4,303	8,631

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 7. INCOME TAX EXPENSE

(a) Income tax expense

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
Current tax expense	-	-
Deferred tax expense	(41,842)	105
Total tax expense / (benefit)	(41,842)	105
Deferred income tax		
(Increase) / decrease in deferred tax assets	(20,526)	-
Increase / (decrease) in deferred tax liabilities	(21,316)	-
Total deferred tax expense / (benefit)	(41,842)	105

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	30 JUNE 2019	30 JUNE 2018
	US\$'000	US\$'000
Loss before income tax expense from continuing operations	(123,270)	(8,232)
Tax at the Australian tax rate of 30%	(36,981)	(2,470)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
- Share-based payments	177	777
- Other non-deductible expenses	(951)	100
- Differences in overseas tax rate	(2,650)	(291)
- Movement in unrecognised temporary differences	(188)	(502)
- (Over)/under provision in the prior period	(801)	-
- Current period taxation losses not recognised as deferred tax assets	(44)	2,491
- Sundry items	(404)	-
Income tax expense/(benefit)	(41,842)	105

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Cash and cash equivalents

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Cash at bank and in hand	26,905	8,133
Deposits at call	37,784	69,016
Total cash and cash equivalents	64,689	77,149

Total cash and cash equivalents are held in trading accounts or term deposits with major financial institutions under normal terms and conditions appropriate to the operation of the accounts. These deposits earn interest at rates set by these institutions. As at 30 June 2019 the weighted average interest rate on current accounts and term deposits was 1.45% (31 December 2018: 2.05%).

(b) Trade and other receivables

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Current		
Trade receivables	8,333	6,799
Prepayments	2,819	4,274
Other receivables	1,104	1,365
Input tax credits	35	8
Total current trade and other receivables	12,291	12,446
Non-current		
Input tax credits	16,206	16,768
Security deposits ⁽¹⁾	4,036	4,003
Total non-current trade and other receivables	20,242	20,771

⁽¹⁾ Security deposits comprises of restricted deposits that are used for monetary backing for performance guarantees.

(c) Trade and other payables

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Current		
Trade payables and accruals	16,907	14,880
Other payables	1,519	1,046
	18,426	15,926

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(d) Lease liabilities

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Current		
Lease liabilities (Note 1(b))	2,788	1,490
	2,788	1,490
Non-current		
Lease liabilities (Note 1(b))	9,822	4,102
	9,822	4,102

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES

(a) Inventories

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Stores and materials	9,646	-
Finished goods	5,152	-
	14,798	-

Inventory write-down

Write-down of inventories to net realisable value totalled \$4.8 million in the interim period (30 June 2018: nil) and were recognised as an expense in the income statement.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(b) Property, Plant and Equipment

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	COMPUTER EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2019					
Cost	797	7,753	214	25,082	33,846
Accumulated depreciation and impairment	(158)	(2,091)	(155)	-	(2,404)
Net book amount	639	5,662	59	25,082	31,442
- Change in accounting policy	-	(5,393)	-	-	(5,393)
Restated net book amount	639	269	59	25,082	26,049
For the half year ended 30 June 2019					
Balance at beginning of period	639	269	59	25,082	26,049
Additions	-	7	9	14,545	14,561
Transfers	13,599	115,963	680	6,949	137,191
Depreciation charge	(245)	(3,044)	(76)	-	(3,365)
Impairment losses	(4,474)	(36,170)	-	-	(40,644)
Exchange differences	(1)	(2)	-	(37)	(40)
Balance at end of period	9,518	77,023	672	46,539	133,752
At 30 June 2019					
Cost	14,396	117,599	901	46,539	179,435
Accumulated depreciation and impairment	(4,878)	(40,576)	(229)	-	(45,683)
Net book amount	9,518	77,023	672	46,539	133,752

Assets under construction

Assets Under Construction at 30 June 2019 consists of capitalised project development costs for the downstream Battery Anode Material (BAM) project and Balama capital projects.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(b) Property, Plant and Equipment (Continued)

Depreciation charge

Of the total depreciation charge for the interim financial period ended 30 June 2019, \$3.4 million was charged to profit or loss (30 June 2018: \$0.1 million), and nil was capitalised to mine properties and development (30 June 2018: \$0.1 million).

SIGNIFICANT ESTIMATES AND JUDGEMENTS

Impairment of non-financial assets

Impairment Testing

Impairment tests are performed when there is an indication of impairment. The Group conducts a review of the key drivers of the recoverable amount of cash generating units ('CGUs') annually, which is used as a source of information to determine whether there is an indication of impairment. Other factors, such as changes in assumptions in future commodity prices, exchange rates, production rates and input costs, are also monitored to assess for indications of impairment. Where an indicator of impairment exists, a detailed estimate of the recoverable amount is determined. An impairment loss is recognised for a CGU when the recoverable amount is less than the carrying amount.

CGUs represent a grouping of assets at the lowest level for which there are separately identifiable cash flows that are largely independent of the cash inflows from other assets or groups of assets. The Group has identified the Balama Graphite Operation and Battery Anode Material (BAM) Project as Cash Generating Units (CGUs) for which impairment testing is undertaken.

After consideration, the Group identified the following potential indicators which could impact the recoverable amount of the CGUs at 30 June 2019:

- As at 30 June 2019, the market capitalisation of the Company in comparison to the book value of its net assets was considered an indicator for a potential impairment of asset
- At Balama CGU, realised flake graphite prices year-to-date 2019, and the potential impact of prices on production volumes from Balama represented indicators of potential impairment

Balama Graphite Operation CGU

(i) Methodology

The recoverable amount of the Balama CGU was determined by assessing the fair value less costs of disposal (FVLCOD) of the underlying assets. FVLCOD is estimated based on the net present value of estimated future cash flows (the valuation is classified as level 3 in the fair value hierarchy due to unobservable inputs in the valuation).

The Fair Value estimates are considered to be level 3 fair value measurements (as defined by accounting standard AASB 13) as they are derived from valuation techniques that include inputs that are not based on observable market data.

Future cash flows and recoverable amount are based on a number of assumptions, including commodity price expectations, foreign exchange rates, discount rates, reserves and resources and expectations regarding future operating performance and capital requirements which are subject to risk and uncertainty. An adverse change in one or more of the assumptions used to estimate fair value could result in a reduction of the CGU's fair value. The costs of disposal have been estimated by management based on standard industry practice.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(b) Property, Plant and Equipment (Continued)

ii) Key Assumptions

The net present value of estimated future cash flows for the Balama CGU as at 30 June 2019 is based on significant assumptions including:

- Commodity prices – future weighted average product prices are estimated with reference to the Group's assessment of short and long-term prices for each key flake and fines graphite product and based on an estimate of the flake to fines size distribution ratio that improves to a long-term assumption over a period of 7 years. The short-term prices take account of existing sales contracts and in-progress price negotiation processes. Progressive increases to the Group's assessment of long-term price over a period of 7 years are in line with industry supply and demand forecasts for the lithium-ion battery industry. The long-term prices for each graphite product and vanadium are derived from a combination of management analyses of the estimated marginal costs of current producers and of the incentive price for future potential producers which management estimates to be consistent with the assumptions that a market participant would be expected to use on a FVLCOD basis based on available published analyst information. Long-term prices are reviewed regularly and updated at least annually or when additional information is available.
- Foreign exchange rates – future exchange rates for the Mozambique Metical (MZN) compared to the US dollar are set based on external forecasts and are kept constant in real terms after five years.
- Operating performance (production, operating costs and capital costs) – life of mine production and capital costs are based on the Group's most recent life of mine plan with consideration of near-term supply and demand market conditions in relation to the progressive ramp-up to name-plate production. Operating cost estimates are based on the existing fixed and variable cost base with consideration of in-progress reductions to the cost base.
- Discount rate - estimated future cash flows have been discounted to their present value using a capital asset pricing model to estimate a post-tax real discount rate that reflects a current market assessment of the time value of money and risks specific to the CGU. Discount rate of 12.3% (real post-tax) has been applied to 30 June 2019 and 31 December 2018 impairment testing.
- Reserves and Resources – life of mine production is based on Ore Reserves and a portion of the Mineral Resources (totalling approximately 1% of the total mineral resources excluding ore reserves) as compiled by a Competent Person in accordance with the Australian code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 code). The extraction, processing and sale of Mineral Resources that do not qualify for inclusion as Ore Reserves is only included when there is a high degree of confidence that they are economically recoverable. The additional evaluation required to achieve Ore Reserves status for Mineral Resources has not yet been performed as this would involve incurring evaluation costs earlier than is required for efficient planning and operation of the mine. There are numerous uncertainties inherent in estimating Ore Reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of Ore Reserves and may, ultimately, result in the Reserves being restated. Such changes in Reserves could impact on depreciation and amortisation rates, asset carrying values and provisions for decommissioning and restoration.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(b) Property, Plant and Equipment (Continued)

- Useful life of assets - The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of change in ore reserves and resources and technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets are abandoned or sold and written off or written down.

(iii) Impact

The carrying value of Balama Graphite Operation CGU before impairment charges was US\$343.4 million at 30 June 2019. After determining the fair value of Balama Graphite Operation using the Discounted Cash Flow (DCF) analysis, Syrah has determined that the recoverable amount of Balama Graphite Operation was less than the carrying value and a post-tax impairment of US\$65.9 million has been recognised at 30 June 2019.

Impairment (loss)

CGU	PRE-TAX US\$m	TAX US\$m	POST-TAX US\$m
Balama Graphite Operation	(97)	31	(66)

(iv) Future changes in assumptions

It is estimated that reasonably possible changes in the following key assumptions within the next financial year would have the following approximate negative impact on the recoverable amount of the Balama Graphite Operation CGU as at 30 June 2019:

US\$10 per tonne decrease in the graphite price (CIF Port of Nacala)	\$16 million
1 MZN increase in the USD:MZN exchange rate	\$3 million
5% increase in estimated operating costs	\$34 million
10% increase in the discount rate (from 12.30% to 13.53%)	\$41 million

Reasonably possible changes in circumstances may affect key assumptions and therefore the fair value. Action is usually taken to respond to adverse changes in assumptions to mitigate the impact of any such change. If the carrying amount is assessed to be impaired as a result of any such changes, the impairment charge is recognised in the profit or loss in the period in which the changes arise.

Battery Anode Material (BAM) CGU

The Group's Battery Anode Material (BAM) strategy is evolving as the lithium-ion battery market and associated supply chains develop and is premised upon maintaining strategic optionality to accelerate the Group's entry into the final BAM product market by:

- Rapid development of a qualification plant and production of BAM products (5kt per annum milling capacity, batch scale purification capability) from a purpose-built facility in Vidalia, Louisiana, USA to capture first mover advantage and establish a core ex-Asia supply chain position for BAM products
- Progression of strategic relationship discussions; and
- Finalisation of studies for a commercial scale BAM development

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(b) Property, Plant and Equipment (Continued)

The accumulated investment of the Group's BAM investment is presented as an Asset Under Construction and is recorded at a net asset value of US\$39.5 million as at 30 June 2019. There are no indicators of any adverse changes to the key assumptions underlying the strategic investment decision which indicate that the accumulated investment in BAM will not be recovered. Key assumptions underlying the strategic investment decision include capital and operating cost associated with the continued investment in BAM and final product selling prices.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of change in Ore Reserves and Mineral Resources and technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets are abandoned or sold and written off or written down.

Determination of Mineral Resources and Ore Reserves

Mineral Resources and Ore Reserves are based on information compiled by a Competent Person as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 code). There are numerous uncertainties inherent in estimating Ore Reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of Ore Reserves and may, ultimately, result in the Reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values and provisions for decommissioning and restoration.

Impairment of exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to develop and exploit an area of interest or, if not, whether it recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include; the level of reserves and resources, future technological changes which could impact the cost of mining, future legal changes and changes to commodity prices and foreign exchange rates.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(c) Mining assets

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Exploration and evaluation	1,306	1,306
Mine properties and development	119,549	33,297
Mines under construction	-	296,599
Total mining assets	120,855	331,202

Movements in mining assets during the interim period are set out below:

	EXPLORATION AND EVALUATION US\$'000	MINE PROPERTIES AND DEVELOPMENT US\$'000	MINES UNDER CONSTRUCTION US\$'000	TOTAL US\$'000
6 months to 30 June 2019				
Balance at beginning of period	1,306	33,297	296,599	331,202
Current period expenditure capitalised	-	636	-	636
Change in rehabilitation estimate	-	1,870	-	1,870
Transfers	-	141,747	(296,599)	(154,852)
Amortisation expenses	-	(1,775)	-	(1,775)
Impairment losses	-	(56,224)	-	(56,224)
Exchange differences	-	(2)	-	(2)
Balance at end of period	1,306	119,549	-	120,855

Exploration and evaluation

The balance of exploration and evaluation relates to the Vanadium project at Balama and continues to be carried forward in accordance with the exploration and evaluation accounting policy. The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at an amount at least equal to book value.

Mine properties and development and Mines under construction

Mine properties and development and Mines under construction mainly relate to the development of the Balama Graphite Project in Mozambique.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(d) Deferred tax balances

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
<i>The balance comprises temporary differences attributable to:</i>		
<i>Deferred tax assets</i>		
Financial liabilities	826	333
Taxation losses	10,471	21,435
Mining assets	30,997	-
Total deferred tax assets	42,294	21,768
<i>Deferred tax liabilities:</i>		
Mining assets	-	(21,316)
Financial liabilities	-	-
Total deferred tax liabilities	-	(21,316)
Net deferred tax assets / (liabilities)	42,294	452

Movements in deferred tax balances

	BALANCE AT 1 JANUARY 2019	(CHARGED) / CREDITED TO PROFIT OR LOSS	BALANCE AT 30 JUNE 2019
<i>Deferred tax assets</i>			
Financial liabilities	333	493	826
Taxation losses	21,435	(10,964)	10,471
Mining assets	-	30,997	30,997
	21,768	20,526	42,294
<i>Deferred tax liabilities</i>			
Mining assets	(21,316)	21,316	-
	(21,316)	21,316	-
Net deferred tax assets / (liabilities)	452	41,842	42,294

	BALANCE AT 1 JANUARY 2018	(CHARGED) / CREDITED TO PROFIT OR LOSS	BALANCE AT 31 DECEMBER 2018
<i>Deferred tax assets</i>			
Financial liabilities	-	333	333
Taxation losses	-	21,435	21,435
	-	21,768	21,768
<i>Deferred tax liabilities</i>			
Mining assets	-	(21,316)	(21,316)
Financial liabilities	(1,415)	1,415	-
	(1,415)	(19,901)	(21,316)
Net deferred tax assets / (liabilities)	(1,415)	1,867	452

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 9. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

(d) Deferred tax balances (continued)

The Group's accounting policy for taxation requires management judgment in relation to the application of income tax legislation. There are many transactions and calculations undertaken during the ordinary course of business where the ultimate tax determination is uncertain. The Group recognises liabilities for tax, and if applicable taxation investigation or audit issues, based on whether tax will be due and payable. Where the taxation outcome of such matters is different from the amount initially recorded, such difference will impact the current and deferred tax positions in the period in which the assessment is made.

Judgement is required in assessing whether deferred tax assets and liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent upon the generation of future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised. In addition, the utilisation of taxation losses also depends on the ability of the tax consolidated entities to satisfy certain tests at the time the losses are recouped.

The deferred tax assets include an amount of \$10.5 million which relates to carried forward tax losses of Twigg Exploration and Mining Limitada (Twigg). The subsidiary has incurred the tax losses during the ramp-up of production of Balama with the majority incurred during the half year ended 30 June 2019. The Group has concluded that the deferred tax assets will be recoverable based on estimated future cash flows and related forecast tax payments for Twigg using the significant assumptions described in Note 9 (b) – Impairment of non-current assets. Taxation losses in Mozambique are able to be deducted from future taxable profits during one or more of the five subsequent years.

(e) Provisions

	30 JUNE 2019 US\$'000	31 DECEMBER 2018 US\$'000
Current		
Employee benefits	507	451
	507	451
Non-current		
Employee benefits	50	29
Decommissioning and restoration	8,468	6,561
	8,518	6,590

Movements in Decommissioning and restoration provision

	6 MONTHS TO 30 JUNE 2019 US\$'000
Balance at beginning of period	6,561
Additional provisions:	
- Change in estimate	1,870
- Unwind of discount	37
Balance at end of period	8,468

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 10. EQUITY

(a) Issued Capital

	30 JUNE 2019	31 DECEMBER 2018	30 JUNE 2019	31 DECEMBER 2018
	SHARES	SHARES	US\$'000	US\$'000
Issued and fully paid ordinary shares	375,521,777	343,603,692	542,766	525,085
	<u>375,521,777</u>	<u>343,603,692</u>	<u>542,766</u>	<u>525,085</u>

Movements in ordinary share capital during the interim period are set out below:

	NUMBER OF SHARES	WEIGHTED AVERAGE ISSUED PRICE (A\$)	US\$'000
6 months to 30 June 2019			
Balance at beginning of period	343,603,692		525,085
Issue of new shares:			
- Institutional placement	31,042,087	A\$0.81	17,634
- Equity-settled remuneration	875,998	-(1)	-
Transfers from share-based payment reserve ⁽²⁾	-		831
Capital raising costs	-		(784)
Balance at end of period	<u>375,521,777</u>		<u>542,766</u>

(1) The cost associated with issuance of these shares is included in the transfers share-based payments reserve line item.

(2) Represents transfers from the share-based payment reserves on issuance of shares under the Group Short Term Incentive (STI) and Long Term Incentive (LTI) plans.

Non-controlling interests

A future non-controlling non-diluting interest in Twigg Exploration and Mining Limitada to be made available to a Mozambique Government entity is further explained in the Annual Report for the year ended 31 December 2018. As of 30 June 2019, no shares have been issued to the Mozambique Government entity pending finalisation of conditions precedent.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (CONTINUED)**

NOTE 10. EQUITY (CONTINUED)

(b) Reserves

	30 JUNE 2019 US\$'000	31 DECEMBER 2018 US\$'000
Foreign currency translation reserve	(16,792)	(16,639)
Share-based payments reserve	11,577	13,983
	(5,215)	(2,656)

(i) Movements in reserves

Movements in each class of reserve are set out below:

	FOREIGN CURRENCY RESERVE US\$'000	SHARE-BASED PAYMENT RESERVE US\$'000	TOTAL US\$'000
6 months to 30 June 2019			
Balance at beginning of period	(16,639)	13,983	(2,656)
Foreign currency translation	(153)	-	(153)
Share-based payments	-	558	558
Issuance of shares	-	(831)	(831)
Transfer of expired/ lapsed options	-	(2,133)	(2,133)
Balance at end of period	(16,792)	11,577	(5,215)

(ii) Nature and purpose of reserves

Foreign currency reserve

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the profit and loss when the net investment is disposed of.

The Group assesses the functional currency of each entity in the consolidated group when there are changes in circumstances that could result in a change in the currency that predominantly influences the economic results of each respective entity. With effect from 1 January 2017, the functional currency of Twigg Exploration and Mining Limitada was changed from Mozambique Meticals (MZN) to the United States Dollar (USD) on the basis that the USD is the currency that predominately influences the revenues, expenditures and financing activities of this entity going forward.

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of equity benefits and equity-settled contractual obligations issued by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

(a) Capital expenditure commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	30 JUNE 2019	31 DECEMBER 2018
	US\$'000	US\$'000
Property, plant and equipment	3,577	3,010
Total capital commitments	<u>3,577</u>	<u>3,010</u>

The above capital expenditure commitments are in relation to the continued development of the Balama Graphite Operation in Mozambique (including a Tailings Storage Facility) and the development of the downstream Battery Anode Material (BAM) project.

(b) Contingencies

The Group did not have any contingent assets or liabilities at the end of the current and previous financial periods.

(c) Guarantees

Bank guarantees have been provided by Twigg Exploration and Mining Limitada, which unconditionally and irrevocably guarantee in favor of the Ministry of Mineral Resources and Energy (MIREME) in Mozambique, the due and punctual payment of amounts up to a maximum amount of MZN238 million (US\$3.7 million) as at 30 June 2019 (31 December 2018: MZN238 million (US\$3.7 million)) in relation to the rehabilitation or removal of project infrastructure as per the mine closure plan for the Balama Graphite Operation.

A parent company guarantee has been issued by Syrah Resources Limited in favour of the Government of Mozambique, which unconditionally and irrevocably guarantees amounts up to a maximum of US\$22.5 million to cover any loss or damage or other costs arising out of, or associated with, a breach of the Mining Concession held by Twigg Exploration and Mining Limitada. This guarantee is required to remain in place for a period of two years after the signing of the Mining Agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

NOTE 12. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 July 2019, Syrah Resources Limited announced the successful completion of its fully underwritten 1-for-5 pro rata accelerated non-renounceable entitlement offer, with the closure of the retail component of the Entitlement offer representing the final stage of the approximately A\$55.8 million (US\$ 39.2 million) Entitlement Offer. The institutional component of the Entitlement Offer closed on 20 June 2019.

On 22 July 2019, in accordance with the Mining Agreement between Syrah Resources Limited and the Government of the Republic of Mozambique, Syrah announced the execution of a Quotaholders' Agreement between Syrah and its subsidiaries and a Government of Mozambique entity relating to a 5% non-diluting free carried interest in Syrah's subsidiary Twigg Exploration and Mining Limitada.

On 1 August 2019, a resolution was passed at a General Meeting approving a capital raising of A\$55.8 million by the issue of a convertible note to AustralianSuper Pty Ltd as trustee for AustralianSuper (refer ASX announcement dated 1 August 2019).

On 6 September 2019, the securities of Syrah Resources Limited were placed in a trading halt pending an announcement to the market regarding natural graphite market conditions and the Group's operational response.

On 10 September 2019, the Company announced that in response to a sudden and material decrease in spot natural flake graphite prices in China, it will conduct an orderly reduction in production volume to the end of the third quarter 2019 and significantly reduce production in the fourth quarter of 2019. The Company also stated it will conduct a review of further immediate cost savings and an operational review for 2020.

No other event has occurred subsequent to 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the state of affairs in future financial periods.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the interim financial statements and notes set out on pages 7 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the half-year financial period ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Shaun Verner
Managing Director

Melbourne, Australia
13 September 2019



Independent auditor's review report to the members of Syrah Resources Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Syrah Resources Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the Condensed consolidated statement of financial position as at 30 June 2019, the Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Syrah Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Syrah Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'JO', written over a faint, illegible background.

John O'Donoghue
Partner

Melbourne
13 September 2019