



SYRAH RESOURCES

Syrah Resources Limited
ABN 77 125 242 284

INTERIM REPORT
for the half-year ended 30 June 2020

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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 2020. 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:

Jim Askew	Non-Executive Chairman
Shaun Verner	Managing Director
José Manuel Caldeira	Non-Executive Director
Lisa Bahash	Non-Executive Director
Sara Watts	Non-Executive Director
John Beevers	Non-Executive Director (appointed 22 May 2020)
Sam Riggall	Non-Executive Director (ceased 22 May 2020)

Principal activities

The principal continuing activities of the consolidated entity consisted of:

- Production of natural graphite products from the Balama Graphite Operation ("Balama") in Mozambique (currently suspended due to COVID 19 impacts);
- Sales of natural graphite and ongoing development of logistics, sales and marketing arrangements with targeted customers;
- Continued development of the use of high-quality graphite from Balama as an input into the production of Battery Anode Material ("BAM") and industrial products; and
- Development and execution of a downstream BAM production strategy in the USA.

REVIEW OF OPERATIONS

Business update

During the interim financial period, Balama produced 12,000 tonnes (H1 2019: 92,000 tonnes) of graphite, sold and shipped 16,000 tonnes (H1 2019: 101,000 tonnes). Production at Balama was suspended from 28 March 2020 to beyond the end of the interim financial period due to impacts of COVID 19. Specifically, travel restrictions that limit the mobility of the Balama workforce and weak end user demand due to lockdowns, mobility restrictions and economic uncertainty negatively impacted electric vehicle sales during the period.

During the interim financial period, the BAM project continued to progress the Company's strategy to become the first ex-China vertically integrated producer of natural graphite active anode material. Specifically, key work streams during the period included: optimisation of anode precursor (purified spherical graphite) production to battery specification at the Company's facility in the USA; procurement of a furnace for installation at the Company's USA plant for future production of qualification samples of coated active anode material; ongoing product development; and, progression of studies to assess the economics of scaling up the existing plant initially to 10kt and then to 40kt of active anode material production capability per annum.

Statement of comprehensive income

The loss for the consolidated entity after income tax amounted to \$28.7 million during the interim financial period ended 30 June 2020 (2019: \$81.4 million loss).

Revenue reported for the interim financial period comprised sales of natural graphite products of \$7.4 million (2019: \$46.9 million).

Cost of sales reported for the interim financial period was \$24.7 million (2019: \$57.7 million), mainly comprised of mining and production costs of \$17.3 million (2019: \$42.6 million), logistics costs of \$4.9 million (2019: \$7.5 million), depreciation and amortisation expense relating to Balama of \$4.9 million (2019: \$6.4 million), offset by changes in inventories of \$2.6 million (2019: \$0.4 million expense).

Total other expenses for the interim financial period were \$9.2 million (2019: \$15.7 million) and included the following:

- Distribution costs of \$2.5 million (2019: \$6.6 million), of which \$1.3 million (2019: \$5.3 million) were shipping costs;
- Administrative expenses of \$3.2 million (2019: \$4.3 million), of which \$2.2 million (2019: \$3.0 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 \$4.0 million (2019: \$4.8 million).

Net finance expenses of \$1.9 million (2019: Net finance income of \$0.1 million) related to income from investment in term deposits of \$0.3 million (2019: \$0.7 million), offset by finance expense relating to interest incurred on the Convertible Note of \$1.5 million (2019: Nil) and Right-of-Use Assets of \$0.6 million (2019: \$0.6 million).

The total comprehensive loss attributable to shareholders of Syrah Resources Limited for the interim financial period was \$28.9 million (2019: \$81.6 million) and included a non-cash loss of \$0.2 million (2019: \$0.2 million) on the translation of the holding company's financial statements from Australian dollars (AUD) to 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 2020 were \$414.7 million (31 December 2019: \$432.1 million).

The consolidated entity's Cash and Cash Equivalents as at 30 June 2020 were \$53.2 million (31 December 2019: \$80.6 million) and working capital, being Current Assets less Current Liabilities, was \$65.3 million (31 December 2019: \$89.5 million). The net reduction in Cash and Cash Equivalents and working capital is a result of the ongoing development of the group's downstream BAM project, and cash outflow associated with Balama through a period of low production and low sales given market conditions during the period.

Current Trade and Other Receivables were slightly higher at \$4.6 million as at 30 June 2020 (31 December 2019: \$4.5 million) with a decrease in Trade Receivables to \$1.8 million at 30 June 2020 (31 December 2019: \$2.7 million) offset by an increase in prepayments to \$2.1 million (31 December 2019: \$1.0 million).

Inventories were \$17.4 million as at 30 June 2020 (31 December 2019: \$18.0 million).

Property, Plant and Equipment as at 30 June 2020 was \$161.9 million (31 December 2019: \$160.7 million), mainly due to depreciation of the assets during the financial period offset by the increase relating to capital expenditure for Balama Tailings Storage Facility Cell 2 and the capitalisation of costs associated with progression of downstream BAM strategies.

Mining Assets increased during the interim financial period to \$135.9 million as at 30 June 2020 (31 December 2019: \$120.7 million) mainly due to an additional \$11.6 million of costs capitalised in relation to Balama local community development obligations, and a change in rehabilitation estimate of \$3.4 million during the financial period.

Non-Current Trade and Other Receivables decreased during the interim financial period to \$13.9 million as at 30 June 2020 (31 December 2019: \$19.6 million) with the balance principally comprising Input Tax Credits (Value Added Tax) paid in Mozambique. An amount of \$6.6 million was recovered during the interim period (12 months to 31 December 2019: \$10.7 million), while an amount of \$1.1 million was deemed unrecoverable and written off. 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 \$91.1 million as at 30 June 2020 (31 December 2019: \$80.3 million), which included Trade and Other Payables of \$7.2 million (31 December 2019: \$11.5 million); a provision for decommissioning and rehabilitation of Balama of \$13.3 million (31 December 2019: \$10.0 million); a provision for Balama community development of \$11.6 million (31 December 2019: Nil); non-current borrowings for a Convertible Note of \$40.6 million (31 December 2019: \$39.7 million) and Lease Liabilities of \$17.8 million (31 December 2019: \$18.6 million).

Total equity of the consolidated entity as at 30 June 2020 was \$323.6 million (31 December 2019: \$351.9 million), with the decrease attributable to net comprehensive loss for the period of \$28.9 million.

Statement of cash flows

Cash flow from operating activities

Net cash outflow from operating activities during the interim financial period ended 30 June 2020 was \$19.6 million (2019: \$10.2 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 2020 was \$5.9 million (2019: \$17.8 million) and principally consisted of payments for progression of the downstream BAM project and capital expenditure for Balama Tailings Storage Facility Cell 2.

Cash flow from financing activities

Net cash outflow from financing activities during the interim financial period ended 30 June 2020 was \$1.4 million (2019: net cash inflow of \$15.6 million) mainly due to the payment of lease liabilities and offset by net proceeds received from insurance premium funding.

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

Production at Balama remained suspended following the end of the interim financial period due to the impacts of COVID 19. Specific factors impacting the business include travel restrictions that limit the mobility of the Balama workforce and weak end user demand due to lockdowns, mobility restrictions and economic uncertainty negatively impacting electric vehicle sales. An operational review was completed post the interim financial period in the context of high conviction in eventual resumption of demand growth, but challenging immediate term market conditions. The review identified available actions to preserve cash in the immediate term whilst also maintaining operational and marketing capability to restart production relatively promptly once travel restrictions are eased and improved natural graphite end user demand is observed. Initiatives to preserve cash during the period that production remains suspended include minimisation or deferring of capital works, further negotiation of key contract costs and labour force reductions. The Company undertook a labour restructure that reduced the Balama headcount by 65% during the period of suspended production, as well as other roles across the group. Positions for 220 staff will be retained at Balama to ensure preservation of operational expertise to support recommencement of production once COVID 19 related travel restrictions are eased and improved end user demand is observed. The lead time to recommence production post implementation of the labour restructure is expected to be 2 to 3 months, which reflects the time required to re-establish a full complement of labour to operate Balama.

No other event has occurred subsequent to 30 June 2020 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 5.

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
7 September 2020



Auditor's Independence Declaration

As lead auditor for the review of Syrah Resources Limited for the half-year ended 30 June 2020, 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 'Ben Gargett', is written over a light grey signature line.

Ben Gargett
Partner
PricewaterhouseCoopers

Melbourne
7 September 2020

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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 FOR THE HALF-YEAR ENDED 30 JUNE 2020**

	NOTES	30 JUNE 2020 US\$'000	30 JUNE 2019 US\$'000
Revenue from continuing operations			
Revenue	3	7,433	46,854
Cost of sales	4	(24,713)	(57,673)
Gross profit / (loss)		(17,280)	(10,819)
Distribution costs	5	(2,504)	(6,602)
Administrative expenses	6	(3,160)	(4,303)
Other income / (expenses)		507	12
Write-down of inventories		(3,998)	(4,767)
Total expenses		(9,155)	(15,660)
Impairment of assets	9	-	(96,868)
Profit / (loss) before net finance income and income tax		(26,435)	(123,347)
Finance income		309	652
Finance expenses		(2,196)	(575)
Net finance income / (expense)		(1,887)	77
Profit / (loss) before income tax		(28,322)	(123,270)
Income tax benefit / (expense)	7	(382)	41,842
Loss after income tax for the half-year attributable to the owners of Syrah Resources Limited		(28,704)	(81,428)
Other comprehensive income/ (loss)			
<i>Items that may be reclassified subsequently to the profit or loss</i>			
Exchange differences on translation of foreign subsidiaries	10(b)	(238)	(153)
Other comprehensive income/(loss) for the period, net of tax		(238)	(153)
Total comprehensive income/ (loss) for the period		(28,942)	(81,581)
Total comprehensive income/ (loss) for the period attribute to:			
- Equity holders of Syrah Resources Limited		(28,942)	(81,581)
Loss per share for loss attributable to the owners of Syrah Resources Limited			
		Cents	Cents
Basic loss per share		(6.93)	(23.63)
Diluted loss per share		(6.93)	(23.63)

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 2020

		30 JUNE 2020	31 DECEMBER 2019
	NOTES	US\$'000	US\$'000
Assets			
Current assets			
Cash and cash equivalents	8(a)	53,222	80,577
Trade and other receivables	8(b)	4,578	4,471
Inventories	9(a)	17,384	18,023
Available-for-sale financial assets		345	162
Total current assets		75,529	103,233
Non-current assets			
Trade and other receivables	8(b)	13,906	19,593
Property, plant and equipment	9(c)	161,922	160,671
Mining assets	9(b)	135,857	120,731
Intangible assets		122	151
Deferred tax assets	9(d)	27,371	27,753
Total non-current assets		339,178	328,899
Total assets		414,707	432,132
Liabilities			
Current liabilities			
Trade and other payables	8(c)	7,202	11,464
Borrowings	8(e)	95	-
Lease liabilities	8(d)	1,990	1,837
Provisions	9(e)	930	481
Total current liabilities		10,217	13,782
Non-current liabilities			
Borrowings	8(e)	40,551	39,688
Lease liabilities	8(d)	15,800	16,794
Provisions	9(e)	24,509	10,007
Total non-current liabilities		80,860	66,489
Total liabilities		91,077	80,271
Net assets		323,630	351,861
Equity			
Issued capital	10(a)	564,085	563,694
Reserves	10(b)	(8,480)	(7,337)
Accumulated losses		(231,975)	(204,496)
Total equity		323,630	351,861

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 2020**

	CONTRIBUTED EQUITY US\$'000	ACCUMULATED LOSSES US\$'000	RESERVES US\$'000	TOTAL EQUITY US\$'000
Balance at 1 January 2020	563,694	(204,496)	(7,337)	351,861
Loss after income tax expense for the period	-	(28,704)	-	(28,704)
Other comprehensive income/(loss) for the period, net of tax	-	-	(238)	(238)
Total comprehensive income/(loss) for the period	-	(28,704)	(238)	(28,942)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	-	-	-	-
Share-based payments	-	-	711	711
Transfers from share-based payment reserve				
- Issuance of shares	391	-	(391)	-
- Transfer of expired/lapsed options	-	1,225	(1,225)	-
	391	1,225	(905)	711
Balance at 30 June 2020	564,085	(231,975)	(8,480)	323,630
Balance at 1 January 2019	525,085	(77,219)	(2,656)	445,210
Change in accounting policy	-	(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/(loss) for the period, net of tax	-	-	(153)	(153)
Total comprehensive income/(loss) 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)	-
- 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

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 2020**

	NOTES	30 JUNE 2020 US\$'000	31 DECEMBER 2019 US\$'000
Cash flows from operating activities			
Receipts from customers		8,241	38,521
Payments to suppliers and employees (inclusive of goods and services tax)		(28,203)	(49,518)
Interest received		384	784
Net cash inflow/(outflow) from operating activities		(19,578)	(10,213)
Cash flows from investing activities			
Payments for property, plant and equipment		(5,861)	(12,989)
Payments for mining assets		-	(4,786)
Payments for intangible assets		-	(1)
Net cash inflow/(outflow) from investing activities		(5,861)	(17,776)
Cash flows from financing activities			
Proceeds from issue of shares		-	17,634
Share issue transaction costs		-	(573)
Proceed from borrowings		187	-
Payment of borrowings		(92)	-
Payment for interest on lease liabilities		(640)	(575)
Payment of lease liabilities		(841)	(899)
Net cash inflow/(outflow) from financing activities		(1,386)	15,587
Net (decrease)/increase in cash and cash equivalents		(26,825)	(12,402)
Cash and cash equivalents at the beginning of the half-year		80,577	77,149
Effects of exchange rate changes on cash and cash equivalents		(530)	(58)
Cash and cash equivalents at the end of the half-year	8(a)	53,222	64,689

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 for the entity consisting of Syrah Resources Limited and its subsidiaries, and 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 2020 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 2019 and any public announcements made by Syrah during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(b) Significant accounting policies

The accounting policies, methods of computation and areas of critical accounting judgements, estimates and assumptions are the same as those adopted in the most recent Annual Financial Report for the year ended 31 December 2019 unless otherwise stated in this report.

No new or amended accounting standards and interpretations became applicable for the current reporting period which had an impact on the Group's accounting policies.

(c) Comparative figures

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)

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

(d) Liquidity and Capital Management

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

As at 30 June 2020, the Group had a Cash and Cash Equivalents balance of \$53.2 million which it believes is sufficient to meet its obligations and continue its current business activities. Production remained suspended at Balama as at the end of the interim financial period due to the impacts of COVID 19. Specifically, production and sales of natural graphite have been impacted by travel restrictions that limit the mobility of the Balama workforce and weak end user demand due to lockdowns, mobility restrictions and economic uncertainty negatively impacting electric vehicle sales. Subsequent to period end the Company has taken a number of steps to reduce net cash outflow during this period, while maintaining the capability to restart production once market demand returns. These actions include the minimisation or deferral of capital works, further negotiation of key contract costs and labour force reductions. The Company undertook a labour restructure that reduces the Balama headcount by 65% during the period of suspended production, as well as other roles across the group.

The Company may require additional financing, in addition to cash reserves, to meet operating and capital expenditure requirements for Balama, general and administrative expenditures and BAM Project activities. In addition, the effects of the COVID 19 virus on our business and the markets in which we operate could have further impacts on the Group's Liquidity risk, and we continue to assess possible scenarios representing a broad range of factors. The Directors have determined that the Group has adequate cash resources to meet its obligations and continue its business activities in all scenarios that they consider reasonably possible.

Based on the initiatives noted, the Company believes that it can meet its debts and obligations as and when they fall due and accordingly has adopted the going concern basis of accounting in the preparation of these financial statements.

**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 opportunities for natural flake graphite including the development of a processing facility in the USA.
Corporate	Corporate administration and investing activities.

(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 2020				
Total segment revenue	7,433	-	-	7,433
Inter-segment revenue	-	-	-	-
Revenue from external customers	7,433	-	-	7,433
Total segment result before income tax expense	(24,379)	23	(3,966)	(28,322)
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)
Total segment assets				
30 June 2020	304,662	56,005	54,040	414,707
31 December 2019	304,704	45,432	81,996	432,132
Total segment liabilities				
30 June 2020	(48,449)	(343)	(42,285)	(91,077)
31 December 2019	(38,381)	(531)	(41,359)	(80,271)

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 2020	30 JUNE 2019
	US\$'000	US\$'000
Revenue from external customers	7,433	46,854
Timing of revenue recognition		
- At a point in time – Product	6,411	43,199
- Over time – Freight	1,022	3,655

(a) Geographical information

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

	30 JUNE 2020	30 JUNE 2019
	US\$'000	US\$'000
Europe	4,041	4,632
Americas	1,150	444
India	1,124	-
China	814	37,192
Asia (excl China and India)	292	4,586
Other locations	12	-
	7,433	46,854

(b) Major customer information

Revenue from five major customers accounted for 71% (30 June 2019: 69%) of total segment revenue or \$5.3 million (30 June 2019: \$32.4 million) arising from the sale of natural graphite products on a CIF basis.

NOTE 4. COST OF SALES

	30 JUNE 2020	30 JUNE 2019
	US\$'000	US\$'000
Mining and production costs	17,314	42,625
Logistics costs	4,909	7,503
Government royalties	59	786
Depreciation and amortisation expense	4,886	6,360
Changes in inventories	(2,623)	399
Other costs	168	-
	24,713	57,673

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

NOTE 5. DISTRIBUTION COSTS

	30 JUNE 2020	30 JUNE 2019
	US\$'000	US\$'000
Shipping costs	1,297	5,258
Depreciation and amortisation	31	45
Other selling costs	1,176	1,299
	2,504	6,602

NOTE 6. ADMINISTRATIVE EXPENSES

	30 JUNE 2020	30 JUNE 2019
	US\$'000	US\$'000
<i>Employee benefits expense</i>		
Salaries and wages	1,332	2,144
Share-based payments	711	558
Employee entitlements	89	152
Defined contribution superannuation expense	115	115
Total employee benefits expenses	2,247	2,969
<i>Legal and consulting expenses</i>		
Legal expenses	59	69
Consulting expenses	524	546
Total legal and consulting expenses	583	615
Other administrative expenses	330	719
Total administrative expenses	3,160	4,303

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

NOTE 7. INCOME TAX EXPENSE

(a) Income tax expense

	30 JUNE 2020 US\$'000	30 JUNE 2019 US\$'000
Current tax expense	-	-
Deferred tax expense	382	(41,842)
Total tax expense/(benefit)	382	(41,842)
Deferred income tax		
(Increase)/decrease in deferred tax assets	382	(20,526)
Increase/(decrease) in deferred tax liabilities	-	(21,316)
Total deferred tax expense/(benefit)	382	(41,842)

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

	30 June 2020 US\$'000	30 June 2019 US\$'000
Loss before income tax expense from continuing operations	(28,322)	(123,270)
Tax at the Australian tax rate of 30% (30 June 2019: 30%)	(8,497)	(36,981)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
- Share-based payments	213	177
- Other non-deductible expenses	844	(951)
- Differences in overseas tax rate	357	(2,650)
- Movement in unrecognised temporary differences	(911)	(188)
- (Under)/over provision in the prior period	-	(801)
- Current period taxation losses not recognised as deferred tax assets	6,986	(44)
- Sundry items	1,390	(404)
Income tax expense/(benefit)	382	(41,842)

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

NOTE 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Cash and cash equivalents

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Cash at bank and in hand	9,736	17,700
Deposits at call	43,486	62,877
Total cash and cash equivalents	53,222	80,577

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 2020 the weighted average interest rate on current accounts and term deposits was 0.41% (31 December 2019: 1.28%).

(b) Trade and other receivables

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Current		
Trade receivables	1,814	2,667
Prepayments	2,056	992
Other receivables	691	801
Input tax credits	17	11
Total current trade and other receivables	4,578	4,471
Non-current		
Input tax credits	8,694	14,381
Security deposits ⁽¹⁾	5,212	5,212
Total non-current trade and other receivables	13,906	19,593

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

(c) Trade and other payables

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Trade payables and accruals	6,053	10,318
Other payables	1,149	1,146
Total trade and other payables	7,202	11,464

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

(d) Lease liabilities

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Current	1,990	1,837
Non-current	15,800	16,794
Total lease liabilities	17,790	18,631

(e) Borrowings

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Current borrowings		
Insurance premium funding ⁽¹⁾	95	-
Non-current borrowings		
Initial face value of Convertible Note ⁽²⁾ issued	39,093	39,093
Capitalised to principal outstanding		
- Interest expense	2,165	569
- Transaction costs	782	782
Deferred transaction costs	(679)	(756)
Exchange differences	(810)	-
Total Convertible Note	40,551	39,688

⁽¹⁾ Insurance premium funding represents an insurance premium funding facility for Syrah's AUD denominated insurance policies with LEDGE Finance. This facility has an effective interest rate of 9.14% and will be fully repaid in November 2020. Under the terms of the agreement, the finance provider may cancel the underlying insurance policies to recover any outstanding amounts if repayments are not made.

⁽²⁾ In October 2019, Syrah Resources Limited issued a 5-year unsecured Convertible Note to AustralianSuper Pty Ltd as Trustee for AustralianSuper. Under the terms of the Convertible Note, the Group elected to accrue interest on the principal outstanding at a rate of 8% per annum, capitalised quarterly in arrears. Syrah Resources Limited also incurred \$0.8 million of transaction costs related to the issuance of the Convertible Note which were capitalised when the Note was issued and are amortised to Finance Expense over the term of the Convertible Note.

The initial conversion of the Convertible Note is A\$1.0036 per ordinary share. The Noteholder may elect to fully convert the Convertible Note into fully paid ordinary shares of Syrah Resources Limited at any time after 30 months from Date of Completion and prior to maturity or earlier if a third party makes a takeover offer for all the Shares in the Company; or, the Company announces the execution of a scheme implementation agreement in respect of acquisition of all the Shares in the Company by scheme of arrangement. In an Event of Default the Noteholder may give notice to the Company to demand payment of the principal outstanding on the Convertible Note by way of redemption of the Convertible Note, in which case the principal outstanding shall become immediately due and payable; or, elect to convert the Convertible Note into Shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(a) Inventories

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Stores and materials	13,664	12,928
Finished goods	3,720	5,095
	17,384	18,023

Inventory write-down

Write-down of inventories to net realisable value totaled \$4.0 million in the interim period (30 June 2019: \$4.8 million) and were recognised as an expense in the statement of comprehensive income.

(b) Mining assets

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
Exploration and evaluation	1,305	1,306
Mine properties and development	134,552	119,425
Total mining assets	135,857	120,731

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

	EXPLORATION AND EVALUATION US\$'000	MINE PROPERTIES AND DEVELOPMENT US\$'000	TOTAL US\$'000
At 1 January 2020			
Cost	1,306	178,922	180,228
Accumulated depreciation and impairment	-	(59,497)	(59,497)
Net book amount	1,306	119,425	120,731
6 months to 30 June 2020			
Balance at beginning of period	1,306	119,425	120,731
Additions	-	12,972	12,972
Change in rehabilitation estimate	-	3,367	3,367
Amortisation expenses	-	(1,212)	(1,212)
Exchange differences	(1)	-	(1)
Balance at end of period	1,305	134,552	135,857

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

Mine Properties and Development is mainly relates to the development costs of the Balama Graphite Project in Mozambique. Additions during the interim financial period mainly relate to the provision for expenditure on Balama community development initiatives.

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

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

(c) Property, Plant and Equipment

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	COMPUTER EQUIPMENT	ASSETS UNDER CONSTRUCTION	RIGHT- OF-USE ASSETS	TOTAL
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January 2020						
Cost	14,396	116,676	905	59,533	19,599	211,109
Accumulated depreciation and impairment	(5,084)	(42,152)	(307)	-	(2,895)	(50,438)
Net book amount	9,312	74,524	598	59,533	16,704	160,671
For the half year ended 30 June 2020						
Balance at beginning of period	9,312	74,524	598	59,533	16,704	160,671
Additions	144	1,497	2	3,628	-	5,271
Depreciation charge	(158)	(2,353)	(67)	-	(1,302)	(3,880)
Exchange differences	-	(1)	(1)	(129)	(9)	(140)
Balance at end of period	9,298	73,667	532	63,032	15,393	161,922
At 30 June 2020						
Cost	14,540	118,168	904	63,032	19,585	216,229
Accumulated depreciation and impairment	(5,242)	(44,501)	(372)	-	(4,192)	(54,307)
Net book amount	9,298	73,667	532	63,032	15,393	161,922

Assets under construction

Assets Under Construction at 30 June 2020 consists of capitalised project and product development costs for the downstream BAM project of \$56.0 million and sustaining capital costs for Balama of \$7.0 million.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Property, Plant and Equipment (Continued)

SIGNIFICANT ESTIMATES AND JUDGEMENTS

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. 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. As at 30 June 2020, the market capitalisation of the Company was below the book value of net assets which is considered an indicator of a potential impairment of assets.

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 Balama and BAM Project as CGUs for which impairment testing is undertaken.

As reported at 30 June 2019, Syrah had determined the recoverable amount of Balama was less than the carrying value and a post-tax impairment of US\$65.9 million was recognised at 30 June 2019. The circumstances that led to recognition of an impairment at 30 June 2019 was primarily due to slower than previously foreshadowed ramp-up of production at Balama, driven predominately by market demand factors (sales volume and selling prices).

Following the 30 June 2019 impairment relating to Balama, the Group conducted a carrying value analysis to determine the recoverable amount of Balama and BAM Project CGUs at 31 December 2019, and as at 30 June 2020, taking into account the effects of COVID 19. It has not identified any additional impairment to the carrying values of non-current assets as at 30 June 2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Property, Plant and Equipment (Continued)

Balama Graphite Operation CGU

(i) Methodology

An impairment loss is recognised for a CGU when the recoverable amount is less than the carrying amount. The recoverable amount of 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).

Future cash flows and the 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.

(ii) Key Assumptions

The net present value of estimated future cash flows for the Balama CGU as at 30 June 2020 is based on a number of assumptions. Those key assumptions that the recoverable amount is most sensitive to include:

- 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 six years. The Group's assessment of long-term price over a period of six years is in line with industry supply and demand forecasts for the lithium-ion battery industry. The long-term prices for each graphite product are derived from a combination of management assessments of the 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. Short and long-term prices were updated for 30 June 2020 reporting purposes and are reviewed at least annually.
- Foreign exchange rates – future exchange rates for the Mozambique Metical (MZN) compared to the US dollar are forecast based on external information and are kept constant in real terms after five years.
- Reserves and Resources – life of mine production is based on Ore Reserves and a portion of the Mineral Resources (totaling 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Property, Plant and Equipment (Continued)

earlier than 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. The Reserves and Resources life extends beyond the current mining license expiration date, therefore the valuation assumes an extension of the mining agreement beyond its current tenure.

- 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, capturing both completed and in-progress reductions to the cost base since the last asset carrying value assessment period at 31 December 2019. The production capability of the plant at design capacity is informed by the as built design, review of physical parameters by independent technical experts and production improvement plans and assessments by the operations team at Balama.
- 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 2020 impairment testing.

(iii) *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 impact on the recoverable amount of Balama CGU as at 30 June 2020 of US\$256 million:

US\$20 per tonne decrease in the long-term basket price (CIF Port of Nacala)	\$18 million
5% increase in estimated operating costs	\$26 million
10% increase in the discount rate (from 12.30% to 13.53%)	\$40 million
1% lower long-term graphite recovery	\$8 million
6-month delay in Balama production restart	\$15 million

The above reasonably possible changes in key assumptions may result in a material adjustment to the carrying value of Balama. 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

(i) *Methodology*

An impairment loss is recognised for a CGU when the recoverable amount is less than the carrying amount. The recoverable amount of the BAM CGU was determined by assessing the fair value of the underlying assets and planned investments outlined in the pre-feasibility study. FVLCOD is estimated based on the net present value of estimated future cash flows.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(c) Property, Plant and Equipment (Continued)

Future cash flows and recoverable amount of the CGU are based on a number of assumptions, including product selling price expectations, discount rates 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.

The accumulated investment of the Group's BAM investment is presented as an Asset Under Construction and is recorded at a cost of US\$56.0 million as at 30 June 2020. The assumptions underlying the strategic investment decision continue to indicate that the accumulated investment in BAM will be recovered.

(ii) Key Assumptions

The Group's 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:

1. 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;
2. Progression of strategic relationship discussions; and
3. Finalisation of studies for a commercial scale BAM development.

Future assumptions regarding selling prices of finished product from BAM are informed by current observed market prices for equivalent existing products produced by incumbent supply chain participants. Operating costs are informed by studies undertaken to date and from operating data from the plant at Vidalia as at 30 June 2020.

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.

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

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

(d) Deferred tax balances

	30 JUNE 2020	31 DECEMBER 2019
	US\$'000	US\$'000
<i>The balance comprises temporary differences attributable to:</i>		
<i>Deferred tax assets</i>		
Taxation losses ⁽¹⁾	2,302	2,302
Mining assets	25,069	25,451
Total deferred tax assets	27,371	27,753

⁽¹⁾ Relates to tax losses held by Twigg Exploration & Mining Limitada (Twigg) in Mozambique. Twigg will have five years to utilize these losses in accordance with Mozambique tax laws.

Movements in deferred tax balances

	BALANCE AT 1 JANUARY 2020	(CHARGED)/ CREDITED TO PROFIT OR LOSS	BALANCE AT 30 JUNE 2020
	US\$'000	US\$'000	US\$'000
<i>Deferred tax assets</i>			
Taxation losses	2,302	-	2,302
Mining assets	25,451	(382)	25,069
	27,753	(382)	27,371

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

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

(e) Provisions

	30 JUNE 2020 US\$'000	31 DECEMBER 2019 US\$'000
Current		
Employee benefits	484	481
Other current provisions ⁽¹⁾	446	-
	930	481
Non-current		
Employee benefits	49	50
Decommissioning and restoration	13,346	9,957
Other non-current provisions ⁽¹⁾	11,114	-
	24,509	10,007

⁽¹⁾ The provision relating to obligation to incur expenditure on Balama community development initiatives. The provision is capitalised into Mine Properties and Development as shown in Note 9(b).

Movements in decommissioning and restoration provision

	6 MONTHS TO 30 JUNE 2020 US\$'000
Balance at beginning of period	9,957
Additional provisions:	
- Change in rehabilitation provision	3,367
- Unwind of discount	22
Balance at end of period	13,346

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

NOTE 10. EQUITY

(a) Issued Capital

	30 JUNE 2020 SHARES	31 DECEMBER 2019 SHARES	30 JUNE 2020 US\$'000	31 DECEMBER 2019 US\$'000
Issued and fully paid ordinary shares	414,846,073	413,493,062	564,085	563,694
	<u>414,846,073</u>	<u>413,493,062</u>	<u>564,085</u>	<u>563,694</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 2020			
Balance at beginning of period	413,493,062		563,694
Issue of new shares:			
- Equity-settled remuneration	1,353,011	- (1)	-
Transfers from share-based payment reserved (2)	-		391
Balance at end of period	<u>414,846,073</u>		<u>564,085</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 contractual obligation exists to issue a non-controlling non-diluting 5% interest in Twigg to the Mozambique Government entity. As at 30 June 2020, the issuance of shares to the Mozambique Government entity has not occurred. A non-controlling interest in Twigg will be recognised after the issuance of shares to the Mozambique Government entity.

(b) Reserves

	30 JUNE 2020 US\$'000	31 DECEMBER 2019 US\$'000
Foreign currency translation reserve	(17,801)	(17,563)
Share-based payments reserve	9,321	10,226
	<u>(8,480)</u>	<u>(7,337)</u>

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

NOTE 10. EQUITY (CONTINUED)

(b) Reserves (Continued)

(i) Movements in reserves

Movements in each class of reserve are set out below:

	FOREIGN CURRENCY RESERVE US\$'000	SHARE-BASED PAYMENTS RESERVE US\$'000	TOTAL US\$'000
6 months to 30 June 2020			
Balance at beginning of period	(17,563)	10,226	(7,337)
Foreign currency translation	(238)	-	(238)
Share-based payments	-	711	711
Issuance of shares	-	(391)	(391)
Transfer of expired/lapsed options	-	(1,225)	(1,225)
Balance at end of period	(17,801)	9,321	(8,480)

(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 2020 US\$'000	31 DECEMBER 2019 US\$'000
Property, plant and equipment	1,467	1,628
Total capital commitments	1,467	1,628

The above capital expenditure commitments are in relation to the continued development of Balama in Mozambique (mainly relates to Tailings Storage Facility cell 2) and the development of the downstream 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 MZN316 million (US\$ 5.0 million) as at 30 June 2020 (31 December 2019: MZN316 million (US\$5.0 million)) in relation to the rehabilitation or removal of project infrastructure as per the mine closure plan for Balama.

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

Production at Balama remained suspended following the end of the interim financial period due to the impacts of COVID 19. Specific factors impacting the business include travel restrictions that limit the mobility of the Balama workforce and weak end user demand due to lockdowns, mobility restrictions and economic uncertainty negatively impacting electric vehicle sales. An operational review was completed post the interim financial period in the context of high conviction in eventual resumption of demand growth, but challenging immediate term market conditions. The review identified available actions to preserve cash in the immediate term whilst also maintaining operational and marketing capability to restart production relatively promptly once travel restrictions are eased and improved natural graphite end user demand is observed. Initiatives to preserve cash during the period that production remains suspended include minimisation or deferring of capital works and further negotiation of key contract costs. The Company also undertook a labour restructure that reduces the Balama headcount by 65% during the period of suspended production. Positions for 220 employees will be retained at Balama to ensure preservation of operational expertise to support recommencement of production once COVID 19 related travel restrictions are eased and improved end user demand is observed. The lead time to recommence production post implementation of the labour restructure is expected to be 2 to 3 months, which reflects the time required to re-establish a full complement of labour to operate Balama.

No other event has occurred subsequent to 30 June 2020 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 6 to 29 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 2020 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
7 September 2020



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 Balance Sheet as at 30 June 2020, 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 2020 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*.

PricewaterhouseCoopers, ABN 52 780 433 757

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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 2020 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



Ben Gargett
Partner

Melbourne
7 September 2020