

Shareholder Update

3 November 2023



Dear Shareholder,

Margosa Graphite Limited ("Margosa" or the "Company") is pleased to provide an update to its shareholders.

Sri Lanka

The World Bank continues to purpose resources to support the most urgent needs of Sri Lanka and advise on policies focused on restoration of economic stability and the preparation of foundations for future growth. The efforts and positive courses of action displayed by Sri Lanka have been universally recognized and all indications suggest that although the road to recovery will be challenging, there is full understanding and a continued willingness from the government, to communicate difficult message and make difficult decisions. There have been two announcements released recently which showcase the positive outlook. These are summarized below:

- Sri Lanka will have access to the IMF's second tranche of US\$330m following a review of the conditions linked to Sri Lanka's Extended Fund Facility (EFF)¹ arrangement. This will enable the settlement of arrears owed to multilateral creditors and expedite the debt restructuring process that has been the subject of extensive planning activity.
- Sri Lanka's Long-Term Local-Currency IDR has been upgraded to 'CCC' to reflect completion of the local-currency portion of the sovereign's domestic debt optimisation plan, launched in July 2023. It is expected that domestic debt restructuring will lower Sri Lanka's gross financing needs over the medium term, in line with the targets under the IMF's Extended Fund Facility. Authorities expect the debt exchanges that have taken place to lower gross government financing needs over the period 2027-2032. Additionally Fitch Ratings have affirmed the Sri Lankan Insurer Financial Strength (IFS) ratings of several insurers in-country and removed them from Rating Watch Negative (RWN) stating that the "outlook is Stable".

The Company will continue to engage appropriately with Government agencies and stakeholders to maintain situational awareness and monitor progress.

Critical Minerals and the Graphite Market

China is the world's largest graphite producer and exporter. It refines more than 90% of the world's graphite into the material used in almost all EV battery anodes, which is the negatively charged portion of a battery. As of 1st Dec, this year China have stated that it will enforce permit requirements for some graphite products. Under the new restrictions, China will require that exporters apply for permits to ship two types of graphite, including high-purity, high-hardness and high-intensity synthetic graphite material, natural flake graphite and its products. This includes spherical graphite used by EV automakers. Margosa's assesses the impact of this decision on the market to be three-fold:

- **Reduction in high-end FLAKE graphitic product supply:** China is currently the majority FLAKE Graphite producer which drives market pricing. The new controls will promote the need for alternative FLAKE supply and create the need for autonomous secure Sovereign supply chains.
- **Creates space and market advantage for Margosa:** Vein graphite's isotropic characteristics and high purity means, in comparison to FLAKE graphite, it needs less processing and refinement to reach the same product specifications demanded by specific use cases (such as anode material), and can therefore reach the market quicker, cheaper having had much

1. Announcement – Semasinghe Oct 21, 2023 (adaderana.lk)
2. The Graphene Council – www.thegraphenecouncil.org
3. Morder Intelligence: Synthetic Graphite Market - Companies & Manufacturers (morderintelligence.com)
4. Geology and Resource Estimate Report Ridee Ganga Vein Graphite Project April 2020

Shareholder Update

3 November 2023



- less impact on the environment. Additionally, historical testing data² indicated that vein graphite material has enhanced electrical conductivity, modified surface qualities, a very high degree of cohesive integrity, and superior performance when assessed for potential application to specific 'high-end' use-cases. The collation of testing results confirmed that VEIN graphite is the only true competitor to synthetic graphite. Margosa has several samples being prepared for testing at the time of writing this shareholder update.

The speed at which any new effort to produce synthetic graphite in the West will limit any immediate benefit or contribution to the market to serve the short-term demand. The cost of production, the price of the material and the environmental impact will also all be contributing factors to decisions made in this area. The increased interest and investment in synthetic graphite production and alternatives, will open the door for discussions for Margosa on how the company's vein graphite can be used to displace synthetic graphite and how it could services a % of the market demand. This can be substantiated with data and can be done quickly. The Synthetic Graphite Market is expected to reach an estimated \$2.5 billion by 2028 with a CAGR of 3.8% from 2023 to 2028³.

- **Rationalisation of, and Margosa's influence on Market Pricing:** To date, natural flake graphite, Anode Material and Synthetic Graphite prices have been driven by China. China's decisions on export controls and permitting requirements will enable the west to influence market pricing. Currently, there is no recognized pricing model for natural VEIN graphite which has credible commercial data to support it. The market environment from 1 Dec will create an opportunity for Margosa to influence pricing based on the company's material and its use in place of FLAKE and Synthetic Graphite. Margosa is currently engaging the global leaders of market and industry analytics (Fastmarkets and Benchmark Intelligence) who are both keen to assist in establishing a route to defining credible data for VEIN graphite in an ongoing partnership.

Conversations with global EV manufacturers, Electronics and nano-technology giants and other organisations on off-take agreements and pricing strategies will be positioned to exploit the opportunities presented while being cognisant of risk and ongoing market uncertainty.

Margosa – Progress and Strategy

Margosa's strategy has been to ensure that it would be the first to showcase a significant JORC (2012)⁴ compliant resource estimate in Crystalline Vein Graphite. It would showcase & lead in the licensing application process with integrity, resolve in its pursuit for fairness and without political alliance or favor to be awarded Environmental and mining approvals for its Ridee Ganga Project.

Success has come, not without contention, delays and frustrations caused by events outside the control of the Company. Our vision has shifted and become more ambitious. Previously our vision was centered on establishing the Company as a leader in the supply of high-grade crystalline graphite. Now we are setting our sights on building an integrated Mine to Many Markets (MtM2) business, leveraging the current market context, and exploiting the differentiating brilliance of Margosa's material. We have established a partnership with UK-based scientists and experts in advanced processing of graphite and manufacturing of graphene products and materials.

1. Announcement – Semassinghe Oct 21, 2023 (adaderana.lk)
2. The Graphene Council – www.thegraphenecouncil.org
3. Morder Intelligence: Synthetic Graphite Market - Companies & Manufacturers (morderintelligence.com)
4. Geology and Resource Estimate Report Ridee Ganga Vein Graphite Project April 2020

Shareholder Update

3 November 2023



MARGOSA
GRAPHITE LIMITED

Collaboration in this area has broadened the company's view of market entry and influence in the short term and on the far horizon. The company has developed a clear understanding of which markets and use-cases its material is suited to, such as high-grade anode, elastomers/polymers, medical sensors, non-technology, and others. This in turn has assisted Margosa in its understanding of the ingredients required to develop our trajectory and showcase opportunities to scale. This has proven to be essential in recent discussions with institutions, brokers and investors and will ultimately define success for our ongoing capital raising efforts.

Margosa continues to be assured that its project is world-class and of its potential to influence and support Sri Lanka's economic recovery as well as the broader global community and pave the way for a cleaner, sustainable, and more sophisticated future.

The Board acknowledges the patience and resolve of its shareholders and stakeholders.

Best regards,

Colin Belton

Chairman

On Behalf the Board of Directors