



**Lanka Graphite Limited**

**Annual Report  
For the Year Ended 30 June 2016**

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## **CORPORATE DIRECTORY**

### **Directors**

Jitto Arulampalam (*Chairman*)  
Emily Lee (*Managing Director*)  
Alexander Cowie (*Non-Executive Director*)  
Alison Coutts (*Non-Executive Director*)

### **Company Secretary**

Justyn Stedwell

### **Principal Registered office in Australia**

Suite 32, Level 18,  
101 Collins Street  
Melbourne 3000  
Victoria, Australia  
Phone: +61 3 9221 6394  
Fax: +61 3 9620 0777

### **Stock Exchange Listing**

The Company is listed on the Australian Securities Exchange Limited under the trading code LGR

### **Share Registry**

Computershare Investor Services Pty Ltd  
GPO Box 3224  
Melbourne, VIC 3001

### **Auditors**

BDO East Coast Partnership  
14/140 William Street  
Melbourne, VIC 3000

### **Lawyers**

Fuse Advisory  
184, Moorabool Street  
Geelong, VIC 3220

### **Bankers**

Westpac Banking corporation  
530 Collins Street  
Melbourne, VIC 3000

## CHAIRMAN’S REPORT

Dear Fellow Shareholders,

It gives me great pleasure to welcome you to Lanka Graphite Limited’s (LGR) inaugural Annual Report for the year ended 30 June 2016. LGR recommenced trading on the Australian Securities Exchange (“ASX”) in August last year after changing its name from Viculus Limited and completing the successful takeover of Euro Petroleum Limited. The Company raised \$3.848 million via a prospectus which was vital in funding our activities over the past year.

Our Company’s key strategy is a multi-faceted plan in that we are working to develop high-grade vein graphite production in Sri Lanka, through the exploration of our own licences, which are located in central and south-western Sri Lanka as well as working in partnership with the Sri Lankan government. To this end we have commenced our exploration activities in Sri Lanka on our current granted 7 licenses and have also completed a Feasibility Study to determine the future viability of LGR and the Sri Lankan government entering into a commercial partnership to develop, upgrade and operate existing government-owned graphite mining operations.

We are also undertaking further exploration of our own exploration licences across a number of existing graphite workings. A range of surveying techniques were used during the past year and these have identified more than 70 historical pits, shafts and adits, and we will examine these further in our search for targets for further testing and possible blind graphite veins located away from historical workings.

LGR has also been proactive in identifying and building relationships with graphene production laboratories over the past year. This has included a collaboration with the National Taiwan University of Science and Technology (“NTUST”) and a Commercialisation Agreement with a Taiwan based high-tech Investment Company specialising in IP transfer and commercialisation, as well as discussions with leading North American graphene producers in order to secure a pathway for future graphene supply agreements.

The research undertaken by NTUST has already produced some exciting results in graphene production via a new liquid-based formulation using high-grade vein samples from LGR’s exploration tenements. This discovery has the potential to be a low-cost, high-yield repeatable production technique capable of mass graphene production with near zero wastage. We look forward to further results from this collaboration in coming months, with the knowledge that LGR will have access to any IP and commercialisation rights once patents are issued.

In the meantime, we have established an eminent scientific Advisory Board to provide strategic guidance to the Company as it develops commercial graphite and graphene products. We are excited to be working with this group, who are all experts in their field.

I am also hopeful of bringing my years of experience and leadership to the Company after joining the Board of LGR not long after we recommenced trading on the ASX. LGR has made excellent progress in less than 12 months and I look forward to guiding the Company through what will be a potentially very exciting year ahead as we continue our plans to become a graphite and graphene developer and producer in what is a high growth industry.

I thank our board and management for their work over the past year and our shareholders for their support. I hope that it continues over the coming year.

Jitto Arulampalam

## DIRECTORS' REPORT

The directors present their report together with the financial report of the consolidated entity ("the Group"), consisting of Lanka Graphite Limited ("the Company") and its subsidiaries, for the year ended 30 June 2016 and the Independent Auditors Report there on.

### Directors' details

The names of directors in office at any time during or since the end of the year are:

#### Jitto Arulampalam (Executive Chairman, appointed 6 August 2015)

Mr Arulampalam has considerable experience as a director of various listed public companies in Australia. He is currently Chairman of TBG diagnostics Ltd (ASX: TDL) and was Chairman of Euro Petroleum Ltd during the takeover. Mr Arulampalam has previously held positions as Chairman of ASX listed companies Fortis Mining Ltd (now Kazakhstan Potash Corporation Ltd), Greater Western Exploration Ltd, Medic Vision Ltd and ATOS Wellness Ltd.

At 30 June 2016, Jitto Arulampalam held 350,000 shares of the company and 3,000,000 shares under options.

#### Emily Lee (Managing Director, appointed 11 June 2013)

Emily is a Director of Mercer Capital, a boutique private equity firm based in Melbourne. Mercer Capital has been the lead strategic Corporate Advisor for Progen on managing and facilitating the corporate restructuring of the company and acquisition of Texas BioGene (TBG). Emily is currently a non-executive director of TBG Diagnostics Limited (ASX: TDL).

She has experience in corporate and business relationship management in the biotechnology field with demonstrated success in the corporate and government sectors in Australia and Asia.

She was also Young Entrepreneur of the Year, a member of Multicultural Business Ministerial Council (2011-2015), and led a delegation of Australian Mining and Biotech companies to Taiwan, Hong Kong and China.

At 30 June 2016, Emily Lee held 71,711 shares of the company and 4,000,000 shares under options.

#### Alexander Robert Cowie (Non-Executive Director, appointed 23 May 2014)

Alex Cowie is Director Research, Marketing and Distribution for Canaccord Genuity (Australia).

Alex was previously Editor of Diggers and Drillers where he pioneered a strategic minerals strategy, with a focus on graphite. In early 2012, Alex was the first to publish research on highly successful graphite explorer Syrah Resources. He has been a speaker on the graphite industry at several leading mining conferences, including Mines and Money Australia, and Mines and Money Hong Kong.

Alex holds a Master of Applied Finance through Kaplan Education, where he focused on Mining Valuation, Marketing, and Strategic Management.

At 30 June 2016, Alex held 500,000 shares under options.

Alison Mary Coutts (Non-Executive Director, appointed 23 May 2014)

Alison has extensive experience across a number of industry sectors and disciplines. This includes international engineering project management, strategy consulting, management training and organisational structuring.

Alison was a founder and director of a preeminent financial advisory firm in the Australian Life Sciences sector. She has also co-founded a private drug development company and a medical device company, Micro-X (ASX: MX1) which listed on the ASX in December 2015.

Currently, Alison is the Executive Chairman of Memphasys Ltd,(ASX: MEM) a biotechnology company that provides innovative separations technology to refine biological mixtures.

Alison has a degree in Chemical Engineering from the University of Melbourne and an MBA from the Melbourne Business School.

Alison is a former director in Datadot Technology Limited (ASX code: DDT) and was formerly Chair of CSIPR'S Health Sector Advisory Council.

At 30 June 2016, Alison held 500,000 shares under options.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

**Company Secretary**

Justyn Stedwell (Company Secretary, appointed 23 July 2015)

Justyn has completed a Bachelor of Commerce at Monash University, a Graduate Diploma of Accounting at Deakin University, a Graduate Diploma of Applied Corporate Governance at the Governance Institute of Australia and a Graduate Certificate of Applied Finance at Kaplan Business School.

Justyn has over 8 years' experience as a Company Secretary of ASX listed companies in various industries. He is currently the Company Secretary of several ASX listed companies including Imugene Limited, Rhinomed Limited, Manalto Limited, Rectifier Technologies Limited, Motopia Limited, Axxis Technology Group Limited and Australian Natural Proteins Limited. He was previously the Company Secretary of Kazakhstan Potash Corporation Limited and Nexvet Australia Pty Ltd.

Mr. Justyn Stedwell held the position of company secretary at the end of the year.

**Director's Interests**

At the date of this report, the directors' have the following interest in the company:

	Number of fully paid ordinary shares	Share options
Jitto Arulampalam	350,000	3,000,000
Emily Lee	71,711	4,000,000
Alexandra Cowie	-	500,000
Alison Coutts	-	500,000

### **Principal activity**

Lanka Graphite Limited (ASX: LGR) is an Australian-based Graphite Exploration Company focused on exploring high purity vein graphite in Sri Lanka. The Company was re-listed on the ASX in August 2015 following the completion of a merger between Lanka Graphite Limited (formerly Viculus Ltd) and Euro Petroleum Ltd (now Euro Petroleum Pty Ltd) by way of an off market takeover bid. The Company currently holds 7 exploration licences.

The loss after income tax attributed to members of the consolidated entity for the period ended 30 June 2016 was \$2,661,216 (30 June 2015: Loss \$99,881).

### **Dividends**

No Dividends have been paid or declared, and no dividends have been recommended by the Directors.

### **Operating results and review of operations**

#### **Operating results**

On 24 July 2015 the company issued 40,795,100 fully paid shares to the shareholders of Euro Petroleum Ltd for the acquisition of Euro Petroleum Ltd and its interest in exploration assets in Sri Lanka.

The loss of the group attributable to owners of Lanka Graphite Limited after providing for income tax amounted to \$2,611,770 for the year ended 30 June 2016 (30 June 2015 : Loss \$99,881). This result was established having treated Euro Petroleum Ltd as the acquirer by applying the provisions of AASB 2 "Share based payments" to the Euro Petroleum Acquisition transaction.

#### **Review of operations**

##### *ASX Re listing*

The company raised \$3,848,000 share capital at an issue price of \$0.20 per share during this year and recommenced trading on the ASX from 7th August 2015. A further \$200 at an issue price of \$0.20 was raised from the cleansing prospectus issued in February 2016.

##### *Sri Lanka graphite project*

Following the successful completion of re-admission to the ASX, the Company has focused its future strategy on exploration and development of graphite tenements in Sri Lanka. The total expenditure on evaluation and exploration to date is \$2.2m, which includes acquisition of tenements valued at \$2m.

During this financial period the company has signed a Material Collaboration Agreement with the National Taiwan University of Science and Technology and a commercialisation agreement with a Taiwan based high Tech Investment Company specialising in IP transfer and commercialisation.

The Company also signed a Memorandum of Understanding (MOU) with the Government of Sri Lanka for future partnerships. Under the terms of the MOU, government and Lanka Graphite representatives will form a graphite industry

development committee for the purpose of undertaking a feasibility study and determining the nature of the projects and the level of investment required to achieve the aims.

During the reporting period Lanka Graphite has completed the feasibility study on the commercial development of a number of Sri Lankan government graphite assets. The feasibility study shows that there are significant commercial opportunities available in the vein graphite and graphene industry in Sri Lanka.

**Exploration program**

The Company commenced the first phase of a planned reconnaissance geophysical survey within its exploration licenses (EL) EL266/ 267/ 268, which are located in the Western Province of Sri Lanka. Assays from the exploration licenses achieved high grade, 99.97% purity, with potential for nuclear grade. Recovery rates were circa 96%. Lanka Graphite was granted two licenses for the application areas commonly known as EL952 and EL954 by the Sri Lankan Geological Survey and Mines Bureau, which are both located within the Sabaragamuwa Province of Sri Lanka. The two licenses were granted for a period of 2 years commencing 11 August 2015.

The second set of results from an ongoing reconnaissance geological mapping exercise being undertaken by GSMB Technical Services (Pvt) Ltd over the Company's Exploration Licences (EL) EL 307 and EL 308 in southwestern Sri Lanka completed in January 2016. Geological mapping has identified more than 20 existing pits, shafts and adits on Exploration Licences (EL) EL307 and EL308. The mapping also highlighted structural and lithological trends that may be related to vein graphite mineralisation.

Following completion of the reconnaissance geological mapping programme, Lanka will review all the new data and integrate it with existing geological information to rank targets for high-powered fixed loop, time-domain, electromagnetic surveys (FLEM) follow-up. FLEM data provides high resolution data that can be modelled in 3D, to produce geophysical models of the conductive targets. These conductor models can then be used to assist in drill planning.

**Significant Events after the Balance Date**

There are no major significant events to be reported other than the reverse acquisition that occurred during the year and as disclosed in Note 25.

**Significant Changes in the state of affairs**

Significant changes in the state of affairs of the Group for the financial year were as follows:

Increase in contributed equity of \$3,887,967, resulting from:

	\$
Deemed share issue on acquisition of Euro Petroleum Ltd	111,303
Issue of 19,241,000 shares as a result of issue of shares under the reverse acquisition	3,848,200
Settlement of consulting fees through issue of 110,000 shares	22,000
Issue of 840,125 shares as director remuneration	79,831
Capital raising costs	(173,367)
<b>Total</b>	<b>3,887,967</b>



### **Future Development, Prospects and Business Strategies**

Lanka Graphite in collaboration with National Taiwan University (NTUST) has successfully developed a low cost potential breakthrough in Graphene production. Experiments were conducted by using Liquid Phase Exfoliation (LPE), a trialled and proven graphene production method, with new chemical solutions used as the exfoliation liquid. The new solution employs water friction, to assist with the exfoliation process. The results show almost a two fold increase in production yield, when compared with using conventional solutions. Further LPE research is being conducted in NTUST to further increase the graphene production yield.

Currently there are two IP patents lodged on the new graphene production method by NTUST with ownership rights held by Lanka Graphite.

### **Business Risks**

The material business risks faced by the Group that are likely to have an effect on the financial prospects of the Group, and how the Group manages these risks include:

**1. Environmental Sustainability risk-** as a mining exploration company, the group is materially exposed to environmental sustainability risks, and may adversely impact the ecosystems in which the group operates by failing to minimise pollution, manage waste, use water and energy efficiently, and address relevant biodiversity issues and failure to comply with, as a minimum, relevant legal and other requirements, including Sri Lankan environmental laws and regulations. The Company ensures its meets all relevant legal requirements and consistently reviews its impact on the environment and how any impact can be mitigated.

**2. Economic Sustainability risk-** The group's performance may be adversely affected by a downturn in the Australian and/or International economy which in turn may negatively impact the values of securities in the Group.

As commodities are principally sold throughout the world in US dollars, any fluctuations in the exchange rate between the functional currency and US dollars could adversely affect the group's financial position.

The Company will endeavour to mitigate these risks by engaging skilled and experienced management staff and exercising prudent financial administration.

**3. Social Sustainability risk-** the Group's ability to continue operating in a manner that meets accepted social norms and needs over the long term may be affected by a failure to respect the diverse culture of the Group's operating environment or to adhere to the community standards of such environment. To mitigate these social sustainability risks, the Board shall consider the social norms and needs of its operating environment and consider whether the Company's practices are meeting these social norms and needs. It shall also circulate its Diversity Policy and shall ensure that employees understand and adhere to it.

**4. Sovereign Risk -** The Company's operations could be adversely affected by the government actions in Sri Lanka or other countries or jurisdiction in which it has operational exposures, investment or exploration interests. The company's business is subject, in each of the countries in which it operates, to various national and local laws and regulations relating to, among other things, construction and mining exploration activities. A change in the laws which apply to the Company's businesses or the way in which they are regulated could have material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on the Company's businesses and financial condition. The Company will keep apprised of all

relevant laws and changes in these laws and will also monitor the political and social environment in which it operates to enable it to adroitly deal with any adverse changes in its legal, political and social environment.

**5. Funding Risk** - The Company is expected to require additional financing to meet its project development and working capital requirements, general and administrative expenditure and studies relating to future potential projects.

There can be no guarantee that Lanka Graphite will be able to raise sufficient funding on acceptable terms or at all. An inability to obtain financial on acceptable terms or at all may cause substantial delay in, or prevent the Sri Lankan exploration activities and/or the pursuit of future potential projects. The Directors believe the Company has a number of alternatives to raise the necessary funding (which may include both debt and equity sources of funding) and they are skilled and experienced to seek the necessary funding required.

#### Meetings of Directors

During the year, five (5) meeting of the Board of directors were held. Attendances by each director during the year were as follows:

	Directors` Meetings	
	Number eligible to attend	Number attended
Jitto Arulampalam	5	5
Emily Lee	5	4
Alexander Robert Cowie	5	3
Alison Mary Coutts	5	5

#### Share Options

Unissued ordinary shares of Lanka Graphite Limited under option at the date of this report are as follows:

Date Options Granted	Expiry Date	Issue Price of Shares	Number under option
23/07/2015	23/07/2018	\$0.30	5,500,000
23/07/2015	23/07/2017	\$0.30	9,750,000
10/09/2015	23/07/2017	\$0.30	1,000,000
			<u>16,250,000</u>

The holders of these options do not have any rights under the options to participate in any share issue of the company or of any other entity.

There were no ordinary shares of Lanka Graphite Limited issued during or since the end of the financial year as a result of exercise of options granted.

## **Remuneration Report (audited)**

The Directors of Lanka Graphite ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other key management personnel prepared in accordance with the *Corporations Act 2001 and the Corporations Regulations 2001*.

### ***Remuneration policy***

The remuneration policy of the Group has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration.

The Group's Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for KMP of the consolidated group is based on the following:

- The remuneration policy is to be developed and approved by the Board after professional advice is sought from independent external consultants (where applicable).
- All KMP receive a base salary (which is based on factors which shall be determined having regard to the profitability of the Company, relevant laws and/or regulations, industry standards, labour market conditions and the employee's attributes and experience), superannuation, fringe benefits, options and performance incentives.
- The Board which also serves as the remuneration committee reviews KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.
- As of now there are no performance incentives offered to KMP.

KMP receive, at a minimum, a superannuation guarantee contribution required by the government, which is currently 9.5% of the individual's average weekly ordinary time earnings (AWOTE) for all Australian based KMPs.

Other than the entitlements provided under the Group's defined contribution benefit superannuation arrangements, KMP do not receive any other retirement benefits.

Upon retirement, KMP are paid employee benefit entitlements accrued to the date of retirement.

All remuneration paid to KMP is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

### ***Engagement of Remuneration Consultants***

During the financial period, the company did not engage any remuneration consultant.

**Performance based remuneration**

There was no performance based remuneration set for the year.

**Amounts of remuneration**

Details of the remuneration of key management personnel of the Company are set out in the following tables.

The key management personnel of the Company consisted of the following directors of Lanka Graphite Limited:

<b>Position Held as at 30 June 2016 and any Change during the Year</b>	
Jitto Arulampalam	Executive Chairman (appointed 6 August 2015)
Emily Lee	Managing Director
Alexandra Cowie	Non-executive director
Alison Coutts	Non-executive director

And the following persons:

<b>Position Held as at 30 June 2016 and any Change during the Year</b>	
Derek Lo	Company Secretary (resigned 6 August 2015)
Justyn Stedwell	Company Secretary (appointed 23 July 2015)

**Employment Details of Members of Key Management Personnel**

<b>2016</b>	<b>Short term employee benefits</b>			<b>Post employment benefits</b>	<b>Share-based payments</b>		<b>Total <sup>(1)</sup></b>
<b>Name</b>	<b>Cash salary/ Directors Fees</b>	<b>Bonus</b>	<b>Non-cash benefits</b>	<b>Superannuation</b>	<b>Shares</b>	<b>Options</b>	
Alexandra Cowie	27,500	-	-	-	-	4,000	31,500
Alison Mary Coutts	25,000	-	-	-	-	4,000	29,000
Jitto Arulampalam	132,780	-	-	10,239	-	-	143,019
Emily Lee	132,780	-	-	10,239	79,831	32,000	254,850
Derek Lo	-	-	-	-	-	4,000	4,000
Justyn Stedwell	22,118	-	-	-	-	-	22,118
<b>Total</b>	<b>340,178</b>	<b>-</b>	<b>-</b>	<b>20,478</b>	<b>79,831</b>	<b>44,000</b>	<b>484,487</b>

  

<b>2015</b>	<b>Short term employee benefits</b>			<b>Post employment benefits</b>	<b>Share-based payments</b>		<b>Total <sup>(1)</sup></b>
<b>Name</b>	<b>Cash salary/ Directors Fees</b>	<b>Bonus</b>	<b>Non-cash benefits</b>	<b>Superannuation</b>	<b>Shares</b>	<b>Options</b>	
Alexandra Cowie	-	-	-	-	-	-	-
Alison Mary Coutts	-	-	-	-	-	-	-
Jitto Arulampalam	-	-	-	-	-	-	-
Emily Lee	60,000	-	-	11,400	75,000	-	146,400
Derek Lo	-	-	-	-	-	-	-
Justyn Stedwell	-	-	-	-	-	-	-
<b>Total</b>	<b>60,000</b>	<b>-</b>	<b>-</b>	<b>11,400</b>	<b>75,000</b>	<b>-</b>	<b>146,400</b>

<sup>(1)</sup> Of total remuneration 0% is performance based.

## EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

### Options

Details of the terms and conditions of options and rights granted to key management personnel as compensation during the reporting period are as follows:

Name	No. Options Granted & Vested	Fair value per option at grant date	Exercise Price	Amount paid or payable	Expiry Date	Date Exercisable
<i>Directors</i>						
Emily Lee	4,000,000	\$0.008	\$0.30	-	23/07/2018	23/07/2015
Alexander Cowie	500,000	\$0.008	\$0.30	-	23/07/2018	23/07/2015
Alison Coutts	500,000	\$0.008	\$0.30	-	23/07/2018	23/07/2015
<i>Other Key Management Personnel</i>						
Derek Lo	500,000	\$0.008	\$0.30	-	23/07/2018	23/07/2018
Total	<u>5,500,000</u>			<u>-</u>		

Options vest to key management personnel upon issue.

### Option holdings

Details of options over ordinary shares of Lanka Graphite Limited, held directly, indirectly or beneficially by key management personnel are as follows:

Name	Balance at 1 July 2015	Granted as Compensation	Options Exercised	Other Changes	Balance at 30 June 2016	Total vested and exercisable at 30 June 2016	Total vested and unexercisable at 30 June 2016
<i>Directors</i>							
Emily Lee	-	4,000,000	-	-	4,000,000	4,000,000	-
Alexander Cowie	-	500,000	-	-	500,000	500,000	-
Alison Coutts	-	500,000	-	-	500,000	500,000	-
<i>Other Key Management Personnel</i>							
Derek Lo	-	500,000	-	(500,000)	-	-	-
Total	<u>-</u>	<u>5,500,000</u>	<u>-</u>	<u>(500,000)</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>-</u>

### Shareholdings

Details of equity instruments (other than options and rights) in Lanka Graphite Limited held directly, indirectly or beneficially by key management personnel are as follows:

Name	Balance at 1 July 2015	Granted as Compensation	Received on exercise of options	Other Changes	Balance at 30 June 2016	Balance held nominally
<i>Directors</i>						
Emily Lee	-	840,125	-	(768,414)	71,711	71,711
Alexander Cowie	-	-	-	-	-	-
Alison Coutts	-	-	-	-	-	-
Jitto Arulampalam	-	-	-	350,000	350,000	350,000
<i>Other Key Management Personnel</i>						
Derek Lo	-	-	-	-	-	-
Total	<u>-</u>	<u>840,125</u>	<u>-</u>	<u>(418,414)</u>	<u>421,711</u>	<u>421,711</u>

2016 Lanka Graphite Limited --- Directors` Report

**Cash Bonuses, Performance-related Bonuses**

No incentives and/or bonus were awarded/paid during the period.

**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016	2015	2014	2013	2012
	\$	\$	\$	\$	\$
Sales revenue / Interest	507	396	-	22,842	139,036
EBITDA	(2,659,289)	(98,800)	(278,020)	(845,749)	(96,203)
EBIT	(2,661,216)	(99,881)	(279,044)	(845,749)	(96,206)
	2016	2015	2014	2013	2012
Share price at financial year end (cents)	0.09	n/a	n/a	n/a	n/a
Basic earnings per share (cents per share)	(3.89)	(0.98)	n/a	n/a	n/a

There is no link between performance and remuneration paid given Lanka is in the exploration phase and not generating revenues or profits.

**Other Equity-related KMP Transactions**

**Transactions with key management personnel**

Transactions between the company and related parties of Emily Lee during the year ended 30 June 2016 consisted of the following:

	Transactions for the year ended 30 June		Balance outstanding at 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Advance from Emily Lee	-	-	-	15,000
Advance from Mercer Capital Limited	-	212,422	-	274,422

The loans were made to the Company with no security on an interest free basis and are to be repaid upon the completion of a successful capital raising by the Company.

## **EXECUTIVE EMPLOYMENT CONTRACTS**

Jitto Arulampalam and Emily Lee

The key terms of Mr Jitto Arulampalam and Emily Lee's Agreements with Lanka Graphite are equivalent. The key terms are as follows:

- The executives shall be employed until agreement is terminated by mutual agreement.
- Working hours shall be eight hours per day, five days a week. They shall be entitled to standard holidays and leave entitlements as stipulated by the employment agreement.
- The executives shall be paid a basic salary of \$120,000 per annum plus superannuation, payable monthly in arrears.
- They are also entitled to Directors fees of \$30,000 per annum.
- The Employer may suspend the employment of the Executive at any time if the Executive has committed a breach of the Agreement or the Employer has reasonable grounds for suspecting a breach may have occurred. The Executive will be entitled to receive their remuneration under this agreement whilst being suspended.
- Lanka Graphite may by notice in writing summarily dismiss the Executive if the Executive engages in serious misconduct in relation to their employment and is convicted of any indictable criminal offence.
- Employment may also be terminated without cause by either Employer or Executive by 6 months' notice in writing to the other. If the Employer terminates the employment then the Executive shall be entitled to a termination payment in an amount equal to six months' salary.

### ***Directors Service Agreement – Alexandra Cowie and Alison Coutts***

The Company has entered into a Directors Service Agreement with each of the named directors. Pursuant to such agreement, each of the named directors shall be entitled to directors' fees of \$30,000.

## **End of Audited Remuneration report**

### **Environmental legislation**

Lanka Graphite operations in Australia and in DSR of Sri Lanka are subject to environmental regulation under a law of the Commonwealth or of a State or Territory in Australia and DSR of Sri Lanka.

### **Indemnifying Officers or Auditor**

To the extent permitted by law, the Company has indemnified each director from any liability arising out of the director discharging their duties and providing services as a director.

During or since the end of the financial year, the Company has not paid a premium in respect of insuring directors and officers, or the auditor of the Company for liabilities incurred in the management of the operations of the Company.

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor. During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or related entity.

**Proceedings on Behalf of Company**

No person has applied for leave of court to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the period.

**Non-audit services**

During the period, BDO East Coast Partnership, the Company's auditors did not perform any other services in addition to their statutory audit duties.

Details of the amounts paid to the auditors of the Company, BDO East Coast Partnership for audit and non-audit services provided during the period are set out in note 22.

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 16 of this financial report and forms part of this Directors' Report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.



.....  
Jitto Arulampalam  
Director  
Melbourne

30th September 2016



**DECLARATION OF INDEPENDENCE BY RICHARD DEAN TO THE DIRECTORS OF LANKA GRAPHITE LIMITED**

As lead auditor of Lanka Graphite Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Lanka Graphite Limited and the entities it controlled during the period.



Richard Dean  
Partner

**BDO East Coast Partnership**

Melbourne, 30 September 2016

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## **Lanka Graphite Limited – Corporate Governance Statement**

### **Corporate Governance Statement**

Lanka Graphite Limited has published its Corporate Governance Statement on its website. It can be found at <http://lankagraphite.com.au/about-us/corporate-governance/corporate-governance/>

## Lanka Graphite Limited - Financial Statements

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2016

		2016	2015
		\$	\$
Interest Income	6	507	396
Occupancy expenses	6	(101,049)	-
Legal and professional expenses		(504,958)	(40,355)
Regulatory and listing expenses	16	(1,022,941)	-
Advertising and promotion expenses		(160,718)	(5,648)
Travel and accommodation expenses		(166,647)	(44,446)
Depreciation and amortisation expense	11	(1,927)	(1,081)
Accounting and Audit Fee	21	(32,000)	-
Company secretarial	22	(22,118)	-
Employee benefit expenses	6	(231,588)	-
Share based payments	18	(123,831)	-
Directors fees	22	(102,500)	-
Feasibility studies		(121,525)	-
Other expenses		(69,921)	(8,747)
Loss from Continuing Operations before income tax		(2,661,216)	(99,881)
Income tax expense	7	-	-
<b>Loss after tax and other comprehensive income</b>		<b>(2,661,216)</b>	<b>(99,881)</b>
Loss for the year attributable to Minority Interest		(49,446)	-
Loss from continuing operations attributable to members of the company		(2,611,770)	(99,881)
<b>Total other comprehensive income</b>		<b>(2,661,216)</b>	<b>(99,881)</b>
<b>Earnings per share</b>			
Basic earnings per share (cents)	19	(3.89)	(0.98)
Diluted earnings per share (cents)	19	(3.89)	(0.98)

The accompanying notes form part of these financial statements.

## Lanka Graphite Limited - Financial Statements

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	2016	2015
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	390,720	14,160
Other receivables	9	97,698	12,180
Other financial assets	10	-	213,010
<b>TOTAL CURRENT ASSETS</b>		<b>488,418</b>	<b>239,350</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	63,052	1,354
Exploration and Development Cost	12	2,252,398	330,071
Intangible assets	13	25,780	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,341,230</b>	<b>331,425</b>
<b>TOTAL ASSETS</b>		<b>2,829,648</b>	<b>570,775</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	282,048	123,928
Borrowings	15	230,000	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>512,049</b>	<b>123,928</b>
<b>TOTAL LIABILITIES</b>		<b>512,049</b>	<b>123,928</b>
<b>NET ASSETS</b>		<b>2,317,598</b>	<b>446,847</b>
<b>EQUITY</b>			
Issued capital	17	6,295,151	2,407,184
Accumulated losses		(4,572,107)	(1,960,337)
Share based payment reserves	18	44,000	-
<b>EQUITY ATTRIBUTABLE TO OWNERS</b>		<b>1,767,044</b>	<b>446,847</b>
Non-Controlling Interest	30	550,554	-
<b>TOTAL EQUITY</b>		<b>2,317,598</b>	<b>446,847</b>

The accompanying notes form part of these financial statements.

## Lanka Graphite Limited - Financial Statements

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Note	Issued Capital	Accumulated Losses	Share Option Reserve	Total Equity Attributable to Owners	Non-Controlling interest	Total Equity
		\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2015</b>		<b>2,407,184</b>	<b>(1,960,337)</b>	<b>-</b>	<b>446,847</b>	<b>-</b>	<b>446,847</b>
Total Comprehensive loss for the year		-	(2,611,770)	-	(2,611,770)	(49,446)	(2,661,216)
<b>Transactions with owners in their capacity as owners:</b>							
Deemed Share issue on reverse acquisition	25	111,303	-	-	111,303	-	111,303
Issue of Shares		3,950,031	-	-	3,950,031	-	3,950,031
Cost attributable to issue of shares		(173,367)	-	-	(173,367)	-	(173,367)
Issue of Options- Management Remuneration	18	-	-	44,000	44,000	-	44,000
Non-Controlling Interest at the date of acquisition of Euro Petroleum Ltd	25	-	-	-	-	600,000	600,000
<b>Balance at 30 June 2016</b>		<b>6,295,151</b>	<b>(4,572,107)</b>	<b>44,000</b>	<b>1,767,044</b>	<b>550,554</b>	<b>2,317,598</b>
<b>Balance at 1 July 2014</b>		<b>2,297,184</b>	<b>(1,860,456)</b>	<b>-</b>	<b>436,728</b>	<b>-</b>	<b>436,728</b>
Total Comprehensive loss attributable to owners		-	(99,881)	-	(99,881)	-	(99,881)
<b>Transactions with owners in their capacity as owners:</b>							
Issue of Shares		110,000	-	-	110,000	-	110,000
<b>Balance at 30 June 2015</b>		<b>2,407,184</b>	<b>(1,960,337)</b>	<b>-</b>	<b>446,847</b>	<b>-</b>	<b>446,847</b>

The accompanying notes form part of these financial statements.

## Lanka Graphite Limited - Financial Statements

### CONSOLIDATED STATEMENT OF CASH FLOWS

For year ended 30 June 2016

	Note	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		507	396
Payments to trade creditors, other suppliers and creditors		(1,920,668)	(49,698)
Payments to Employees		(413,919)	-
<b>Cash used in operating activities</b>	21	<u>(2,334,080)</u>	<u>(49,302)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of Intellectual Property Rights		(25,780)	-
Cash Acquired on Acquisition of Euro Petroleum Ltd	25	675	-
Exploration and Evaluation Expenditure		(1,314,609)	-
Purchase of Property, Plant & Equipment		(59,771)	-
<b>Cash used in investing activities</b>		<u>(1,407,203)</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		3,848,200	110,000
Loan repayment from related parties		-	(95,000)
Receipt of other financial assets		213,010	-
Proceeds from issuance of unsecured loans	15	230,000	-
Cost of Raising capital		(145,637)	-
<b>Cash provided by financing activities</b>		<u>4,117,843</u>	<u>15,000</u>
Increase / (Decrease) in cash		<u>376,560</u>	<u>(34,302)</u>
Cash at the beginning of financial year		<u>14,160</u>	<u>48,462</u>
<b>Cash at the end of financial year</b>	8	<u>390,720</u>	<u>14,160</u>

The accompanying notes form part of these financial statements.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements

### NOTE 1: NATURE OF OPERATIONS

Lanka Graphite Limited and Subsidiaries (“**the Group**”) principle activities are mainly focused on exploring and mining high purity vein graphite in Sri Lanka.

#### 1.2: Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

#### Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Lanka Graphite Ltd) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 30.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of profit or loss and comprehensive income.

#### Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

#### *Exploration and evaluation expenditure*

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period at \$2,252,398.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### *Share-based payment transactions*

The consolidated entity measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next reporting period but may impact the profit or loss and equity. Refer to Note 18 for additional detail.

### *Estimation of useful lives of assets*

The consolidated entity 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 technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated, or where technically obsolete or non-strategic assets that have been abandoned or sold requiring them to be written off.

## **NOTE 2: GENERAL INFORMATION AND STATEMENT OF COMPLIANCE**

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Lanka Graphite Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The address of the parent company's registered office and its principal place of business is Suite 32, Level 18, 101 Collins Street, Melbourne 3000, Victoria, Australia.

The consolidated financial statements for the year ended 30 June 2016 were approved and authorised for issue by the Board of Directors on 30<sup>th</sup> September 2016.

## **NOTE 3: CHANGES IN ACCOUNTING POLICIES**

### **3.1 New and revised standards that are effective for these financial statements**

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2015. There has been no material impact on this financial report.

### **3.2 New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.



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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

### *AASB 16 Leases (applicable to annual reporting periods beginning on or after 1 January 2019).*

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

*AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 (applicable to accounting annual reporting periods beginning on or after 1 January 2016).*

This standard makes amendments to AASB 101 Presentation to Financial Statements arising from the IASB's Disclosure Initiative Project. The amendments are designed to encourage companies to apply professional judgement in determining what information to disclose in the financial statements. The amendments also clarify that companies should use professional judgement in determining where and in what order information is to be presented in the financial disclosures. There will be no significant impact on the Company's results on the adoption of this standard. The Company is currently reviewing financial report structures and disclosures.

### NOTE 4: SUMMARY OF ACCOUNTING POLICIES

#### 4.1 Overall Consideration

The consolidated financial statements have been prepared using the significant accounting policies and measurement bases summarised below.

##### *Going concern*

The consolidated entity has incurred a net loss of \$2,661,216 and a net cash out flow from operational activities of \$2,334,080 and investment cash out flow of \$1,407,203 that includes exploration and evaluation and purchase of equipment for the period ended 30 June 2016. It has no ongoing source of operating income and is dependent upon obtaining sufficient funding to meet its exploration expenditure budgets. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

The Company has received commitments for approximately \$1 million of convertible note funding expected to be issued in October 2016. This will provide funding to enable the company to continue its exploration activities. Until the consolidated entity establishes cash flow positive operations, it will need to raise additional capital from time to time.

Any such fund raisings will be subject to factors beyond the control of the consolidated entity and its directors. When the consolidated entity requires further funding for its future programs the additional funds will be raised in a manner deemed most beneficial by the directors, taking in to account of working capital, project outcomes, budgets, share market conditions, opportunities of capital raising and industry conditions. The directors are confident that the current business plans will enable them to raise additional funds as required. If the entity is not successful in raising additional capital, minimum work obligations arising from its interests in exploration may, subject to negotiation and approval, be varied and/or satisfied by joint-ventures, sale of tenements interests.

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activities and the discharge of liabilities in the normal course of the business at the amounts stated in the financial statements.

If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial report. The report does not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amounts of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its obligations as and when they become due and payable.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### 4.2 Business combination

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (ie gain on a bargain purchase) is recognised in profit or loss immediately.

#### *Reverse acquisition accounting*

On 24 July 2015, Lanka Graphite Ltd formerly Viculus Ltd (LGL) acquired all of Euro Petroleum Ltd's (Euro) issued capital. At that date Viculus changed its name to Lanka Graphite Ltd.

The historical financial information has been prepared on the basis that the transaction is most appropriately accounted for as reverse acquisition as described below. Hence the historical financial information presented in this report reflects the Euro Petroleum Ltd financial information for comparatives.

The acquisition of Euro (the legal subsidiary/legal acquirer) by LGL (the legal parent/legal acquiree) was deemed to be a reverse acquisition, since the substance of the transaction was such that the existing shareholders of Euro obtained control of LGL. AASB 3 *Business Combinations* sets out the accounting principles to be followed in a reverse acquisition transaction. However, the Directors have concluded that LGL does not meet the definition of a business as prescribed in AASB 3 and, as such, it has been deemed that the Acquisition cannot be accounted for in accordance with the guidance set out in AASB 3. Therefore, consistent with the accepted practice for transactions similar in nature to the Acquisition, the Company has accounted for the Acquisition in the consolidated financial statements of the legal acquirer (LGL) as a continuation of the financial statements of the legal acquiree (Euro), together with a share based payment measured in accordance with AASB 2 *Share Based Payments*, which represents a deemed issue of shares by the legal acquiree (Euro), equivalent to the current shareholders interest in LGL post the Acquisition. The excess of the assessed value of the share based payment over the net assets of LGL as at 24 July 2015 (the date of acquisition) has been expensed to the statement of profit or loss and other comprehensive income as a cost of listing (see Notes 16 and 25).

### 4.3 Foreign currency translation

#### *Functional and presentation currency*

The consolidated financial statements are presented in Australian Dollars (\$AUD), which is also the functional currency of the Parent Company.

#### *Foreign currency transactions and balances*

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at year end exchange rates are recognised in profit or loss.

Non-monetary items are not retranslated at year-end and are measured at historical cost (translated using the exchange rates at the date of the transaction), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### *Foreign operations*

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the \$AUD are translated into \$AUD upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into \$AUD at the closing rate at the reporting date. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into \$AUD at the closing rate. Income and expenses have been translated into \$AUD at the average rate over the reporting period. Exchange differences are charged or credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

### **4.4 Revenue and Other Income**

Revenue is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is recognised and measured at the fair value of the consideration or contributions received, net of goods and service tax ("GST"), to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

### *Interest income*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to the net carrying amount of the financial asset.

### **4.5 Intangible assets**

#### **Recognition of intangible assets**

#### *Exploration and evaluation expenditure*

Exploration and evaluation expenditures in relation to separate areas of interest, for which rights of tenure are current, are capitalized in the year in which they are incurred and are carried at cost less accumulated impairment losses where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met;
  - a) The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
  - b) Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest is continuing.

Capitalized exploration costs are reviewed at each reporting date and are evaluated according to whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalized exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in previous years. Where a decision is made to proceed with development, accumulated expenditure will be tested for impairment, transferred to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### *Intellectual property rights*

Intellectual property rights are recognised at cost of acquisition, less impairment losses. They have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. They are amortised over their useful lives ranging from 15 to 20 years

### **4.6 Financial liabilities and equity instruments**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Convertible Notes are initially recognised at the fair value of the liability portion of the Note as determined by using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the Note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of tax effects.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### **4.7 Property, Plant and Equipment**

Each class of property, plant and equipment is carried at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

### *Depreciation*

The depreciable amount of all property, plant and equipment including buildings but excluding freehold land, is depreciated on straight line basis over the asset's useful life to the group commencing from the time the asset is held ready for use.

The depreciation rate used for plant and equipment is 20%.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### **4.8 Impairment testing of intangible assets and property, plant and equipment**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that a previously recognised impairment loss may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

### 4.9 Financial Instruments

#### *Recognition, initial measurement and de-recognition*

Financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are measured at fair value plus directly attributable transactions costs at initial recognition and subsequently at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

### 4.10 Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantively enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity or other comprehensive income instead of the profit or loss when the tax relates to items that are credited or charged directly to equity or other comprehensive income.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### 4.11 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### 4.12 Loans and receivables

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of loans and receivables is raised when there is objective evidence that the Company will not be able to collect all amounts due to according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the loan or receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### 4.13 Equity, reserves and dividend payments

Share capital represents the historical value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from share capital, net of any related income tax benefits.

Accumulated losses include all current and prior period accumulated losses.

All transactions with owners of the parent are recorded separately within equity.

Share-based payments reserves represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options granted on grant date.

### 4.14 Employee Benefits

Accrual is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be wholly settled within 12 months have been measured at the amounts expected to be paid when the liability is settled.

### 4.15 Equity-settled compensation

The Company operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity share-based payment reserve. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date, such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### 4.16 Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the tax authorities. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flow on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

### NOTE 5: SEGMENT INFORMATION

The Group has an operation in Sri Lanka where its graphite tenements are located. It operates through its subsidiary, Lanka Graphite Pte Ltd (Sri Lankan incorporated entity). The main activity of this company is exploration and feasibility studies. As this is the only operation of the company the directors review board reports in respect to the entire group.

### NOTE 6: INCOME AND EXPENSES

Finance Income for the reporting periods consists of the following:

	2016 \$	2015 \$
Finance Income for the reporting periods consists of the following:		
Interest income from loans and receivables	507	396

Expenses include the following:

Occupancy expenses		
Operating lease payments	64,374	-
Other occupancy expense	36,675	-
<b>Total</b>	<b>101,049</b>	<b>-</b>
Employee benefits expenses		
Wages	205,611	-
Superannuation	25,977	-
<b>Total</b>	<b>231,588</b>	<b>-</b>



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**Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)****NOTE 7: INCOME TAX EXPENSE**

The prima facie tax on loss from ordinary activities before income tax is reconciled to income tax as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total loss before income tax from ordinary activities	(2,661,216)	(99,891)
Prima Facie tax benefit on loss before income tax @30%	(798,365)	(29,967)
Add:		
Non-deductible items	292,835	52
Tax Losses not recognised	505,530	29,915
Income Tax expenses	<u>-</u>	<u>-</u>

The extent of the Company's tax losses has not been confirmed following the recapitalisation of the Company, any potential benefits from tax losses have not been recognised as the directors do not believe the conditions for recovery can be met.

**NOTE 8: CASH AND CASH EQUIVALENTS**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and on hand	<u>390,720</u>	<u>14,160</u>

**NOTE 9: OTHER RECEIVABLES**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
GST and other receivables	<u>97,699</u>	<u>12,180</u>

Due to their short term nature the carrying value of trade and other receivable is assumed to be the future fair value.

**NOTE 10: OTHER FINANCIAL ASSETS**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Loan to Euro Petroleum Pty Ltd	<u>-</u>	<u>213,010</u>

Loan to Euro has been eliminated on consolidation post acquisition.

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 11: PROPERTY PLANT AND EQUIPMENT

	2016 \$	2015 \$
Office equipment		
Cost	11,871	3,516
Accumulated depreciation	(8,149)	(2,162)
	<u>3,722</u>	<u>1,354</u>
Motor Vehicle		
Cost	59,330	-
Accumulated depreciation	-	-
	<u>59,330</u>	<u>-</u>
<b>Total Carrying amount at the year end</b>	<u>63,052</u>	<u>1,354</u>

Reconciliation of carrying value for each class of property, plant and equipment are set out below:

	2016 \$	2015 \$
<b>Office equipment</b>		
Carrying amount at the beginning of the year	1,354	2,435
Acquired through reverse acquisition (Note 25)	3,615	-
Additions	680	-
Depreciation	(1,927)	(1,081)
Carrying Amount at the year end	<u>3,722</u>	<u>1,354</u>
<b>Motor Vehicle</b>		
Carrying amount at the beginning of the year	-	-
Additions	59,330	-
Depreciation	-	-
Carrying Amount at the year end	<u>59,330</u>	<u>-</u>
<b>Total Carrying amount at the year end</b>	<u>63,052</u>	<u>1,354</u>

### NOTE 12: EXPLORATION AND DEVELOPMENT EXPENDITURE

	2016 \$	2015 \$
Opening balance 1 July	330,071	330,071
Payment for tenements rights upon acquisition of Euro Petroleum Ltd	1,070,000	-
Proportionate share of exploration assets of Non-Controlling interests on acquisition of Euro Petroleum Ltd.	600,000	-
Exploration Expenditure since acquisition	252,327	-
<b>Total</b>	<u>2,252,398</u>	<u>330,071</u>

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 13: INTANGIBLE ASSETS

	2016	2015
	\$	\$
<b>Intellectual Property Rights:</b>		-
Carrying amount at the beginning of the year	-	-
Additions	25,780	-
Amortisation	-	-
<b>Total</b>	<b>25,780</b>	<b>-</b>

Lanka Graphite has successfully developed a low cost potentially breakthrough method of graphene production in collaboration with National Taiwan University (NTUST). NTUST has lodged two patents on the new graphene production method by with ownership rights held by Lanka Graphite.

### NOTE 14: TRADE AND OTHER PAYABLES

	2016	2015
	\$	\$
Trade payables	59,541	91,281
Other payables	190,507	22,647
Accrued expenses	32,000	10,000
<b>Total</b>	<b>282,048</b>	<b>123,928</b>

### NOTE 15: UNSECURED BORROWINGS

	2016	2015
	\$	\$
<b>Unsecured loans</b>	<b>230,000</b>	<b>-</b>

Unsecured loans of \$230,000 has been advanced as Loans as at 30 June 2016. Subsequent to reporting date these loans have been applied by the lenders to acquire convertible notes at an issue price of \$1 per note. The loans bear interest at 10% prior to issue of convertible notes. Each note entitles the holder to convert to one ordinary share at a cost of 12.5 cents per share and it is convertible in 12 months' time at the holder's option and the interest is payable at the end of 12 months.

### NOTE 16: REGULATORY AND LISTING COST

	2016	2015
	\$	\$
Cost of Listing - Reverse Acquisition	902,117	-
ASX/ASIC/Share Registry Fees	81,176	-
Board of Investment and Renewal Fee	39,648	-
<b>Total</b>	<b>1,022,941</b>	<b>-</b>

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 17: ISSUED CAPITAL

	2016		2015	
	\$	No.	\$	No.
Fully Paid ordinary shares	<b>6,295,151</b>	<b>71,180,085</b>	<b>2,407,184</b>	<b>10,193,860</b>
	2016		2015	
	\$	No.	\$	No.
Opening balance 1 July	2,407,184	10,193,860	2,297,184	10,193,860
Acquisition of Euro Petroleum Ltd Shares	-	40,795,100	-	-
Deemed share issue on acquisition of Euro Petroleum Ltd	111,303	-	-	-
Issue of shares pursuant to prospectus	3,848,200	19,241,000	110,000	-
Settlement of consulting fees	22,000	110,000	-	-
Issue of shares to settle director remuneration	79,831	840,125	-	-
Capital raising costs	(173,367)	-	-	-
<b>Balance 30 June</b>	<b>6,295,151</b>	<b>71,180,085</b>	<b>2,407,184</b>	<b>10,193,860</b>

In accordance with the principles of reverse acquisition described in note 4.2 Euro Petroleum Ltd is deemed to be the accounting acquirer. As such in disclosing movements in contributed equity, the dollar value is represented by accounting acquirer, Euro Petroleum Ltd and the number of shares is that of legal acquirer Lanka Graphite Ltd. Upon the completion of the takeover Lanka Graphite Ltd completed a capital raising of \$3,848,200 by issuing 19,241,000 shares. Refer to Note 25 for additional information on the reverse acquisition.

The share capital of the company consists only of fully paid ordinary shares; the shares do not have a par value. All shares are equally eligible to receive dividends and the repayment of capital. Each share represents one vote at a shareholders' meeting.

The shares issued to settle director remuneration constitute a share-based payment and were fair valued using the closing price of the Company shares on the date of issuance, 9.5 cents which were approved at the AGM.

#### Capital Management

Management controls the capital of the Company in order to obtain a sustainable debt to equity ratio, generate long-term shareholder value, ensure that the Company can fund its operations and continue as a going concern. The Company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management will manage the Company's capital by assessing the Company's financial risk and adjusting its capital structure in response to changes in these risks and the market. These responses include management of debt levels, distributions to shareholders and share issues.

### NOTE 18: SHARE-BASED PAYMENTS

	2016	2015
	\$	\$
Share-based payments reserve	44,000	-

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration.

### Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

On 23 July 2015, 5,500,000 share options were granted to directors and key management personnel to take up ordinary shares at an exercise price of \$0.30 each. The options are exercisable on or before 23 July 2018. The options hold no voting or dividend rights and are not transferable. Further details of these options are provided in **the directors' report. The options lapse when a director ceases their employment with the Company. During the financial year, 5,500,000 options vested with key management personnel (2015: 0).**

A summary of the movements of share-based payment options issued is as follows:

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
23/07/2015	23/07/2018	\$0.30	-	5,500,000	-	-	5,500,000
Weighted Average exercise Price			-	\$0.30	\$0.00	\$0.00	\$0.30

For the KMP options granted during the current financial year, the valuation model inputs used to determine fair value at the grant date are as follows:

Grant Date	Expiry Date	Share price at grant date <sup>(1)</sup>	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
23/07/2015	23/07/2018	\$0.16	\$0.30	30%	Nil	2.50%	\$0.008

(1) The company listed on 8 August 2015, therefore there was no share price and for purposes of valuation, the share price utilised was the quoted price when the Company listed.

### Options issued in lieu of cash

On 23 July 2015, 9,750,000 share options were granted to owners of Euro Petroleum Pty Ltd as consideration (further described in Note 25). These allow the option holders to take up ordinary shares at an exercise price of \$0.30 each. The options are exercisable on or before 23 July 2017. The options hold no voting or dividend rights and are not transferable.

On 10 September 2015, 1,000,000 share options were granted as payment to personnel to take up ordinary shares at an exercise price of \$0.30 each. The options are exercisable on or before 23 July 2018. The options hold no voting or dividend rights and are not transferable.

A summary of the movements of these options issued is as follows:

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
23/07/2015	23/07/2017	\$0.30	-	9,750,000	-	-	9,750,000
10/09/2015	23/07/2017	\$0.30	-	1,000,000	-	-	1,000,000
			-	10,750,000	-	-	10,750,000
Weighted Average exercise Price			-	\$0.30	\$0.00	\$0.00	\$0.30

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 19: EARNINGS PER SHARE

	2016	2015
Earnings used to calculate basic EPS	(2,661,216)	(99,881)
Weighted average no. of ordinary shares	67,133,563	10,193,860
Basic loss per share (cents)	(3.89)	(0.98)
Weighted average shares & options outstanding	67,133,563	10,193,860
Diluted loss per share (cents)	(3.89)	(0.98)

Potential changes related to share options are excluded from the calculation of diluted EPS because they are anti-dilutive.

### NOTE 20: CONSOLIDATED STATEMENT OF CASHFLOW RECONCILIATION

	2016 \$	2015 \$
<b>Reconciliation of operating result after income tax to net cash provided by operating activities</b>		
Operating loss before income tax	(2,661,216)	(99,881)
Add back non-cash items:		
Depreciation	1,927	1,081
Reverse Acquisition Cost Adjustment	902,117	-
Options issued for nil Consideration	44,000	-
Change in operating assets and liabilities:		
(Increase)/decrease in Receivables	4,965	27,837
Increase/(decrease) in Payables	(448,752)	21,661
Net cash used in operating activities	<u><u>(2,156,959)</u></u>	<u><u>(49,302)</u></u>

### NOTE 21: AUDITOR REMUNERATION

	2016 \$	2015 \$
<i>Auditor – BDO East Coast Partnership</i>		
Audit or review of financial statements	32,000	10,000
<i>Auditor – Standard Accountants &amp; Advisors</i>		
Audit or review of financial statements – 2014	-	10,500
Net cash used in operating activities	<u><u>32,000</u></u>	<u><u>20,500</u></u>

### NOTE 22: RELATED PARTY TRANSACTIONS

Parent entity  
Lanka Graphite Limited is the parent entity.

*Subsidiaries*  
Interests in subsidiaries are set out in note 30.

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	2016 \$	2015 \$
Short-term employee benefits		
Salary	215,560	-
Company secretarial	22,118	60,000
Directors fees	102,500	-
Post-employment benefits	20,478	11,400
Share-based payments	123,831	75,000
<b>Total</b>	<b>484,487</b>	<b>146,400</b>

### Transactions with key management personnel

	Transactions for the year ended 30 June		Balance outstanding at 30 June	
	2016 \$	2015 \$	2016 \$	2015 \$
Advance from Emily Lee	-	-	-	15,000
Advance from Mercer Capital Limited	-	212,422	-	274,422
<b>Total</b>	-	<b>212,422</b>	-	<b>289,422</b>

These loans were made to the Company with no security and on an interest free basis and have been repaid upon the completion of a successful capital raising by the Company.

No other transactions with key management personnel occurred during the financial year.

### NOTE 23: CONTINGENT LIABILITIES AND COMMITMENTS

As at the date of this report, the directors were not aware of any material contingent liabilities, assets or commitments.

### NOTE 24: CAPITAL AND LEASING COMMITMENTS

Non-cancellable operating leases for premises contracted for but not recognised in the financial statements

	2016 \$	2015 \$
<i>Operating Lease Commitments</i>		
- not later than 12 months	52,800	-
- between 12 months and five years	-	-
- later than five years	-	-
<b>Total</b>	<b>52,800</b>	<b>-</b>

The operating leases are entered into for the purposes of leasing company premises.

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 25: ACQUISITION OF EURO PETROLEUM LTD

Under the acquisition, Lanka Graphite Ltd acquired all the shares of Euro Petroleum Ltd by issuing 40,795,100 fully paid ordinary shares and 9,750,000 options on 23 July 2015. This gave Euro Petroleum Ltd shareholders a controlling interest in Lanka Graphite Ltd, which equates to a controlling interest in the combined entity.

As described in the policy Notes 4.2 a share based payment transaction arises whereby Euro Petroleum Ltd is deemed to have issued shares in exchange for the net assets of Lanka Graphite Ltd together with Lanka Graphite Ltd's listed status. The listed status does not qualify for recognition as an intangible asset and has therefore been expensed in profit and loss as a listing expense.

	<b>2016</b>
	<b>\$</b>
Deemed Share Payment	111,303
Net liabilities at acquisition date	790,814
Cost of listing – reverse acquisition (Note 16)	<u>902,117</u>
<b>Assets</b>	
Cash and Cash Equivalents	675
Trade and other Receivables	49,447
Property, Plant and Equipment	3,615
<b>Liabilities</b>	
Trade and Other Payables	(340,444)
Borrowings	(504,107)
Total identifiable net liabilities at fair value of legal acquiree	<u>(790,814)</u>

### NOTE 26: FINANCIAL RISK MANAGEMENT

#### *Derivatives*

The Company does not undertake hedging, nor does it use other derivative financial instruments.

#### *Foreign currency risk*

From time to time, the Company undertakes transactions denominated in foreign currencies, consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and may utilise forward foreign exchange contracts. The group had no monetary assets or liabilities denominated in foreign currencies at the year-end or during the period or at the end of the prior period.

#### *Interest rate risk*

The Company is exposed to interest rate risk when entities in the Company borrow funds at either fixed or floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings. The group has not historically undertaken hedging activities or entered into interest rate swaps.

There is no significant exposure to interest rate risk at 30 June 2016 or 30 June 2015.



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## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### *Credit risk*

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are monitored.

The carrying amount of financial assets recognised in the financial statements, which are net of impairment losses, represents the Company's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held. The Company does not hold any collateral or other credit enhancements to cover this credit risk.

### *Liquidity risk*

Responsibility for liquidity risk management rests with the board of directors, which manages the Company's short, medium and long-term funding and liquidity management requirements. The Company has recently emerged from voluntary administration and is seeking to manage liquidity risk by obtaining adequate credit facilities and new capital.

The Company has no lease or financial guarantee arrangements at the period end.

### *Financing facilities*

As at 30 June 2016, the company does not have access to any established finance facility.

### *Fair value of financial instruments*

The net fair value of financial assets and liabilities approximates carrying value.

### *Remaining contractual maturities*

All financial assets and liabilities are due within 12 months.

## **NOTE 27: CONTINGENT LIABILITIES AND COMMITMENTS**

As at the date of this report, the directors were not aware of any material contingent liabilities, assets or commitments.

## **NOTE 28: EVENTS SUBSEQUENT TO REPORTING DATE**

There are no major subsequent events as at the reporting date other than what is disclosed in Note 15.

## Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)

### NOTE 29: PARENT ENTITY INFORMATION

Set out below is the supplementary information about the parent entity, Lanka Graphite Limited (legal acquiree) which has been prepared in accordance with Australian Accounting Standards

#### Statement of profit or loss and other comprehensive income

	Parent	
	2016 \$	2015 \$
Loss after income tax	(2,330,794)	(591,871)
Total comprehensive income	(2,330,794)	(591,871)

#### Statement of financial position

	Parent	
	2016 \$	2015 \$
Total current assets	1,990,024	50,122
Total assets	2,021,686	53,737
Total current liabilities	420,513	844,551
Total liabilities	420,513	844,551
Equity		
Contributed equity	27,785,856	23,107,075
Share based payment reserves	44,000	-
Accumulated losses	(26,228,683)	(23,897,889)
Total equity	1,601,173	(790,814)

### NOTE 30: INTEREST IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in the notes:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2016 %	2015 %
Euro Petroleum Pty Ltd	Australia	100%	0%
Lanka Graphite Holdings Pty Ltd	Australia	100%	0%
Lanka Graphite Holdings Pvt Ltd	Sri Lanka	70%	0%

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**Lanka Graphite Limited – Notes to the Consolidated Financial Statements (continued)**

Summarised financial information about Non-Controlling Interest in Subsidiary:

*Statement of profit or loss and other comprehensive income*

	<b>Lanka Graphite Holdings Pvt Ltd</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Revenue	-	-
Loss after income tax	(164,819)	-
Total comprehensive income	(164,819)	-

*Statement of financial position*

	<b>Lanka Graphite Holdings Pvt Ltd</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Total current assets	-	-
Total assets	2,306,452	-
Total current liabilities	471,271	-
Total liabilities	471,271	-
Equity		
Contributed equity	2,000,000	-
Accumulated losses	(164,819)	-
Total equity	1,835,181	-

**Proceedings on Behalf of Company**

No person has applied for leave of court to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the period.

**Non-audit services**

During the period, BDO East Coast Partnership, the Company's auditors did not perform any other services in addition to their statutory audit duties.

Details of the amounts paid to the auditors of the Company, BDO East Coast Partnership for audit and non-audit services provided during the period are set out in note 22.

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 16 of this financial report and forms part of this Directors' Report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.



.....  
**Jitto Arulampalam**  
Director  
Melbourne

30th September 2016

## INDEPENDENT AUDITOR'S REPORT

To the members of Lanka Graphite Limited

### Report on the Financial Report

We have audited the accompanying financial report of Lanka Graphite Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Lanka Graphite Limited, would be in the same terms if given to the directors as at the time of this auditor's report.



## Opinion

In our opinion:

- (a) the financial report of Lanka Graphite Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

## Emphasis of matter

Without modifying our opinion, we draw attention to Note 4.1 in the financial report, which indicates that the ability of the company to continue as a going concern is dependent upon the future successful raising of necessary funding through equity. This condition, along with other matters as set out in Note 4.1, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 14 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Lanka Graphite Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership

Richard Dean  
Partner

Melbourne, 30 September 2016

## Lanka Graphite Limited – ASX Additional Information – As At 27 September 2016

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below.

<b>Top 20 Shareholders</b>	<b>Number of shares Held</b>	<b>Percentage(%) of Issued shares</b>
1 HSBC CUSTODY NOMINEES	11,740,508	16.49%
2 CITY WINNER HOLDINGS LTD	3,000,000	4.21%
3 SHI CHUNG CHANG	1,500,000	2.11%
4 MS PEI-FEN LEE	1,013,600	1.42%
5 BICCACINI PTY LTD	1,002,500	1.41%
6 PETER BIAN TES &	1,000,000	1.40%
7 BONVILLA CONSTRUCTIONS PTY	1,000,000	1.40%
8 CHIEN AN CHANG	1,000,000	1.40%
9 SHIH TSUNG CHANG	1,000,000	1.40%
10 SHIH WEN CHANG	1,000,000	1.40%
11 GERARD LUXON &	1,000,000	1.40%
12 BALANJALI MANDALESON	1,000,000	1.40%
13 ROGUE INVESTMENTS PTY LTD	1,000,000	1.40%
14 MR HARRY DOUMBOS	900,000	1.26%
15 MDRA PTY LTD	900,000	1.26%
16 BICCACINI PTY LTD	813,750	1.14%
17 MRS CHU-YIN LIN	802,000	1.13%
18 HARRY DOUMBOS	795,000	1.12%
19 KSJ SUPERFUND PTY LTD	763,040	1.07%
20 LJR CONSTRUCTIONS PTY LTD	760,000	1.07%
<b>Top 20 Shareholders</b>	<b>31,990,398</b>	<b>44.94%</b>
Other Shareholders	<b>39,189,687</b>	<b>55.06%</b>
<b>Total Issued Shares</b>	<b>71,180,085</b>	<b>100.00%</b>

### Distribution of Shareholdings – Fully Paid Ordinary Shares:

<b>Size of Holding</b>	<b>Number of share holders</b>	<b>Number of Shares</b>
1-1,000	1,602	135,318
1001-5,000	66	177,545
5,001-10,000	93	852,744
10,001-100,000	180	7,492,730
100,001 and over	131	62,521,748
<b>Total</b>	<b>2,072</b>	<b>71,180,085</b>

<b>Equity</b>	<b>Security Quoted</b>	<b>Unquoted</b>	<b>Total</b>
Fully Paid Ordinary Shares	54,980,085	16,200,000	71,180,085
Options	-	16,250,000	16,250,000

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## Lanka Graphite Limited – ASX Additional Information – As At 27 September 2016

### Tenements

The company's tenements rights in Sri Lanka as follows:

<b>Tenements</b>	<b>Grid Number</b>	<b>Status</b>	<b>Location</b>
EL/236/R/1	36	Granted	Western Province
EL/237/R/1	33	Granted	Western Province
EL/266/R/1	36	Granted	Western Province
EL/267/R/1	14	Granted	Western Province
EL/268/R/1	51	Granted	Southern and Sabaragamuwa Province
EL/307	09	Granted	Sabaragamuwa Province
EL/308	28	Granted	Sabaragamuwa province