Lanka Graphite Limited

Annual Report
For the Year Ended 30 June 2017

TABLE OF CONTENTS

CORPORATE DIRECTORY

Directors
Jitto Arulampalam *(Chairman)*
Emily Lee *(Managing Director)*
Alex Keach *(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
Collins Square, Tower 4,
Level 18, 727 Collins Street
Melbourne, VIC 3008

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,

Lanka Graphite ("Lanka") had a productive year, establishing and meeting three important milestones during the period. The first milestone was the application for artisanal mining at Exploration License EL307, which has high grade vein graphite mineralisation outcrops at the surface and subsurface that will enable simple recovery. The second was the successful acquisition of Miniran, which has a number of highly prospective graphite tenements in Sri Lanka. The final key milestone was establishment of the Heads of Agreement (HOA) with Global Graphene Group (G3), a global leader in production of graphene-enhanced products.

Artisanal Mining

Production volumes of graphite within the target area of EL307 are expected to be at least 20 tonnes per month within six months of mining commencement. Lanka aims to apply for further artisanal mining licenses at various of its other tenements to increase production to a minimum of 2000 tonnes per annum.

The Artisanal Mining application is an important step for Lanka to fast track its status from being a mining exploration company to becoming a producer and thereby to begin generating revenues and shareholder returns.

Acquisition of Miniran

Following the successful acquisition of Miniran Pty Ltd (Miniran), Lanka is positioned to control the largest land holding of prospective high grade vein graphite in Sri Lanka. The Miniran portfolio represents the last large remaining graphite ground tenement package available in Sri Lanka, making this a significant acquisition for Lanka Graphite. The tenements cover abandoned mines and production locations that Lanka's team on the ground in Sri Lanka has explored, examined and sampled. Lanka believes there is high prospectively in its package of tenements.

Agreement with Global Graphene Group (G3)

Lanka announced that it had entered a Heads of Agreement (HOA) with a global leader in production of graphene-enhanced products, Global Graphene Group (G3) which is to lead to the formation of a joint venture for development, exploitation and commercial production of a range of graphene-enhanced products. The proposed joint venture would leverage high purity LGR-produced vein graphite.

G3 is the parent company of Angstron Materials, Honeycomb Battery and Nanotek Instruments and is based in the United States and is a global leader in graphene-enhanced applications, supporting a range of products to customers in 38 countries. G3 which holds more than 280 patents in the field, is scaling a broad range of commercial platforms of graphene applications in several next-generation, high-value verticals including energy storage, coatings, and thermal management.

Lanka, operating across potentially the largest vein graphite land holding in Sri Lanka, proposes to supply vein graphite product from future mining operations into the joint venture as well as assist with sourcing of investment, marketing and administration. G3 will supply experience in developing IP and research grants, commercialisation planning and manufacturing infrastructure.

Lanka signed a distribution agreement (DA) with Global Graphene Group (G3) to distribute G3's high quality graphene products to Australia and New Zealand. Lanka will focus on marketing and distributing G3's product range of graphene powders, graphene dispersions, graphene pastes and graphene inks to commercial organisations for use in a variety of applications in paints, anti-corrosion coatings, inks, sealants, rubber, composites, plastics and related industries.

Lanka has made significant progress on its exploration and mining areas and is positioned well for exciting developments in its collaboration in the graphene space. The board looks forward to an exciting and rewarding 2017/2018 financial year.

Jitto Arulampalam
Executive Chairman

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 2017 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:

<u>Jitto Arulamaplam (Executive Chairman, appointed 6 August 2015)</u>

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 2017, Jitto Arulampalam held 350,000 shares of the company and 3,000,000 shares under option.

<u>Emily Lee (Managing Director, appointed 11 June 2013)</u>

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 2017, Emily Lee held 71,711 shares of the company and 4,000,000 shares under options.

<u>Alexander Robert Cowie (Non-Executive Director, appointed 23 May 2014, Resigned 20 June 2017)</u>

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 2017, 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 2017, 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.

Alex Keach (Non-Executive Director, appointed 20 June 2017)

Alex has a background of 13 years' experience in stockbroking, investment advisory, micro-cap investment and funds management. Alex has previously held roles with Bell Potter Securities, Scintilla Capital, Keach Securities and Investments, and most recently Chancellor Portfolio Services where he was a director and ran the adviser desk. Alex has experience in trading, portfolio management, and corporate advisory and has participated in many early stage, pre-IPO, IPO and capital raising opportunities. Alex has a degree in Rural Business Management from Deakin University and is a graduate of the Australian Institute of Company Directors

At 30 June 2017, Alex held 602,000 shares.

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 and a Graduate Diploma of Applied Corporate Governance at the Governance Institute of Australia.

Justyn has 10 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, Wonhe Multimedia Commerce Limited, Rectifier Techologies Limited, Motopia Limited, Axxis Technology Group Limited and Australian Natural Proteins Limited. He was previously the Company Secretary of Kazakhstan Potash Corporation Limited, Manalto 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	-
Emily Lee	71,711	4,000,000
Alison Coutts	-	500,000
Alex Keach	602,000	-

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. On 18 April 2017 Lanka Graphite acquired Miniran Pty Ltd that holds 196 grid units of exploration tenements in Sri Lanka. The group currently holds 12 exploration licences.

The loss after income tax attributed to members of the consolidated entity for the period ended 30 June 2017 was $1,713,392 (30 June 2016: Loss $2,661,216).

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

The loss of the group attributable to owners of Lanka Graphite Limited after providing for income tax amounted to $1,704,491 for the year ended 30 June 2017 (30 June 2016: Loss $2,611,770).

On 18 April 2017 the company acquired Miniran Pty Ltd and its interest in exploration assets in Sri Lanka for a consideration of 10,560,000 fully paid shares of Lanka Graphite Ltd and a deferred cash payment of $660,000 due on 18th April 2018.

Review of operations

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 as well as engaged in a process to form a joint venture in development, exploitation and commercial production of a range of graphene-enhanced products.

The total expenditure on evaluation and exploration and new investment in new tenements in the current and past year is $3.6m, which includes acquisition of tenements valued at $3.1m(Miniran and Euro acquisition).

Lanka Graphite has applied for an Artisanal mining license and Lanka Graphite anticipating it will commence initial production 6 months after the license is issued. Lanka graphite targets at least producing 20 tonnes per month in the initial period.

Exploration program

Following completion of the reconnaissance geological mapping programme, Lanka reviewed all the new data and integrated it with existing geological information to rank targets for high-powered fixed loop, time-domain, electromagnetic surveys (FLEM) follow-up. Based on the findings from the company's reconnaissance survey, Very Low Frequency (VLF) results have revealed predicted conductive bodies under existing abandoned mines.

Based on the results received from the Phase 1 exploration program Lanka applied for "category A artisanal mining" at exploration Licence E307. High grade vein graphite mineralisation outcrops from the surface have been identified in this vicinity. Granting of the application will allow Lanka to commence its first graphite production on E307.

Significant Events after the Balance Date

All convertible notes issued on 27 September 2016 have expired on 27 September 2017. Lanka Graphite has successfully negotiated with convertible note holders to extend the terms to another year to support Lanka Graphite.

Lanka Graphite also signed a distribution agreement with Global Graphene Group (G3) for G3's high quality graphene products to Australia and New Zealand.

There are no other major significant events to be reported.

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 $633,600, resulting from:

	$
Share issue on acquisition of Miniran Pty Ltd	633,600
Total	**633,600**

Future Development, Prospects and Business Strategies

Lanka Graphite signed a distribution agreement with Global Graphene Group to distribute multiple graphene products in Australia and New Zealand. The collaboration with G3 allows Lanka graphite to avoid extensive spending on Research and development to manufacture commercial scale graphene. This agreement compliments Lanka graphite's strategy to add value to its Sri Lanka's vein graphite interests.

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. The Company's operations may inadvertently adversely impact the ecosystems in the areas in which the group operates by failing to minimise pollution, manage waste, use water and energy efficiently. It may also inadvertently fail to address relevant biodiversity issues and comply with relevant legal and other requirements, including Sri Lankan environmental laws and regulations. The Company tries to ensure that it meets all relevant legal requirements and consistently reviews its impact on the environment and how any impact could 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 currency of operations and US dollars could adversely affect the group's financial position.

The Company will endeavour to mitigate these risks by engaging financially skilled and experienced 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 by the actions of 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 appraised 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 including 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 finance 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, four (4) 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	4	4
Emily Lee	4	4
Alexander Robert Cowie	2	2
Alex Keach	2	2
Alison Mary Coutts	4	4

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

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.

(a) These options have expired since balance date and were not exercised.

Remuneration Report (audited)

The Directors of Lanka Graphite ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other key management personal 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 year, 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:

	Position Held as at 30 June 2017 and any Change during the Year
Jitto Arulampalam	Executive Chairman
Emily Lee	Managing Director
Alexandra Cowie	Non-executive director (Resigned 20 June 2017)
Alison Coutts	Non-executive director
Alex Keach	Non-executive director (appointed 20 June 2017)

And the following persons:

	Position Held as at 30 June 2017 and any Change during the Year
Justyn Stedwell	Company Secretary

Employment Details of Members of Key Management Personnel

2017	**Short term employee benefits**			**Post employment benefits**	**Share-based payments**		**Total (1)**
Name	**Cash salary/ Directors Fees**	**Bonus**	**Non-cash benefits**	**Superannuation**	**Shares**	**Options**	
Alexandra Cowie	30,000	-	-	-	-	-	30,000
Alison Mary Coutts	31,750	-	-	-	-	-	31,750
Jitto Arulampalam	*152,500	-	-	11,400	-	-	163,900
Emily Lee	*152,500	-	-	11,400	-	-	163,900
Justyn Stedwell	27,200	-	-	-	-	-	27,200
Alex Keach	-	-	-	-	-	-	-
Total	**393,950**	**-**	**-**	**22,800**	**-**	**-**	**416,750**

2016	**Short term employee benefits**			**Post employment benefits**	**Share-based payments**		**Total (1)**
Name	**Cash salary/ Directors Fees**	**Bonus**	**Non-cash benefits**	**Superannuation**	**Shares**	**Options**	
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
Total	**340,178**	**-**	**-**	**20,478**	**79,831**	**44,000**	**484,487**

(1) Of total remuneration 0% is performance based. * Under accrual of $2,500 from 2016 expensed in 2017

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 2016 reporting period were as follows:

Name	No. Options Granted & Vested	Fair value per option at grant date	Exercise Price	Amount paid or payable	Expiry Date	Date Exercisable
Directors						
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
Other Key Management Personnel						
Derek Lo	500,000	$0.008	$0.30	-	23/07/2018	23/07/2018
Total	5,500,000			-		

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 2016	Granted as Compensation	Options Exercised	Other Changes	Balance at 30 June 2017	Total vested and exercisable at 30 June 2017	Total vested and unexercisable at 30 June 2017
Directors							
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	-
Other Key Management Personnel							
Derek Lo	500,000	-	-	-	500,000	-	500,000
Total	5,500,000	-	-	-	5,500,000	5,000,000	500,000

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 2016	Granted as Compensation	Received on exercise of options	Other Changes	Balance at 30 June 2017	Balance held nominally
Directors						
Emily Lee	71,711	-	-	-	71,711	71,711
Jitto Arulampalam	350,000	-		-	350,000	350,000
Alex Keach	-	-	-	*605,000	605,000	605,000
Total	421,711	-	-	605,000	1,026,711	1,026,711

*Held when appointed as a director

Cash Bonuses, Performance-related Bonuses

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

Additional information

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2017 $	2016 $	2015 $	2014 $	2013 $
Sales revenue / Interest	68	507	396	-	22,842
EBITDA	(1,699,284)	(2,659,289)	(98,800)	(278,020)	(845,749)
EBIT	(1,713,392)	(2,661,216)	(99,881)	(279,044)	(845,749)
Share price at financial year end (cents)	0.04	0.09	n/a	n/a	n/a
Basic earnings per share (cents per share)	(2.34)	(3.89)	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

There are no other equity related transactions with Key Management Personal during this financial year.

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 20.

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

29th September 2017

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

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 2017, 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, 29 September 2017

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/

CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2017

		2017	2016
		$	$
Interest Income	6	68	507
Occupancy expenses	6	(82,278)	(101,049)
Legal and professional expenses		(338,708)	(536,958)
Regulatory and listing expenses	15	(35,521)	(1,022,941)
Advertising and promotion expenses		(14,599)	(160,718)
Travel and accommodation expenses		(165,704)	(166,647)
Depreciation and amortisation expense	10	(14,108)	(1,927)
Company secretarial		(27,200)	(22,118)
Employee benefit expenses	6	(382,863)	(231,588)
Share based payments	17	-	(123,831)
Directors fees		(126,750)	(102,500)
Finance expenses	21	(312,389)	-
Feasibility studies		(76,599)	(121,525)
Other expenses		(136,741)	(69,921)
Loss from Continuing Operations before income tax		(1,713,392)	(2,661,216)
Income tax expense	7	-	-
Loss after tax and other comprehensive income		**(1,713,392)**	**(2,661,216)**
Loss for the year attributable to Minority Interest		(8,901)	(49,446)
Loss from continuing operations attributable to members of the company		(1,704,491)	(2,611,770)
Total other comprehensive income		**(1,713,392)**	**(2,661,216)**
Earnings per share			
Basic earnings per share (cents)	18	(2.34)	(3.89)
Diluted earnings per share (cents)	18	(2.34)	(3.89)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Notes	2017	2016
		$	$
CURRENT ASSETS			
Cash and cash equivalents	8	80,952	390,720
Other receivables	9	656	97,698
TOTAL CURRENT ASSETS		**81,608**	**488,418**
NON-CURRENT ASSETS			
Property, plant and equipment	10	52,609	63,052
Exploration and Development Costs	11	3,570,559	2,252,398
Intangible assets	12	42,735	25,780
TOTAL NON-CURRENT ASSETS		**3,665,903**	**2,341,230**
TOTAL ASSETS		**3,747,511**	**2,829,648**
CURRENT LIABILITIES			
Trade and other payables	13	917,493	282,048
Borrowings	14	1,372,597	230,000
TOTAL CURRENT LIABILITIES		**2,290,090**	**512,049**
TOTAL LIABILITIES		**2,290,090**	**512,049**
NET ASSETS		**1,457,421**	**2,317,598**
EQUITY			
Issued capital	16	6,928,751	6,295,151
Accumulated losses		(6,276,598)	(4,572,107)
Reserves		263,615	44,000
EQUITY ATTRIBUTABLE TO OWNERS		**915,768**	**1,767,044**
Non-Controlling Interest	29	541,653	550,554
TOTAL EQUITY		**1,457,421**	**2,317,598**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Note	Issued Capital	Accumulated Losses	Reserves	Total Equity Attributable to Owners	Non-Controlling interest	Total Equity
		$	$	$	$	$	$
Balance at 1 July 2015		**2,407,184**	**(1,960,337)**	**-**	**446,847**	**-**	**446,847**
Total Comprehensive loss for the year		-	(2,611,770)	-	(2,611,770)	(49,446)	(2,661,216)
Transactions with owners in their capacity as owners:							
Deemed Share issue on reverse acquisition		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	17	-	-	44,000	44,000	-	44,000
Non-Controlling Interest at the date of acquisition of Euro Petroleum Ltd		-	-	-	-	600,000	600,000
Balance at 30 June 2016		**6,295,151**	**(4,572,107)**	**44,000**	**1,767,044**	**550,554**	**2,317,598**
Balance at 1 July 2016		**6,295,151**	**(4,572,107)**	**44,000**	**1,767,044**	**550,554**	**2,317,598**
Total Comprehensive loss attributable to owners		-	(1,704,491)	-	(1,704,491)	(8,901)	(1,713,392)
Transactions with owners in their capacity as owners:							
Issue of Convertible Notes		-	-	219,615	219,615	-	219,615
Issue of Shares	16	633,600	-	-	633,600	-	633,600
Balance at 30 June 2017		**6,928,751**	**(6,276,598)**	**263,615**	**915,768**	**541,653**	**1,457,421**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For year ended 30 June 2017

	Note	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		68	507
Payments to trade creditors, other suppliers and creditors		(799,869)	(1,920,668)
Payments to Employees and Directors		(509,613)	(413,919)
Cash used in operating activities	19	**(1,309,414)**	**(2,334,080)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Intellectual Property Rights	12	(16,955)	(25,780)
Cash acquired on acquisition of Euro Petroleum Ltd		-	675
Exploration and evaluation expenditure	11	(177,234)	(1,349,818)
Purchase of property, plant & equipment	10	(3,665)	(60,010)
Cash used in investing activities		**(197,854)**	**(1,434,933)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	3,848,200
Proceeds from convertible notes		1,197,500	-
Receipt of other financial assets		-	213,010
Proceeds from issuance of unsecured loans	14	-	230,000
Cost of raising capital		-	(145,637)
Cash provided by financing activities		**1,197,500**	**4,145,573**
(Decrease) / increase in cash		(309,768)	376,560
Cash at the beginning of financial year		390,720	14,160
Cash at the end of financial year	8	**80,952**	**390,720**

The accompanying notes form part of these 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 29.

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.

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 17 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 then 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 2017 were approved and authorised for issue by the Board of Directors on 29 September 2017.

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 2016. 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 2017. 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.

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 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.

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 $1,713,392 and a net cash out flow from operational activities of $1,309,414 and investment cash out flow of $197,854 that includes exploration and evaluation and purchase of equipment for the period ended 30 June 2017. It has no ongoing source of operating income and is dependent upon obtaining sufficient funding to meets 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 to date received commitments for approximately $168,750 of an intended $300,000 raising via private placement and expects this to be completed by middle of October 2017. This will provide funding to enable the company to continue its day to day operations until November where the Company is planning a larger scale capital raising of $3,000,000 to commence artisanal mining operations in Sri Lanka. Until the consolidated entity establishes cash flow positive operations, it will need to raise additional capital from time to time.

Convertible notes of $1,427,500 matured on 27 September 2017, the directors have received verbal confirmation from holders of $1,365,000 convertible notes that they will extend the maturity date by another year.

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.

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.

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.

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 only recognised as and when interest is received.

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; or
  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.

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.

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 25%.

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 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 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.

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 subsidiaries, Lanka Graphite Pvt Ltd and Miniran Pvt Ltd (Sri Lankan incorporated entities). The main activity of these companies are 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:

	2017 $	2016 $
Finance Income for the reporting periods consists of the following:		
Interest income from loans and receivables	68	507

Expenses include the following:		
Occupancy expenses		
Operating lease payments	77,278	64,374
Other occupancy expense	5,000	36,675
Total	**82,278**	**101,049**
Employee benefits expenses		
Wages	334,979	205,611
Leave Provision	18,654	-
Superannuation	29,230	25,977
Total	**382,863**	**231,588**

NOTE 7: INCOME TAX EXPENSE

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

	2017 $	2016 $
Total loss before income tax from ordinary activities	(1,713,392)	(2,661,216)
Prima Facie tax benefit on loss before income tax @30% and 27.5% in 2017	(470,908)	(798,365)
Add:		
Non-deductible items	113,594	292,835
Tax Losses not recognised	357,314	505,530
Income Tax expenses	-	-

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

	2017 $	2016 $
Cash at bank and on hand	80,952	390,720

NOTE 9: OTHER RECEIVABLES

GST and other receivables	656	97,698

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

NOTE 10: PROPERTY PLANT AND EQUIPMENT

Office equipment		
Cost	16,841	11,871
Accumulated depreciation	(11,694)	(8,149)
	5,147	3,722
Motor Vehicle		
Cost	59,330	59,330
Accumulated depreciation	(11,868)	-
	47,462	59,330
Total Carrying amount at the year end	52,609	63,052

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

	2017 $	2016 $
Office equipment		
Carrying amount at the beginning of the year	3,722	1,354
Acquired through reverse acquisition	-	3,615
Additions	3,665	680
Depreciation	(2,240)	(1,927)
Carrying Amount at the year end	5,147	3,722
Motor Vehicle		
Carrying amount at the beginning of the year	59,330	-
Additions	-	59,330
Depreciation	(11,868)	-
Carrying Amount at the year end	47,462	59,330
Total Carrying amount at the year end	52,609	63,052

NOTE 11: EXPLORATION AND DEVELOPMENT EXPENDITURE

Opening balance 1 July	2,252,398	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
Fair Value of Acquisition of Miniran exploration assets	1,140,927	-
Exploration Expenditure incurred this year	177,234	252,327
Total	**3,570,559**	**2,252,398**

NOTE 12: INTANGIBLE ASSETS

Intellectual Property Rights:		
Cost	42,735	25,780
Less; Accumulated amortisation	-	-
	42,735	25,780
Reconciliation of carrying values are set out below :		
Carrying amount at the beginning of the year	25,780	-
Additions	16,955	25,780
Amortisation	-	-
Total	**42,735**	**25,780**

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 13: TRADE AND OTHER PAYABLES

	2017 **$**	**2016** **$**
Trade payables	22,123	59,541
Other payables	201,514	190,507
Miniran Acquisition payable	535,044	-
Accrued expenses	158,812	32,000
Total	**917,493**	**282,048**

NOTE 14: UNSECURED BORROWINGS

Convertible Notes	1,372,597	**-**
Unsecured Loan	**-**	230,000
Total	**1,372,597**	**230,000**

The company issued 10 Convertible notes with a total combined face value of $1,427,500 during the year ended 30 June 2017. The notes mature in September 2017 and are convertible into Lanka Graphite ordinary shares at a conversion price/share issue price of $0.125 (at request of noteholder). The interest payable on these convertible notes is 10% per annum.

This convertible notes have been split in to debt and equity component in the statement of financial position of the group.

Unsecured loans of $230,000 had been advanced at 30 June 2016. Subsequent to reporting date these loans have been applied by the lenders to acquire convertible notes.

NOTE 15: REGULATORY AND LISTING COST

Cost of Listing - Reverse Acquisition	-	902,117
ASX/ASIC/Share Registry Fees	35,521	81,176
Board of Investment and Renewal Fee	-	39,648
Total	**35,521**	**1,022,941**

NOTE 16: ISSUED CAPITAL

	2017		2016	
	$	No.	$	No.
Fully Paid ordinary shares	**6,928,751**	**81,740,085**	**6,295,151**	**71,180,085**

	2017		2016	
	$	No.	$	No.
Opening balance 1 July	6,295,151	71,180,085	2,407,184	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
Settlement of consulting fees	-	-	22,000	110,000
Issue of shares to settle director remuneration	-	-	79,831	840,125
Capital raising costs	-	-	(173,367)	-
Share issue on acquisition of Miniran Pty Ltd	633,600	10,560,000	-	-
Balance 30 June	**6,928,751**	**81,740,085**	**6,295,151**	**71,180,085**

On 18 April 2017, Lanka Graphite acquired Miniran Pvt Ltd (Miniran), an Australian incorporated private company through its controlled entity Miniran Pvt Ltd (Sri Lankan entity) which holds graphite tenements in Sri Lanka. Under the terms of agreement, consideration for the acquisition of Miniran consisted of 10,560,000 fully paid shares in Lanka Graphite, the market value at the date of issues was 6 cents, as well as a deferred cash payment of $660,000.

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 17: SHARE-BASED PAYMENTS

	Share Option Reserve
Balance at 1 July 2015	-
Issue of options – Management remuneration	44,000
Balance at 30 June 2016	44,000
Balance at 30 June 2017	44,000

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.

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	-	-	-	$0.30

For the KMP options, 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(1)	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. These allowed the option holders to take up ordinary shares at an exercise price of $0.30 each. The options were exercisable on or before 23 July 2017 and expired unexercised. The options held no voting or dividend rights and were 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 2017 and expired unexercised. The options held no voting or dividend rights and were 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	-	-	-	$0.30

NOTE 18: EARNINGS PER SHARE

	2017	**2016**
Earnings used to calculate basic EPS	(1,713,392)	(2,661,216)
Weighted average no. of ordinary shares	73,292,685	67,133,563
Basic loss per share (cents)	(2.34)	(3.89)
Weighted average shares & options outstanding	73,292,685	67,133,563
Diluted loss per share (cents)	(2.34)	(3.89)

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

NOTE 19: CONSOLIDATED STATEMENT OF CASH FLOWS RECONCILIATION

	2017 $	**2016 $**
Reconciliation of operating result after income tax to net cash provided by operating activities		
Operating loss before income tax	(1,713,392)	(2,661,216)
Add back non-cash items:		
Depreciation	14,108	1,927
Reverse Acquisition Cost Adjustment	-	902,117
Options issued for nil Consideration	-	44,000
Unwinding of discounts	192,428	-
Change in operating assets and liabilities:		
Decrease in Receivables	97,042	4,965
Increase/(decrease) in Payables	100,400	(625,873)
Net cash used in operating activities	**(1,309,414)**	**(2,334,080)**

NOTE 20: AUDITOR REMUNERATION

	2017 $	2016 $
Auditor – BDO East Coast Partnership		
Audit or review of financial statements	63,000	50,000

NOTE 21: FINANCE EXPENSES

Interest payable on trade and other payables	12,898	-
Interest payable on convertible notes	107,063	-
Unwinding of discounts on deffered consideration for acquisition of Miniran	27,716	-
Unwinding of discounts on Convertible notes	164,712	-
Total finance cost	**312,389**	-

Since the issues of convertible notes, 9 months has elapsed, hence 9/12 of the equity portion is restored to the liability component and reported under finance cost ($164,712).

Acquisition of Miniran Pty Limited was recorded as an asset acquisition based on the substance of the transaction. Consideration for the acquisition includes a deferred payment of $660,000 and is due in 12 months from the date of acquisition. This amount is discounted at the date of acquisition to establish the value of asset acquired as the initial liability value. The unwinding of this discount will be recognised as other finance cost ($27,716) from the 12 months period to due date.

NOTE 22: RELATED PARTY TRANSACTIONS

Parent entity
Lanka Graphite Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

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:

	2017 $	2016 $
Short-term employee benefits		
Salary	240,000	215,560
Company secretarial	27,200	22,118
Directors fees	126,750	102,500
Post-employment benefits	22,800	20,478
Share-based payments	-	123,831
Total	**416,750**	**484,487**

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

NOTE 23: CONTINGENT LIABILITIES AND COMMITMENTS

In order to maintain current rights of tenure to exploration tenements, the company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various governments' agreements. To date the company and its subsidiaries have expended in excess of the minimum spend requirements to maintain the tenements in Sri Lanka.

Other than the above, 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

	2017 $	2016 $
Operating Lease Commitments		
- not later than 12 months	84,000	52,800
- between 12 months and five years	-	-
- later than five years	-	-
Total	**84,000**	**52,800**

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

NOTE 25: ACQUSITION OF MINIRAN PTY LTD

On April 2017, Lanka Graphite acquired Miniran Pty Ltd, an Australian incorporated private company that holds graphite tenements in Sri Lanka through the controlled entity Miniran Pvt Ltd. Under the terms of agreement, consideration for the acquisition of Miniran consisted of 10,560,000 fully paid shares of Lanka graphite, the market value at the date of issues was 6 cents, as well as a deferred cash payment of $660,000.

As the transaction was not deemed a business acquisition, the transaction must be accounted for as an asset acquisition.

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies.

No goodwill will rise on the acquisition and transaction costs of the acquisition will be included in the capitalized cost of the asset.

Deferred Consideration

The deferred consideration of $660,000 is due in 12 months from the date of acquisition. This amount is discounted at the date of acquisition to establish the value of asset acquired as the initial liability value. The unwinding of this discount will be recognised as other finance cost from the 12 months period to due date.

At the time of acquisition, the financial position of Miniran was:

	2017 $
Assets	
Exploration assets at Fair value	1,141,800
Liabilities	
Trade and Other Payables	-
Total identifiable net assets at fair value of legal acquiree	1,141,800

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 2017 or 30 June 2016.

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 2017, 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: EVENTS SUBSEQUENT TO REPORTING DATE

All convertible notes issued on 27 September 2016 have expired on 27 September 2017. Lanka Graphite has successfully negotiated with convertible note holders to extend the terms to another year to support Lanka Graphite.

Lanka Graphite also signed a distribution agreement with Global Graphene Group (G3) for G3's high quality graphene products to Australia and New Zealand.

There are no other major significant events to be reported.

NOTE 28: 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	
	2017	**2016**
	$	**$**
Loss after income tax	(1,659,742)	(2,330,794)
Total comprehensive income	(1,659,742)	(2,330,794)

Statement of financial position

	Parent	
	2017	**2016**
	$	**$**
Total current assets	1,894,029	1,990,024
Total assets	3,084,741	2,021,686
Total current liabilities	917,493	420,508
Total non-current liabilities	1,372,597	-
Total liabilities	2,290,090	420,508
Net assets	794,651	1,601,178
Equity		
Contributed equity	28,419,456	27,785,856
Share based payment and Convertible Notes reserves	263,615	44,000
Accumulated losses	(27,888,420)	(26,228,678)
Total equity	794,651	1,601,178

NOTE 29: 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 2017 %	2016 %
Euro Petroleum Pty Ltd	Australia	100%	100%
Lanka Graphite Holdings Pty Ltd	Australia	100%	100%
Lanka Graphite Holdings Pvt Ltd	Sri Lanka	70%	70%
Miniran Pty Ltd	Australia	100%	-
Miniran Lanka (Pvt) Ltd	Sri Lanka	100%	-

Summarised financial information about Non-Controlling Interest in Subsidiary:

Set out below is the summarised financial information for the subsidiary that has non-controlling interests that are material to the Group, before any intragroup eliminations. Note that Lank Graphite Holdings Pvt Ltd became a controlled entity of the Group during the reporting period ended 30 June 2016.

Statement of profit or loss and other comprehensive income

	Lanka Graphite Holdings Pvt Ltd	
	2017	**2016**
	$	**$**
Revenue	**-**	**-**
Loss after income tax	(29,670)	(164,819)
Total comprehensive income	(29,670)	(164,819)
Loss attributable to non-controlling interests (30%)	(8,901)	(49,446)

Statement of financial position

	Lanka Graphite Holdings Pvt Ltd	
	2017	**2016**
	$	**$**
Total current assets	-	-
Total assets	2,471,819	2,306,452
Total current liabilities	666,308	471,271
Total liabilities	666,308	471,271
Total equity	1,805,511	1,835,181
Equity		
Contributed equity	2,000,000	2,000,000
Accumulated losses	(194,489)	(164,819)
Total equity	1,805,511	1,835,181
Carrying amount of non-controlling interests (30%)	541,653	550,554

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of the Company, the directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 43, are in accordance with the *Corporations Act 2001* and:

    a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards; and

    b. give a true and fair view of the financial position as at 30 June 2017 and of the performance for the year ended on that date of the consolidated group;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3. the directors have been given the declarations required by s 295A of *the Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

Director: Jitto Arulampalam

Dated this 29th day of September 2017

Tel: +61 3 9603 1700
Fax: +61 3 9602 3870
www.bdo.com.au

Collins Square, Tower Four
Level 18, 727 Collins Street
Melbourne VIC 3008
GPO Box 5099 Melbourne VIC 3001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Lanka Graphite Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Lanka Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 4.1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Accounting for the acquisition of Miniran Pty Ltd as an asset acquisition

Key audit matter	*How the matter was addressed in our audit*
As disclosed in note 24 of the financial report, the company acquired Miniran Pty Ltd (an entity incorporated in Australia) for a consideration of 10,560,000 shares and a deferred cash consideration of $660,000. The audit of the accounting for this acquisition is a key audit matter due to the: • complexity involved in assessing the determination of the accounting treatment of the acquisition; • the financial significance of the balance to the statement of financial position; and • discounting for deferred cash consideration.	Our procedures included, but were not limited to: • Reading the purchase and sale agreements to understand the terms and conditions of the acquisitions and evaluating management's application of the relevant accounting standards; • Obtaining an understanding of the transaction including an assessment of whether the transaction constituted a business or an asset acquisition; • Checking the calculation of the share based payment, deferred consideration, the value of the asset acquired and the related acquisition costs; and • Assessing the appropriateness of the Group's disclosures in respect of the acquisition in note 24.

Accounting for exploration and evaluation expenditure

Key audit matter	*How the matter was addressed in our audit*
The company has incurred significant exploration and evaluation expenditures which have been capitalised. As the carrying value of exploration and evaluation expenditures represents a significant asset of the company, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset requires impairment. *AASB 6*: Exploration for and Evaluation of Mineral Resources contains detailed requirements with respect to both the initial recognition of such assets and ongoing requirements to continue to carry forward the assets. *Note 4.5* to the financial statements contains the accounting policy and note 11 contains the disclosures in relation to exploration and evaluation expenditures.	Our audit procedures included, amongst others: • Obtaining evidence that the company has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditures by obtaining independent searches; • Reviewing budgets and assessed assumptions made by the entity to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest were planned; and • Reviewing ASX announcements and reviewed minutes of directors' meetings to ensure that the company had not decided to discontinue activities in any of its areas of interest.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_files/ar2.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to14 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Lanka Graphite Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

BDO East Coast Partnership

BDO

Richard Dean
Partner

Melbourne, 29 September 2017

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

	Top 20 Shareholders	Number of shares Held	Percentage(%) of Issued shares
1	HSBC CUSTODY NOMINEES	11,855,476	15%
2	CITY WINNER HOLDINGS LTD	3,000,000	4%
3	SAI ASAN PTY LTD	2,332,673	3%
4	CHU YIN LIN	2,217,998	3%
5	MS XIAODAN HUANG	1,530,511	2%
6	SHI CHUNG CHANG	1,500,000	2%
7	MUNCHA CRUNCHA PTY LTD	1,303,635	2%
8	MR PUAY GUAN KHOO	1,224,772	1%
9	NG SMSF PTY LTD	1,017,999	1%
10	MS PEI-FEN LEE	1,013,600	1%
11	PETER BIANTES &	1,000,000	1%
12	BONVILLA CONSTRUCTIONS PTY	1,000,000	1%
13	CHIEN AN CHANG	1,000,000	1%
14	SHIH TSUNG CHANG	1,000,000	1%
15	SHIH WEN CHANG	1,000,000	1%
16	GERARD LUXON &	1,000,000	1%
17	BALANJALI MANDALESON	1,000,000	1%
18	ROGUE INVESTMENTS PTY LTD	1,000,000	1%
19	BICCACINI PTY LTD	992,770	1%
20	MRS CHU-YIN LIN	950,000	1%
	Top 20 Shareholders	**36,939,434**	**45.19%**
	Other Shareholders	**44,800,651**	**54.81%**
	Total Issued Shares	**81,740,085**	**100.00%**

Distribution of Shareholdings – Fully Paid Ordinary Shares:

Size of Holding	Number of share holders	Number of Shares
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	118	62,521,748
Total	**2,059**	**81,740,085**

Equity	Security Quoted	Unquoted	Total
Fully Paid Ordinary Shares	65,540,085	16,200,000	81,740,085
Options	-	16,250,000	16,250,000

Tenements

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

Tenements	Grid Number	Status	Location
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	22	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
Miniran (April 2017)			
EL304	80	Granted	Southern Province
EL305	14	Granted	Sabaragamuwa province
EL314	46	Granted	Sabaragamuwa province
EL342	46	Granted	Sabaragamuwa province
EL343	22	Granted	Sabaragamuwa province