LANKA GRAPHITE LIMITED
THE NEW BLACK GOLD

Lanka Graphite Limited

Annual Report
For the Year Ended 30 June 2018
ABN 28 074 976 828

TABLE OF CONTENTS

CORPORATE DIRECTORY

Directors
Jitto Arulampalam *(Non-Executive Director)*
Emily Lee *(Non-Executive Director)*
Kanagadaran Mathivanan *(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

Principal Place of Business
Suite 32, Level 18,
101 Collins Street
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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,

On behalf of the Lanka Board of Directors I am pleased to present the company's Annual Report for the 2018 financial year. It has been a challenging yet positive year for LGR as we achieve an important milestone for the Company and pivot our business strategy from a junior exploration company to a Retail E-Commerce Business. Lanka has executed a binding conditional term sheet to acquire MSY Group of Companies. The Board of Directors expects this transaction to be completed by June 2019.

MSY sells computers, computer parts and software across 28 retail sites across 6 major states NSW, QLD, SA, TAS, VIC, WA and ACT. MSY currently generates revenue of over $100 million per year with annual profits of $2 million to $3 million.

The proposed acquisition of MSY will consist of its current business assets valued at $16.5 million with a cash component of $1 million to be funded by the issue of 350,000,000 Lanka shares at $0.05 per share.

The acquisition of MSY will result in a change in the nature and scale of Lanka business activities and will require shareholder approval under Chapter 11 of the ASX Listing Rules and require re-compliance by the Company with Chapters 1 and 2 of the ASX Listing Rules.

The Company intends to spin out or divest its existing Sri Lankan graphite assets following the completion of acquiring MSY and shareholder approval.

The board looks forward to an exciting and rewarding 2018/2019 financial year.

Jitto Arulampalam
Executive Chairman

DIRECTORS' REPORT

The directors present their report together with the financial report on the consolidated entity ("the Group"), consisting of Lanka Graphite Limited ("the Company") and its subsidiaries, for the year ended 30 June 2018 and the Independent Auditors Report thereon.

Directors' details

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

Jitto Arulampalam (Executive Chairman, appointed 6 August 2015, resigned 24 May 2018 and re appointed as Non-Executive Director from 25 May 2018)

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.

Emily Lee (Managing Director, appointed 11 June 2013, resigned 24 May 2018 and appointed as a Non-Executive Director from 25 May 2018)

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.

Alison Mary Coutts (Non-Executive Director, appointed 23 May 2014, resigned on 24 November 2017)

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) that 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.

Alex Keach (Non-Executive Director, appointed 20 June 2017, resigned 18 September 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

Kanagadaran Mathivanan (Non-Executive Director, appointed 29 November 2017)

Mr Mathivanan is a successful and well established businessman based in Colombo, Sri Lanka with a wealth of experience in logistics, marketing and international trade.

As founder, owner and CEO of East West Marketing PVT Limited, Mathi until recently ran one of the most successful FMGC companies in Sri Lanka with an annual turnover of 300 million dollars.

Barry Pang (Non-Executive Director, appointed 21 February 2018, resigned 6 June 2018)

Barry is a Melbourne born successful businessman of Chinese descent. Barry is well known with a successful track record in the racing industry having won the 2013 Melbourne Cup with Fiorente. Barry has also built many successful businesses over a long career and raised substantial amounts of funding from Asian investors for Australian companies.

Barry is a Trustee of Scotch College Foundation, an Honorary President of the Lion's Club of Melbourne Sino-Innovation, the Vice-President of the Australian National Kung Fu Federation and the Honorary Patron of the Half the Sky Foundation Australia supporting orphans in China, mainly in the capacity of fund raising and brand building by using his valuable connections across a wide spectrum of industries.

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

Company Secretary

Justyn Stedwell (Company Secretary, appointed 23 July 2015)

Justyn has completed a Bachelor of Commerce at Monash University, a Graduate Diploma of Accounting at Deakin University 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 Technologies Limited, Cirralto 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.

Directors' 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	1,071,711	-
Kanagadaran Mathivanan	-	-

Principal activity

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

The Company has executed a binding conditional term sheet to acquire 100% of MSY group of companies. MSY's principal activity is in retail consumer electronics throughout Australia. Following completion of the acquisition, the company's core business activities shift from graphite exploration to retailing consumer electronics with the key focus on e-commerce growth.

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 $4,358,543 for the year ended 30 June 2018 (30 June 2017: Loss $1,704,491).

Review of operations

__Sri Lanka graphite project__

Following the successful completion of re-admission to the ASX, the Company had focused its future strategy on exploration and development of graphite tenements in Sri Lanka as well as engaging in a process to form a joint venture in development, exploitation and commercial production of a range of graphene-enhanced products

Due to the political and economic climate in Sri Lanka, the strategy has proved difficult to fund and the directors have developed an alternate strategy to take the company forward. The company intend to spin off or divest its Sri Lankan existing graphite assets as soon as practical.

Exploration program

As explained above, the company will not pursue any exploration program. All exploration licences of the company are still valid and the company will find a suitable purchaser to divest the assets.

Significant Events after the Balance Date

On 3rd of August 2018 the company executed a binding conditional term sheet to acquire 100% of MSY group of companies. MSY sells computers, computer parts and software online across 28 retail stores nationally, and generates revenue of over $100 million per year.

MSY has agreed to advance a loan of $1m to the company for the purposes of working capital, relisting transaction costs, and the cost associated with the company undertaking a spinoff of its existing mining exploration assets.

Significant Changes in the state of affairs

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

Impairment of exploration and intangible assets:

	$
Impairment of intellectual property rights	42,735
Impairment of exploration assets	3,662,072
Total	**3,704,807**

Likely Developments and expected results of operations

The company has executed a binding conditional term sheet to acquire 100% of MSY group of companies, which retails consumer electronics throughout Australia. Following completion of MSY transaction, the company's core business activities will shift from graphite exploration consumer electronics retailing with a key focus on e-commerce growth.

The acquisition of MSY will therefore result in change in the nature and scale of the company's activities and will require shareholder approval under Chapter 11 of the ASX listing Rules and re-compliance by the company with Chapters 1 and 2 of the ASX Listing Rules.

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:

Funding Risk - The Company has signed an agreement with MSY for additional financing to meet its working capital requirements, general and administrative expenditure and including re listing and spin off cost.

In connection with the proposed transactions with MSY and relisting, the company will be seeking to raise $3m capital via the issue of 60m of ordinary shares at an issue price of $0.05 per share. The capital raising will be in the form of ordinary shares to eligible overseas and Australian investors under a prospectus. The Directors believe the Company has a number of alternatives to raise the necessary funding and they are skilled and have the experience to enable them to seek the necessary funding required.

Meetings of Directors
During the year, four (4) meetings 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
Alex Keach	0	0
Alison Mary Coutts	1	1
Kanagadaran Mathivanan	2	1
Barry Pang	2	2

Share Options

There are no ordinary shares of Lanka Graphite Limited under option at the date of this report.

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 option granted.

Remuneration Report (audited)

The Directors of Lanka Graphite ('the Group') present the Remuneration Report for Non-Executive Directors, Executive Directors and other key management 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 that are deemed relevant 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 and options.
- 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.
- There are no performance incentives offered to KMP.

All KMP receive, reward 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 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 2018 and any Change during the Year
Jitto Arulampalam	Executive Director (Resigned 24 May 2018) Non-Executive Director (Appointed 25 May 2018)
Emily Lee	Executive Director (Resigned 24 May 2018) Non-Executive Director (Appointed 25 May 2018)
Alison Coutts	Non-Executive Director (Resigned 24 November 2017)
Alex Keach	Non-Executive Director (Resigned 18 September 2017)
Barry Pang	Non-Executive Director (Appointed 21 February 2018 and Resigned 6 June 2018)
Kanagadaran Mathivanan	Non-Executive Director (Appointed 29 November 2017)

And the following persons:

	Position Held as at 30 June 2018 and any Change during the Year
Justyn Stedwell	Company Secretary

Employment Details of Members of Key Management Personnel

2018	Short term employee benefits			Post employment benefits	Share-based payments		Total [1]
Name	Cash salary/ Directors Fees	Bonus	Non-cash benefits	Superannuation	Shares	Options	
Alison Mary Coutts	11,000	-	-	-	-	-	11,000
Jitto Arulampalam	140,000	-	-	8,037	-	-	148,037
Emily Lee	140,000	-	-	8,885	-	-	148,885
Justyn Stedwell	26,400	-	-	-	-	-	26,400
Alex Keach	7,391	-	-	-	-	-	7,391
Kanagadaran Mathivanan	8,000	-	-	-	-	-	8,000
Barry Pang	8,795	-	-	-	-	-	8,795
Total	**341,586**	-	-	**16,922**	-	-	**358,508**

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
Total	**393,950**	-	-	**22,800**	-	-	**416,750**

[1] Of total remuneration 0% is performance based.

EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

Options

Details of the terms and conditions of options and rights held by key management personnel at 30 June 2018 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
Alison Coutts	500,000	$0.008	$0.30	-	23/07/2018	23/07/2015
Alexander Cowie	500,000	$0.008	$0.30	-	23/07/2018	23/07/2015
Other Key Management Personal						
Derek Lo	500,000	$0.008	$0.30	-	23/07/2018	23/07/2015
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 2017	Granted as Compensation	Options Exercised	Other Changes	Balance at 30 June 2018	Total vested and exercisable at 30 June 2018	Total vested and unexercisable at 30 June 2018
Directors							
Emily Lee	4,000,000	-	-	-	4,000,000	4,000,000	-
Alison Coutts	500,000	-	-	-	500,000	500,000	-
Alexander Cowie	500,000			(500,000)	-	-	500,000
Other Key Management Personal							
Derek Lo	500,000			(500,000)			500,000
Total	5,500,000	-	-	(1,000,000)	4,500,000	4,500,000	1,000,000

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 2017	Granted as Compensation	Received on exercise of options	Other Changes	Balance at 30 June 2018	Balance held nominally
Directors						
Emily Lee	71,711	-	-	1,000,000	1,071,711	1,071,711
Jitto Arulampalam	350,000	-	-	-	350,000	350,000
Alex Keach	605,000	-	-	(605,000)	-	-
Total	**1,026,711**	-	-	**395,000**	**1,421,711**	**1,421,711**

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 2018 are summarised below:

	2018 $	2017 $	2016 $	2015 $	2014 $
Sales revenue / Interest	17	68	507	396	-
EBITDA	(5,094,099)	(1,699,284)	(2,659,289)	(98,800)	(278,020)
EBIT	(5,108,014)	(1,713,392)	(2,661,216)	(99,881)	(279,044)
Share price at financial year end (cents)	0.025	0.04	0.09	n/a	n/a
Basic earnings per share (cents per share)	(0.015)	(2.34)	(3.89)	n/a	n/a

There is no link between performance and remuneration paid given Lanka has been 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 the agreement is terminated by mutual agreement. The executives agreements have been terminated on 25th May 2018 and the company signed a deed of settlement to pay in lieu of notice pay as per the executive agreement signed previously.
- 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.

Directors Service Agreement

The Company has entered into a Directors Service Agreement with each of the named directors. Pursuant to such agreement, the table below detailed the directors' fees entitlement per month:

Name	$
Directors	
Emily Lee	$2,500
Jitto Arulampalam	$2,500
Barry Pang	$2,500
Kanagadaran Mathivanan	$1,000
Alison Coutts	$2,500
Alex Keach	$2,500

End of Audited Remuneration report

Environmental regulation

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 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 14 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*.

Rounding of amounts
Lanka Graphite is a type of company referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) instrument 2016/191 and therefore the amounts contained in this report and in the financial report have been rounded to the nearest $1,000, or in certain case, to the nearest dollar.

Jitto Arulampalam
Director
Melbourne

21 December 2018

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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 2018, 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, 21 December 2018

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 2018

		2018	2017
		$	$
Interest Income	6	17	68
Occupancy expenses	6	(74,974)	(82,278)
Legal and professional expenses		(92,371)	(338,708)
Regulatory and listing expenses	15	(49,525)	(35,521)
Advertising and promotion expenses		(8,053)	(14,599)
Travel and accommodation expenses		(94,586)	(165,704)
Depreciation and amortisation expense	10	(13,915)	(14,108)
Company secretarial		(26,400)	(27,200)
Employee benefit expenses	6	(330,851)	(382,863)
Impairment of Non-Current Assets	17	(3,704,807)	-
Directors fees		(93,891)	(126,750)
Finance expenses	21	(479,276)	(312,389)
Feasibility studies		-	(76,599)
Other expenses		(154,923)	(136,741)
Loss from Operations before income tax		(5,123,555)	(1,713,392)
Income tax expense	7	-	-
Loss after tax		**(5,123,555)**	**(1,713,392)**
Other comprehensive income/(loss)		-	-
Total comprehensive income		**(5,123,555)**	**(1,713,392)**
Total Loss and other comprehensive income attributable to Minority Interest		(765,012)	(8,901)
Total Loss and other comprehensive income attributable to members of the company		(4,358,543)	(1,704,491)
Total other comprehensive income		**(5,123,555)**	**(1,713,392)**
Earnings per share			
Basic earnings per share (cents)	18	(0.06)	(2.34)
Diluted earnings per share (cents)	18	(0.06)	(2.34)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2018

	Notes	2018	2017
		$	$
CURRENT ASSETS			
Cash and cash equivalents	8	7,334	80,952
Other receivables	9	-	656
TOTAL CURRENT ASSETS		**7,334**	**81,608**
NON-CURRENT ASSETS			
Property, plant and equipment	10	40,522	52,609
Exploration and Development Costs	11	-	3,570,559
Intangible assets	12	-	42,735
TOTAL NON-CURRENT ASSETS		**40,522**	**3,665,903**
TOTAL ASSETS		**47,856**	**3,747,511**
CURRENT LIABILITIES			
Trade and other payables	13	1,190,768	917,493
Borrowings	14	1,326,348	1,372,597
TOTAL CURRENT LIABILITIES		**2,517,116**	**2,290,090**
TOTAL LIABILITIES		**2,517,116**	**2,290,090**
NET DEFICIENCY		**(2,469,260)**	**1,457,421**
EQUITY			
Issued capital	16	7,931,010	6,928,751
Accumulated losses		(10,415,526)	(6,276,598)
Reserves		238,615	263,615
EQUITY ATTRIBUTABLE TO OWNERS		**(2,245,901)**	**915,768**
Non-Controlling Interest	29	(223,359)	541,653
NET DEFICIENCY		**(2,469,260)**	**1,457,421**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2018

	Note	Issued Capital	Accumulated Losses	Reserves	Total Equity Attributable to Owners	Non-Controlling interest	Total Equity
		$	$	$	$	$	$
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**
Balance at 1 July 2017		**6,928,751**	**(6,276,598)**	**263,615**	**915,768**	**541,653**	**1,457,421**
Total Comprehensive loss attributable to owners		-	(4,358,543)	-	(4,358,543)	(765,012)	(5,123,555)
Transactions with owners in their capacity as owners:							
Issue share of Convertible Notes		201,907	-	-	201,907	-	201,907
Adjustment of Convertible Notes		-	219,615	(219,615)	-	-	-
Extension of Convertible Notes		-	-	194,615	194,615	-	194,615
Issue of Shares	16	800,352	-	-	800,352	-	800,352
Balance at 30 June 2018		**7,931,010**	**(10,415,526)**	**238,615**	**(2,245,901)**	**(223,359)**	**(2,469,260)**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For year ended 30 June 2018

	Note	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		17	68
Payments to trade creditors, other suppliers and creditors		(372,909)	(799,869)
Payments to Employees and Directors		(416,737)	(509,613)
Cash used in operating activities	19	**(789,629)**	**(1,309,414)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of Intellectual Property Rights	12	-	(16,955)
Exploration and evaluation expenditure	11	(83,013)	(177,234)
Purchase of property, plant & equipment	10	(1,828)	(3,665)
Cash used in investing activities		**(84,841)**	**(197,854)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		834,232	-
Proceeds from convertible notes		-	1,197,500
Cost of raising capital		(33,380)	-
Cash provided by financing activities		800,852	**1,197,500**
Decrease in cash		(73,618)	(309,768)
Cash at the beginning of financial year		80,952	390,720
Cash at the end of financial year	8	**7,334**	**80,952**

The accompanying notes form part of these financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

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
Lanka graphite has executed a binding conditional term sheet to acquire MSY Group of Companies. As a result of this decision, the Group have now decided such expenditure should be written off since feasibility studies in such areas have not yet concluded and uncertainty of the company in continue to engage in exploration activities in the future.

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 2018 were approved and authorised for issue by the Board of Directors on 21 December 2018.

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 2017. 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 2018. 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.

The company currently has no leases.

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 the company currently has no revenue therefore there will be no impact.

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 $5,123,555 and a net cash out flow from operational activities of $789,629 and investment cash out flow of $84,841 that includes exploration and evaluation and purchase of equipment for the period ended 30 June 2018. It has no ongoing source of operating income and is dependent upon obtaining sufficient funding to meets its budgets. These conditions indicate a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern.

Convertible Note holders with a face value of $1,150,000 have renewed their notes for 12 months which matured in September 2018. Subsequently these same note holders have agreed to convert their principal and all accrued interest into shares subject to the consolidated entity raising $2 million in capital in the next 6 months. The conversion will be at the same rate used in the capital raising. The remaining note holders with $100,000 of notes have not formally renewed however no request for repayment has been received

The Company has signed a terms sheet for the acquisition of the MSY Group of Companies ("MSY"). The terms sheet contains various commitments including the provision of funding to enable Lanka Graphite Ltd to meet its outstanding financial commitments. Due diligence in respect of both parties to the terms sheet is continuing. To date $520,000 of the funding detailed in the terms sheet has been provided to enable the company to continue its day to day operations. In accordance with the terms sheet the restructuring of the liabilities and the issue of new capital are required to complete the transaction to acquire MSY. Notwithstanding that all commitments contained in the terms sheet have not been met and the necessary support of creditors and noteholders to the transaction as detailed in the terms sheet has not yet been confirmed, the directors continue to be satisfied that the parties are working towards completion of the transaction. If the envisaged transaction does not complete the directors will need to look for alternative opportunities and sources of funds to meet its outstanding liabilities.

The company is committed to the current proposed transaction however its completion and the success of future capital raisings are subject to factors beyond the control of the consolidated entity and its directors. If the entity is not successful in completing the proposed transaction, or an alternative transaction, or in raising additional capital, it may be unable to continue as a going concern.

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 (i.e. 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 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 operated 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 has been exploration and feasibility studies. As this has been 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:

	2018 $	2017 $
Finance Income for the reporting periods consists of the following:		
Interest income from loans and receivables	17	68
Expenses include the following:		
Occupancy expenses		
Operating lease payments	74,974	77,278
Other occupancy expense	-	5,000
Total	**74,974**	**82,278**
Employee benefits expenses		
Wages	318,725	334,979
Leave Provision	(15,422)	18,654
Superannuation	27,548	29,230
Total	**330,851**	**382,863**

NOTE 7: INCOME TAX EXPENSE

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

	2018 $	2017 $
Total loss before income tax from ordinary activities	(5,123,555)	(1,713,392)
Prima Facie tax benefit on loss before income tax 30%	(1,537,067)	(514,018)
Add:		
Non-deductible items	1,151,776	113,594
Tax Losses not recognised	385,291	400,424
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

	2018 $	2017 $
Cash at bank and on hand	7,334	80,952

NOTE 9: OTHER RECEIVABLES

GST and other receivables	-	656

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	18,669	16,841
Accumulated depreciation	(13,743)	(11,694)
	4,926	5,147
Motor Vehicle		
Cost	59,330	59,330
Accumulated depreciation	(23,734)	(11,868)
	35,596	47,462
Total Carrying amount at the year end	40,522	52,609

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

	2018	2017
Office equipment		
Carrying amount at the beginning of the year	5,147	3,722
Additions	1,828	3,665
Depreciation	(2,049)	(2,240)
Carrying Amount at the year end	4,926	5,147
Motor Vehicle		
Carrying amount at the beginning of the year	47,462	59,330
Depreciation	(11,866)	(11,868)
Carrying Amount at the year end	35,596	47,462
Total Carrying amount at the year end	40,522	52,609

NOTE 11: EXPLORATION AND DEVELOPMENT EXPENDITURE

	2018 $	2017 $
Opening balance 1 July	3,570,559	2,252,398
Fair Value of Acquisition of Miniran exploration assets	-	1,140,927
Exploration Expenditure incurred this year	91,513	177,234
Impairment of Exploration Expenditure	(3,662,072)	-
Total	-	**3,570,559**

NOTE 12: INTANGIBLE ASSETS

Intellectual Property Rights:		
Cost	-	42,735
	-	42,735
Reconciliation of carrying values are set out below		
Carrying amount at the beginning of the year	42,735	25,780
Additions	-	16,955
Impairment of Intangible Assets	(42,735)	-
Total	-	**42,735**

NOTE 13: TRADE AND OTHER PAYABLES

	2018 $	2017 $
Trade payables	55,633	22,123
Accrued interest on convertible notes	127,269	107,063
Other payables	162,972	201,514
Miniran acquisition payable	660,000	535,044
Accrued expenses	176,644	51,749
Accrued interest on unsecured notes	8,250	-
Total	**1,190,768**	**917,493**

NOTE 14: UNSECURED BORROWINGS

Convertible Notes	1,216,348	1,372,597
Unsecured Notes	110,000	-
Total	**1,326,348**	**1,372,597**

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 matured in September 2017 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.

Convertible Note holders with the combined face value of $177,500 have converted their notes to shares in the company. Note holders with a face value of $1,150,000 have renewed their notes for 12 months which matured in September 2018. Subsequent to year-end, these same note holders have agreed to convert their principal and all accrued interest into shares subject to the consolidated entity raising $2 million in capital in the next 6 months. The conversion will be at the same rate used in the capital raising. Theremaining note holders with $100,000 of notes have not formally renewed however no request for repayment has been received.

NOTE 15: REGULATORY AND LISTING COST

	2018 $	2017
ASX/ASIC/Share Registry Fees	49,525	35,521
Total	**49,525**	**35,521**

NOTE 16: ISSUED CAPITAL

	2018		2017	
	$	No.	$	No.
Fully Paid ordinary shares	**7,931,010**	**108,421,313**	**6,928,751**	**81,740,085**

	2018		2017	
	$	No.	$	No.
Opening balance 1 July	6,928,751	81,740,085	6,295,151	71,180,085
Issue of shares	833,732	21,756,576	-	-
Issue of Convertible Notes shares	201,907	4,924,652	-	-
Capital raising costs	(33,380)	-	-	-
Share issue on acquisition of Miniran Pty Ltd	-	-	633,600	10,560,000
Balance 30 June	**7,931,010**	**108,421,313**	**6,928,751**	**81,740,085**

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 2017	44,000
Refinance of convertible notes	-
Balance at 30 June 2018	**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

	2018	2017
Earnings used to calculate basic EPS	(5,123,555)	(1,713,392)
Weighted average no. of ordinary shares	92,892,290	73,292,685
Basic loss per share (cents)	(0.06)	(2.34)
Weighted average shares & options outstanding	92,892,290	73,292,685
Diluted loss per share (cents)	(0.06)	(2.34)

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

	2018 $	2017 $
Reconciliation of operating result after income tax to net cash provided by operating activities		
Operating loss before income tax	(5,123,555)	(1,713,392)
Add back non-cash items:		
Depreciation and Amortization	13,915	14,108
Impairment of Non-Current Assets	3,704,807	-
Unwinding of discounts	-	192,428
Change in operating assets and liabilities:		
Decrease in Receivables	655	97,042
Increase/(decrease) in Payables	614,549	100,400
Net cash used in operating activities	**(789,629)**	**(1,309,414)**

NOTE 20: AUDITOR REMUNERATION

	2018 $	2017 $
Auditor – BDO East Coast Partnership		
Audit or review of financial statements	63,500	63,000

NOTE 21: FINANCE EXPENSES

	2018 $	2017 $
Interest payable on unsecured notes	8,250	-
Interest payable on trade and other payables	-	12,898
Interest payable on convertible notes	145,205	107,063
Unwinding of discounts on deferred consideration for acquisition of Miniran	124,956	27,716
Unwinding of discounts on Convertible notes	200,865	164,712
Total finance cost	**479,276**	**312,389**

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 ($124,956) 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:

	2018 $	2017 $
Short-term employee benefits		
Salary	220,000	240,000
Company secretarial	26,400	27,200
Directors fees	95,186	126,750
Post-employment benefits	16,922	22,800
Total	**358,508**	**416,750**

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. However, as the company moving forward in to electronic commerce sector, it has commenced seeking interest parties to dispose these tenements.

Other than the above, the directors were not aware of any material contingent liabilities, assets or commitments.

NOTE 24: 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 2018.

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 2018, 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

In September 2018, the convertible notes which had been extended have been matured. $1,150,000 of the noteholders have agreed to extend the repayment date and to convert the principal to ordinary shares on the condition that the company successfully raises $2m within 6 months at a conversion price same as the capital raising.

The company has executed a binding conditional term sheet to acquire 100% of MSY group of companies, which retails consumer electronics throughout Australia. Following completion of MSY transaction, the company's core business activities will shift from graphite exploration consumer electronics retailing with a key focus on e-commerce growth.

The acquisition of MSY will therefore result in change in the nature and scale of the company's activities and will require shareholder approval under Chapter 11 of the ASX listing Rules and re-compliance by the company with Chapters 1 and 2 of the ASX Listing Rules.

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 2018 $	2017 $
Loss after income tax	(4,500,549)	(1,659,742)
Total comprehensive income	(4,500,549)	(1,659,742)

Statement of financial position

	Parent 2018 $	2017 $
Total current assets	4,073	1,894,029
Total assets	8,090	3,084,741
Total current liabilities	2,517,114	917,493
Total non-current liabilities	-	1,372,597
Total liabilities	2,517,114	2,290,090
Net deficiency	(2,509,024)	794,651
Equity		
Contributed equity	29,421,715	28,419,456
Share based payment and Convertible Notes reserves	238,615	263,615
Accumulated losses	(32,169,534)	(27,888,420)
Total deficiency	(2,509,024)	794,651

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 2018 %	2017 %
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%	100%
Miniran Lanka (Pvt) Ltd	Sri Lanka	100%	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.

Statement of profit or loss and other comprehensive income

	Lanka Graphite Holdings Pvt Ltd	
	2018	**2017**
	$	**$**
Revenue	-	-
Loss after income tax	(2,550,041)	(29,670)
Total comprehensive income	(2,550,041)	(29,670)
Loss attributable to non-controlling interests (30%)	(765,012)	(8,901)

Statement of financial position

	Lanka Graphite Holdings Pvt Ltd	
	2018	**2017**
	$	**$**
Total current assets	-	-
Total assets	35,596	2,471,819
Total current liabilities	780,126	666,308
Total liabilities	780,126	666,308
Total deficiency	(744,530)	1,805,511
Equity		
Contributed equity	2,000,000	2,000,000
Accumulated losses	(2,744,530)	(194,489)
Total deficiency	(744,533)	1,805,511
Carrying amount of non-controlling interests (30%)	(223,359)	541,653

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 16 to 40, 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 2018 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 21st day of December 2018

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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 consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 2018 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.

BDO

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.

Subsequent Event - Significant Changes in the state of affairs

Key audit matter	*How the matter was addressed in our audit*
Refer to Notes 4.5, 4.6, 11, 12, 13, 14 and 27 of the financial report. Subsequent to year-end, the company has executed a binding conditional term sheet to acquire MSY Group of Companies. The acquisition of MSY will result in a change in the nature and scale of Lanka business activities. We considered this to be a Key Audit Matter due to the following: • The company agreed with their convertible noteholders to renew the notes with an original face value of $1,250,000 until September 2018 and then granted a further extension until the acquisition of MSY is completed. The subsequent measurement of these convertible notes is complex and interest continues to accrue during the extension periods. • The Company intends to spin out or divest its existing Sri Lankan graphite assets following the completion of acquiring MSY. • The measurement of the exploration assets at balance date in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources* has specific requirements to	Our audit procedures included, but were not limited, to the following: • Agreed the renewal of the convertible notes to supporting documentation. • Reviewed the calculation of the convertible notes to ensure interest was being properly accrued. • Evaluating the appropriateness of the measurement of exploration and intangible assets against the relevant Australian Accounting Standard; • Reviewing the Group's actions in order to divest the Sri Lankan graphite business including the status of the tender process post balance date; • Challenging management on the basis of the significant change in the state of affairs by reviewing minutes and other relevant documentation of the ongoing sales process as well as holding discussions with management; • Review payments made post year-end to ensure payables and accruals were complete and accurate; and

consider in determining whether the asset is impaired. • The measurement of the intangible assets at balance date in accordance with AASB 136 *Intangible Assets* has specific requirements to consider in determining whether the asset is impaired. • The completeness of liabilities in conjunction with the Sri Lankan graphite business is critical in ensuring the financial statements achieve fair presentation.	• Assessing the completeness and accuracy of the disclosures made in Notes 4.5, 4.6, 11, 12, 13, 14 and 27.

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 2018, 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_responsibilities/ar1.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 7 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Lanka Graphite Limited, for the year ended 30 June 2018, 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, 21 December 2018

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

	Top 23 Shareholders	Number of shares Held	Percentage(%) of Issued shares
1	CITICORP NOMINEES PTY LIMITED	13,500,406	12.45%
2	ARTPRECIATION PTY LTD	7,910,000	7.30%
3	MS XIAODAN HUANG	5,178,354	4.78%
4	CHU YIN LIN	3,951,998	3.65%
5	CITY WINNER HOLDINGS LTD	3,000,000	2.77%
6	SPIGSY PTY LTD	2,741,520	2.53%
7	NG SMSF PTY LTD	2,462,443	2.27%
8	SAI ASAN PTY LTD	2,332,673	2.15%
9	MR HARRY DOUMBOS	1,695,000	1.56%
10	SHI CHUNG CHANG	1,500,000	1.38%
11	ROBERT MERVYN ANDERSON	1,333,333	1.23%
12	AL KW SUPER PTY LTD	1,160,113	1.07%
13	MS PEI-FEN LEE	1,088,600	1.00%
14	MRS EMILY LEE D'CRUZ	1,071,711	0.99%
15	PETER BIANTES & YAJUNE GU	1,000,000	0.92%
16	BONVILLA CONSTRUCTIONS PTY LTD	1,000,000	0.92%
17	CHIEN AN CHANG	1,000,000	0.92%
18	SHIH TSUNG CHANG	1,000,000	0.92%
19	SHIH WEN CHANG	1,000,000	0.92%
20	MR GREGORY JOHN KEIR	1,000,000	0.92%
21	GERARD LUXON & MARK LUXON	1,000,000	0.92%
22	BALANJALI MANDALESON	1,000,000	0.92%
23	YAN XIAO NAN	1,000,000	0.92%
	Top 23 Shareholders	**57,926,151**	**53.43%**
	Other Shareholders	**50,495,162**	**46.57%**
	Total Issued Shares	**108,421,313**	**100.00%**

Distribution of Shareholdings – Fully Paid Ordinary Shares:

Size of Holding	Number of share holders	Number of Shares
1-1,000	1,593	134,373
1001-5,000	64	165,968
5,001-10,000	94	866,272
10,001-100,000	209	8,915,586
100,001 and over	118	98,339,114
Total	**2,107**	**108,421,313**

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/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