# ANNUAL REPORT 2016

SYRAH RESOURCES

The future of graphite

# CORPORATE DIRECTORY

## DIRECTORS

James Askew *Non-Executive Chairman*
Shaun Verner *Managing Director*
Sam Riggall *Non-Executive Director*
Christina Lampe-Onnerud *Non-Executive Director*
Rhett Brans *Non-Executive Director*
José Manuel Caldeira *Non-Executive Director*

## COMPANY SECRETARY

Melanie Leydin

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## STOCK EXCHANGE LISTING

Australian Securities Exchange
(ASX Code: SYR)
American Depository Receipts
(Ticker Symbol: SRHYY)

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# COMPANY PROFILE

## OUR VISION

Syrah's vision is to be the leading supplier of superior quality graphite products, working closely with our customers and supply chain to innovate and bring enhanced value to industrial and emerging technology markets globally.

## OUR VALUES

Syrah is committed to:

> **WORKING SAFELY** at all times

> **PARTNERING WITH STAKEHOLDERS** for community and environmental sustainability

> **INTEGRITY** and **FAIRNESS** in all our business dealings

> Being **ACCOUNTABLE** for our decisions and actions

> **SETTING GOALS** and supporting people to achieve them

We will work as a team and act like owners to deliver shareholder value.

# 2016 HIGHLIGHTS

## BALAMA PROJECT

> Significant progress with development and construction activities. Process plant construction 52% complete at 31 December 2016, with commissioning scheduled to commence during Q2 2017 and production ramp-up during Q3 2017

> Introduced attrition cells into the process plant flow sheet to achieve Total Graphitic Carbon (TGC) grades of up to 98% across all flake sizes

> Ore reserve upgrade for the Mualia Zone resulting in a 40% increase in Proven and Probable Reserves to 114.5 Mt at 16.6% TGC

## DOWNSTREAM BATTERY ANODE MATERIAL (BAM) PROJECT

> Updated battery anode material (BAM) strategy including establishment of a technology centre, Product Qualification Plant and Commercial Plant

> Five year Offtake Agreement signed with Marubeni Corporation (Marubeni) to purchase a total of 50,000 tonnes of coated and uncoated spherical graphite per annum for major battery and anode customers in Japan and Korea

## CORPORATE

> Successfully completed A$194 million capital raising in June 2016

> Shaun Verner appointed Managing Director and Chief Executive Officer, subsequent to year end, on 3 February 2017

# CHAIRMAN'S LETTER

Our progress in delivering on our undertakings in 2016 went largely as planned, particularly regarding the Balama project construction in Mozambique. The downstream development of our battery anode products from Balama graphite concentrate has undergone a deep strategic review during the year and a roadmap developed to enable delivery of commercial quantities of high purity graphite anode products by end-2018. Our goal of entering the graphite global supply chain will have been achieved in 2017 and establishing Syrah graphite as a benchmark for this sector is paramount to our commercial success.

While 2016 was not without challenges, I reflect on the progress from when I joined Syrah in October 2014 as your Chair, when there were a handful of employees in Melbourne, a tiny contingent in Mozambique and a few single operatives scattered across the globe. A feasibility study for Balama was underway, there was a new CEO but no CFO or COO and none of the key approvals (e.g. land access license) for Balama were in place. In 2017 we will commence production at Balama and complete a battery anode qualification plant in Louisiana.

However, for the benefit of those of limited familiarity with the resources industry, a starker profile of progress is important. Syrah commenced exploring Balama in 2011. The deposit had been known about since the 19th century, but never explored. In six years the world's largest known deposit of high quality graphite has been drilled, engineered, funded and will achieve production, with a reserve life of over fifty years and a nameplate production scale which represents about half of the annual current global production of graphite.

Tolga Kumova, one of the original founders of Syrah and the new CEO from when I joined the Board in 2014, retired from that role in October 2016. Tolga is owed a great deal of credit by stakeholders for his vision and drive in the success of Syrah, and the Board, on your behalf, thanks him for his contribution. In resigning, Tolga acknowledged that the next part of the journey for Syrah would require a different set of skills as Syrah transitioned into a global production and technology company operating in multiple jurisdictions. I personally want to also thank Tolga for his boundless enthusiasm for making Syrah a success when so many doubted this start-up Company could dare to dream of becoming a global player.

Since year-end, we have concluded a global search for a new CEO to replace Tolga and in February 2017 announced that an internal candidate, Shaun Verner, will lead Syrah into the future. Shaun had joined Syrah in October 2016 to lead sales and marketing and thus had developed some familiarity with Syrah operations before his CEO appointment. His transition is augmented by the appointment of a replacement to his former role and the management team will be further expanded in 2017 to address the growth into sales and technology. Shaun has, and will also continue, to work with participants across the value chain to develop relationships which build on our technical capability.

In closing, I want to reflect on where I see the future for Syrah, based on a brief four months as Executive Chair while the CEO replacement was recruited. With the commencement of Balama production ramp-up in H2 2017, the entry of our graphite products to the global markets will be the next test of the Company and the work which is going into preparing for this should ensure it is achieved. The downstream graphite anode products area which offers so much commercial potential is growing and with it, technical development of enhanced anode materials, all based on a graphite core, are appearing. Syrah must therefore not only establish an anode production facility, but also rapidly develop our technical development depth in order to keep abreast of market demand and become a recognized leader to ensure our longer term commercial future. In parallel with this, we must strive to build relationships with the global supply chain customers for anode graphite and have a meaningful presence in technology for improving all aspects of performance of lithium ion batteries. In all this, our mission is just beginning.

The achievements of 2016 are amply recorded in our comprehensive website. What doesn't appear there is the recognition of our employees, their commitment to the Syrah vision and the Balama team who are delivering the project. Of particular note, our safety record at Balama was outstanding by any global measure. Their work is not finished, but stands us in great stead for a safety and performance culture which is essential for a company aspiring to be a leader in the global graphite supply chain.

**James Askew**
*Chairman*

24 March 2017

# DIRECTORS' REPORT

The Directors present their report on Syrah Resources Limited ("Syrah", "the Company", "the Group", or "the consolidated entity"), consisting of Syrah and the entities it controlled at the end of, or during, the year ended 31 December 2016.

The Board of Directors resolved to change the Company's reporting currency from Australian dollars to United States dollars during the current year. This change in reporting currency was made to provide shareholders with a more accurate reflection of the Company's underlying performance and enhance comparability of Syrah's financial information. This change in reporting currency is a voluntary change that is accounted for retrospectively. All current and comparative financial information presented in this report is in United States dollars, unless stated otherwise.

In prior year, the Board of Directors resolved to change the Company's financial year end from 30 June to 31 December with effect from 1 July 2015. This change was made to align the Company's financial year end with its wholly owned subsidiary, Twigg Exploration and Mining Limitada, which holds the Balama Graphite and Vanadium Project in Mozambique. The change resulted in a six month transitional financial period beginning on 1 July 2015 and ending on 31 December 2015. The current financial period is the first twelve month financial year, commencing on 1 January 2016 and ending on 31 December 2016. Comparative information presented in this report relates to the six month transitional financial period.

## DIRECTORS

The following persons were directors of Syrah Resources Limited during the financial year and up to the date of this report, unless otherwise stated:

**James (Jim) Askew,** *Non-Executive Chairman (Executive Chairman* from 5 October 2016 to 3 February 2017)

**Shaun Verner,** *Managing Director* (Appointed 3 February 2017)

**Tolga Kumova,** *Managing Director* (Resigned 5 October 2016)

**Sam Riggall,** *Non-Executive Director*

**Christina Lampe-Onnerud,** *Non-Executive Director* (Appointed 24 May 2016)

**Rhett Brans,** *Non-Executive Director*

**José Caldeira,** *Non-Executive Director*

## INFORMATION ON DIRECTORS

The information on Directors in office as at the date of this report is as follows:

**James Askew,** *Non-Executive Chairman*

**Experience and expertise:** Mr Askew is a mining engineer with over 40 years broad international experience as a Director and Chief Executive Officer for a wide range of Australian and international publicly listed mining, mining finance and other mining related companies. He has had a continuous involvement with the African mining industry since 1985.

**Other current directorships**(1)**:** Chairman of OceanaGold Corporation, Non-Executive Director of Evolution Mining Limited

**Former directorships in last 3 years**(2)**:** Chairman of Asia Minerals Resources Limited, Non-Executive Director of Nevada Copper Corporation

**Special responsibilities:** Member of the Audit, Financial Risk and Compliance Committee, Member of the Remuneration and Nomination Committee, Chairman of the Sustainability and Risk Committee

**Interest in shares and options:**
Ordinary shares: Nil
Options over ordinary shares: 600,000 options

**Length of service:** 2 years and 5 months

**Shaun Verner,** *Managing Director*

**Experience and expertise:** Mr Verner is a proven senior executive with extensive general management and cross-functional commercial, operations, supply chain, and leadership experience. He was appointed Managing Director and Chief Executive Officer on 3 February 2017, after joining the Company on 24 October 2016 as Executive General Manager - Sales and Marketing. Prior to joining Syrah, Shaun was at BHP Billiton for 20 years in a variety of executive roles, with extensive international commercial and operational experience across a range of commodities including copper and base metals, uranium and thermal and metallurgical coal.

**Other current directorships**(1)**:** None

**Former directorships in last 3 years**(2)**:** None

**Special responsibilities:** Managing Director

**Interest in shares, rights and options:**
Ordinary shares: 5,500
Options over ordinary shares: 600,000 (3) options

**Length of service:** 2 months

**Sam Riggall,** *Non-Executive Director*

**Experience and expertise:** Mr Riggall was previously Executive Vice-President of Business Development and Strategic Planning at Ivanhoe Mines Limited. Prior to that he worked in a variety of roles in Rio Tinto Limited for over a decade covering industrial minerals, project generation and evaluation, business development and capital market transactions.

**Other current directorships**(1)**:** Co-Chairman and Chief Executive Officer of CleanTeq Holdings Limited

**Former directorships in last 3 years**(2)**:** None

**Special responsibilities:** Chairman of the Audit, Financial Risk and Compliance Committee, Member of the Remuneration and Nomination Committee

**Interest in shares, rights and options:**
Ordinary shares: Nil
Options over ordinary shares: 400,000 options

**Length of service:** 2 years and 5 months

**Christina Lampe-Onnerud,** *Non-Executive Director*

**Experience and expertise:** Dr Lampe-Onnerud is based in the USA and is an authority on battery system innovation and design with 20 years of experience in the research and development and commercialisation of Lithium-ion battery technologies for consumer electronics, electric automotive and energy storage applications. She was the founder of Boston-Power, Inc., a developer of high-energy, cost-effective, longer-lasting and safer battery "building blocks". She has also held senior roles at Bridgewater Associates, LP, Arthur D. Little and Bell Communications Research, Inc.

**Other current directorships(1):** None

**Former directorships in last 3 years(2):** None

**Special responsibilities:** Member of the Remuneration and Nomination Committee, Member of the Sustainability and Risk Committee

**Interest in shares, rights and options:**
Ordinary shares: Nil
Options over ordinary shares: 400,000 options

**Length of service:** 10 months

**Rhett Brans,** *Non-Executive Director*

**Experience and expertise:** Mr Brans has over 40 years of experience in the design and construction of mineral treatment facilities. His experience extends across the full spectrum of development activities, ranging from mining feasibility studies through to commissioning operations. He has also managed the development of several gold and base metal projects.

**Other current directorships(1):** Non-Executive Director of Carnavale Resources Limited

**Former directorships in last 3 years(2):** Non-Executive Director of RMG Limited, Non-Executive Director of Monument Mining Limited

**Special responsibilities:** Chairman of the Remuneration and Nomination Committee, Member of the Audit, Financial Risk and Compliance Committee, Member of the Sustainability and Risk Committee

**Interest in shares, rights and options:**
Ordinary shares: 4,000 shares
Options over ordinary shares: 400,000 options

**Length of service:** 3 years and 9 months

**José Manuel Caldeira,** *Non-Executive Director*

**Experience and expertise:** Dr Caldeira is a highly experienced legal and regulatory professional with over 25 years' experience in the legal industry. He is one of the prominent lawyers in Mozambique. He is currently a senior partner at Sal & Caldeira Advogados, Lda in Mozambique, one of the leading law firms in Mozambique.

**Other current directorships(1):** None

**Former directorships in last 3 years(2):** None

**Special responsibilities:** None

**Interest in shares, rights and options:**
Ordinary shares: Nil
Options over ordinary shares: 400,000 options

**Length of service:** 2 years and 7 months

(1) 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

(2) 'Former directorships in the last 3 years' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated

(3) 600,000 unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. S Verner was appointed as Managing Director and Chief Executive Officer of the Company from 3 February 2017. As a result of his appointment as Managing Director, these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholders approval.

## COMPANY SECRETARY

Melanie Leydin has over 25 years' experience in the accounting profession and is a Director and Company Secretary for a number of oil and gas, junior mining and exploration entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. She graduated from Swinburne University in 1997, became a Chartered Accountant in 1999 and since February 2000 has been the principal of chartered accounting firm, Leydin Freyer specialising in outsourced company secretarial and financial duties for the resources and biotechnology sectors.

## PRINCIPAL ACTIVITIES

The principal continuing activities of the Group during the year consisted of:

> the construction and development of the Balama Graphite Project in Mozambique;

> development of sales and marketing arrangements with targeted customers;

> continued assessment of the use of high quality graphite from the Balama Graphite Project as an input into the production of battery anode material and industrial products;

> development of downstream, battery anode material strategy.

## SENIOR MANAGEMENT CHANGES

On 5 October 2016, Syrah announced the resignation of Tolga Kumova as Managing Director of the Company. Tolga Kumova continues to be active with the Company as an advisor/consultant, focussed on business development activities for the battery anode market.

Chairman Jim Askew stepped into an Executive Chairman role from 5 October 2016 to 3 February 2017 while the company conducted a global search for a new Managing Director and Chief Executive Officer (CEO). During this time, Sam Riggall was appointed the Lead Independent Director.

Shaun Verner was appointed Managing Director and Chief Executive Officer of Syrah, effective from 3 February 2017. He joined the Company on 24 October 2016 as Executive General Manager - Sales and Marketing. Prior to joining Syrah, S Verner was at BHP Billiton for 20 years in a variety of executive roles, with extensive international commercial and operational experience across a range of commodities including copper and base metals, uranium and thermal and metallurgical coal. He is a proven senior executive with extensive general management and cross-functional commercial, operations, supply chain, and leadership experience.

Jim Askew has reverted to his Non-Executive Chairman role, following the appointment of S Verner, and will continue to support the progression of the group's downstream battery anode material strategy in the near term; including the development of qualification and commercial facilities in Louisiana, from his base in Denver, Colorado.

Rob Schaefer was appointed as Chief Commercial Officer and commenced on 1 March 2017, with accountability for sales and marketing strategy, outbound logistics, and strategic supply contracts. Rob has extensive sales, marketing and finance experience in the resources industry with senior roles at WMC Limited, BHP Billiton and most recently MMG Ltd across the commercial spectrum.

These appointments have significantly strengthened Syrah's Executive team, and the Board is confident that Syrah will continue its successful transition from project development to the leading, high quality producer of graphite concentrate and battery anode material to global customers.

## DIVIDENDS

There were no dividends paid, recommended or declared during the current financial year or previous financial period.

# REVIEW OF OPERATIONS

## OPERATING AND FINANCIAL REVIEW

### CONSOLIDATED RESULTS

#### STATEMENT OF COMPREHENSIVE INCOME

The loss for the consolidated entity after income tax amounted to $14.5 million during the year ended 31 December 2016 (6 month period ended 31 December 2015 loss: $2.4 million).

Revenue for the year comprised interest income of $1.3 million (6 month period ended 31 December 2015: $0.3 million). The increase in interest income was driven by a higher cash and cash equivalents balance during the year compared to the prior period, following the sucessful capital raisings completed in August 2015 and June 2016.

Total expenses for the year were $15.8 million (6 month period ended 31 December 2015: $6.9 million), and included the following:

> Employee benefits expenses of $7.3 million (6 month period ended 31 December 2015: $3.9 million), of which $3.8 million (6 month period ended 31 December 2015: $3.0 million), were 'non-cash' share-based payment costs associated with issuance of shares, options and performance rights to directors, executives and selected senior employees;

> Legal and other consulting expenses of $2.8 million (6 month period to 31 December 2015: $0.9 million) associated with documentation of key commercial agreements, and consulting services in relation to the progressive set up of corporate structures and general compliance;

> Net foreign exchange loss of $3.2 million (6 month period ended 31 December 2016: gain of $4.3 million) being exchange rate differences on foreign currency transactions for the year; and

> Other expenses of $2.3 million (6 months to 31 December 2015: $1.1 million) comprising general corporate administration costs.

The overall increase in costs, after taking into account the effect of a shorter transitional comparative period, is a result of an increase in general business activities as the consolidated entity progressed the development and construction of the Balama Graphite Project in Mozambique, and continued the development of corporate structures and capabilities to support operational, marketing and supply chain functions as the business progresses towards the commencement of operations.

The consolidated entity's comprehensive income for the year included a non-cash loss of $3.9 million (6 month period ended 31 December 2015: $7.1 million) on translation of foreign subsidiaries, specifically Twigg Exploration and Mining Limitada, and translation of the holding company's financial statements to a United States dollars reporting currency.

Total comprehensive loss attributable to shareholders of Syrah Resources Limited for the year ended 31 December 2016 was $18.4 million (6 month period ended 31 December 2015: $9.4 million).

#### STATEMENT OF FINANCIAL POSITION

Total assets of the consolidated entity increased during the year to $330.0 million as at 31 December 2016 (2015: $192.0 million) principally as a result of the successful completion of a fully underwritten $144.1 million (A$193.6 million) capital raising in June 2016 by way of an Institutional Placement of 32 million new shares in the Company to professional and sophisticated investors at A$6.05 per share.

The consolidated entity's cash and cash equivalents was $163.3 million as at 31 December 2016 (2015: $140.0 million) and working capital, being current assets less current liabilities, was $152.4 million (2015: $137.5 million).

Development and construction of the Balama Graphite project continued during the period, with additional development expenditure of $116.0 million recognised during the year (6 month period to 31 December 2015: $12.8 million), bringing the Mine properties and development balance to $154.4 million as at 31 December 2016 (2015: $45.1 million).

The consolidated entity had total liabilities of $19.3 million as at 31 December 2016 (2015: $7.0 million), which included trade and other payables of $14.5 million (2015: $5.9 million); and a provision for decommissioning and rehabilitation for the Balama Graphite Project of $4.5 million (2015: $1.0 million).

## STATEMENT OF CASH FLOWS

### Cash flow from operating activities

Net cash flows used in operating activities were $7.1 million during the year ended 31 December 2016 (6 month period ended 31 December 2015: $2.7 million) and principally consisted of employee benefits expenses, legal and other consulting costs, and general corporate and administration costs.

Interest received during the period was $1.2 million (6 month period ended 31 December 2015: $0.1 million), with the increase driven by the higher average cash and cash equivalents balance on deposit during the year following the successful capital raisings in August 2015 and June 2016.

### Cash flow from investing activities

Net cash flows used in investing activities were $110.0 million during the year (6 month period ended 31 December 2015: $11.7 million) and principally consisted of development and construction works for the Balama Graphite Project.

### Cash flow from financing activities

Net cash inflows from financing activities were $140.5 million during the year ended 31 December 2016 (6 month period ended 31 December 2015: $148.1 million) and principally consisted of proceeds received from the capital raising completed in June 2016.

## SEGMENT REVIEW

## BALAMA GRAPHITE PROJECT

### Financial summary

The segment result for the year was a net gain of $0.1 million (6 month period ended 31 December 2015: loss of $1.2 million), being administration expenses offset by a net exchange gain principally resulting from the exchange rate movements between the Mozambique metical (MZN) and the United States dollar (USD).

Balama segment total assets were $164.1 million at 31 December 2016 (2015: $50.9 million), principally comprised of Mine properties and development assets for the Balama Graphite Project of $154.4 million (2015: 45.1 million), and trade and other receivables of $9.0 million (2015: $2.8 million) consisting of prepayments and input tax credits associated with project development activities.

An additional $30.5 million of capital expenditure for the Balama Graphite Project was committed to as at 31 December 2016 but not recognised on the statement of financial position (2015: $36.6 million).

The Balama Project capital costs budget increased from $144.4 million to $193.0 million during the year due to the following:

> $10.8 million for the upfront purchase of a power station which will provide cost and reliability benefits;

> $16.2 million in process plant enhancements including enhanced wet and dry screens and drying equipment, additional bagging equipment, attrition cells and online analysers. These enhancements will facilitate consistent production of a range of high quality graphite products

> $3.6 million in environmental enhancements, including upgraded liners for the tailings storage facility, run-of-mine (ROM) pad, low grade stockpiles and waste dumps

> $8.0 million as a result of a growth in quantities arising from final detailed design

> $10.0 million in cost variations from original estimates and owner's holding costs and overhead expenses due to changes in the project development and construction schedule

An additional amount of $7 million was set aside as contingency, bringing the total project capital cost budget to $200 million. The increase in the project budget will be funded from the Company's existing cash reserves.

Below are the key activities and achievements for the Balama Graphite Project during the year.

### Geology

An updated Proved and Probable Ore Reserve for the overall Balama Project now totals 114.5 Mt at 16.6% TGC for 18.9 Mt of contained flake graphite as announced by the Company on 15 November 2016. This is a 40% increase in the Proven and Probable Reserves of 81.4Mt at 16.2% TGC previously reported (refer ASX release dated 29 May 2015).

A Mineral Resource and Ore Reserve upgrade for the Mualia Zone, Balama West, was prepared in accordance with the guidelines of the *JORC Code (2012)*. The Probable Ore Reserve estimated by The MSA Group Pty Ltd (MSA Group) is based on the optimised open pit mine plan for the Mualia Zone, whilst taking into consideration the same mine planning parameters used for the Balama East and West open pits in the Feasibility Study completed by Snowden Mining Industry Consultants in May 2015. Since Inferred Mineral Resources are not used in Ore Reserve estimates, the Probable Ore Reserve is based on, and inclusive of, Indicated Mineral Resources only.

The Mualia Probable Reserve estimation, based on the Resource of the same zone (Table 2), is displayed in Table 1. The open pit containing this reserve is 450m wide, 800m long and an average of 100m deep, with a stripping ratio of 1.24:1.

### TABLE 1 – MUALIA, BALAMA WEST ORE RESERVE ESTIMATE AT 9% TGC [1] CUT-OFF GRADE

| CLASSIFICATION | TONNES (MT) | TGC (%) [1] | CONTAINED GRAPHITE (MT) |
|---|---|---|---|
| Probable | 33.1 | 17.5 | 5.4 |
| TOTAL | 33.1 | 17.5 | 5.4 |

### TABLE 2 – MUALIA, BALAMA WEST MINERAL RESOURCE ESTIMATE AT 5% TGC [1] CUT-OFF GRADE

| CLASSIFICATION | TONNES (MT) | TGC (%)[1] | CONTAINED GRAPHITE (MT) |
|---|---|---|---|
| Indicated | 42.1 | 18.0 | 7.6 |
| Inferred | 87.5 | 17.1 | 14.9 |
| TOTAL | 129.6 | 17.4 | 22.5 |

[1] TGC = Total graphitic carbon

**Competent Person Statements**

The information in this report as it relates to geology, QAQC and Mineral Resource estimation was compiled under the supervision of Mr Jeremy Witley Pr. Sci. Nat., Principal Consultant at The MSA Group (Pty) Ltd. Mr Witley is registered with the South African Council for Natural Scientific Professions (SACNASP) and is a Fellow of the Geological Society of South Africa (GSSA) (both are a "Recognised Professional Organisation" by the ASX). He has more than 5 years of experience in the activities being reported on and has sufficient expertise which is relevant to the style of mineralisation and type of deposit under consideration and to the activity undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Witley consents to the inclusion of this information in the form and context in which it appears in this report.

The information in this report that relates to Syrah Balama Ore Reserves is based on information reviewed or work undertaken by Mr Anton Ferdinand von Wielligh Pr Eng, registered with the Engineering Council for South Africa and a Member of the Southern African Institute of Mining and Metallurgy, both are a "Recognised Professional Organisation" by the ASX. Mr von Wielligh is a consultant working for The MSA Group (Pty) Ltd. Mr von Wielligh has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the preparation of mining studies to qualify as a competent person as defined by the JORC Code (2012). Mr von Wielligh consents to the inclusion of this information in the form and context in which it appears in this report.

Detailed statements of the group's Mineral Resources and Ore Reserves can be found in the company's announcements released on 29 May 2015 and 15 November 2016.

## Mine development

A licence to mine (Mining Concession) is in place for a 25 year period (renewable). There has been substantial progress during the year in mine development, with the following activities now completed or near completion:

- Mining facility administration building and training centre are now operational
- Mining facility warehouse and wash pad are nearing completion
- Pre-stripping for Balama West:
  - Soil, waste and low grade dumps have been completed
  - Service and haul roads have commenced
  - Mining pit has commenced
- Construction of the ROM pad with a capacity of 360,000 tonnes substantially progressed with completion scheduled for Q1 2017
- Mining contractor engaged and the mining fleet required for full operations has been mobilised and commenced operations including:
  - 9 × Bell B40 articulated dump trucks,
  - 2 × Liebherr excavators,
  - 2 × Caterpillar dozers,
  - 2 × Caterpillar graders, and
  - 2 × Fuel tankers.

## Processing plant

Substantial progress was achieved during the year with all principal equipment having been delivered to site and progressively being installed by the Structural, Mechanical and Piping (SMP) Contractor. The Electrical and Instrumentation (E&I) Contractor has mobilised to site and commenced works. The overall construction progress for the processing plant was 52.4% as at 31 December 2016 and commissioning remains on schedule for Q2 2017.

The Balama processing plant will use conventional processes including:

- Primary crushing & crushed ore storage
- Recycled crushing
- Primary milling
- Flotation and attrition
- Secondary milling and classification
- Filtration
- Flake and fines drying
- Product classification and bagging

Waste material containing vanadium will be pumped to the Tailings Storage Facility after the flotation process.

### General overview

An overview of the status of construction and development activities in relation to the processing plant is set out below:

- Engineering and procurement is completed
- Fabrication of structural steel and plate work is substantially completed with 92% of structural steel and 77% of plate work on site at year end and final delivery of outstanding handrail, grating and miscellaneous plate work expected during Q1 2017
- Structural steel erection is well advanced with 960 tonnes installed of the 1,900 tonnes delivered to site by year end.

- Process plant and associated infrastructure concrete works are nearing completion with 10,390 $m^3$ poured with the last major remaining area being the floor of the Product Storage shed:
  - Concreting of major process plant areas scheduled for completion by end of February 2017 with only minor areas remaining
  - Concrete works were completed for the primary milling, secondary milling, reagent mixing and storage, thickener flocculant storage and dosing, filtration, flake dryer and fines dryer areas
- Most major equipment (including screw feeders, crushing plant, flotation cells, scrubbers, agitators, cyclones, recycle crusher, dry and wet screens, bagging machines and product bins) was delivered to site with a number of key pieces of primary equipment already installed
- Piping fabrication and spooling was 69% complete at an off-site workshop and deliveries to site have commenced. The balance of pipe fabrication, consisting of carbon steel and rubber lined pipe, is expected to be delivered to site progressively during Q1 2017
- All major contracts for the installation of the process plant and supporting infrastructure have been awarded

## Enhancement Project – Attrition Cells

Attrition cells (which do not utilise any chemical treatment processes) have been added to the Balama process flow sheet, based on significant pilot plant test work completed in China which has demonstrated that a concentrate grade of >98% TGC can be achieved across all flake sizes for Balama graphite product.

The process used by the attrition cell is very simple and involves the removal of gangue minerals from graphite particles, which cleans the surface of the particles and improves flotation efficiencies downstream without a significant impact on particle size.

Higher selling prices can be achieved for higher graphite concentrate grades and will also reduce the downstream processing costs of spherical graphite production. Opportunity remains to further improve the attrition cell performance with on-going test work.

Incremental operating costs for the attrition cells are estimated to be less than US$10 per tonne of concentrate produced and installation of this equipment is integrated into the existing flow sheet.

## Laboratory Services

The Company awarded the contract for the supply of on-site laboratory services to Bureau Veritas Mozambique (Bureau Veritas), a global leader in testing, inspection and certification, with a strong presence in Mozambique across seven existing locations.

The contract term with Bureau Veritas is for a five-year period, providing the following:

- All specialist equipment and graphite analysis methodologies
- Experienced senior management and technical team
- 24-hour analysis for processing plant grade control and product certification
- Accreditation of the on-site laboratory to ISO standards

The onsite laboratory will soon be ready to commence operations, ramping up to a 24/7 operation with more than 30 employees. At full production, nearly 1,700 assays of various types are expected to be analysed daily.

## Mine support infrastructure

Significant progress was made during the year, with emphasis on the following activities:

- 15.4 MW Power Station – concrete works were completed during January 2017. All generators were delivered and positioned, and electrical installation was ready for commencement.
- 700,000 litre Fuel Storage Facility – civil works contract was awarded and work has commenced
- Main Site Administration, Laboratory and Reagents store were under construction as planned. Erection of Warehouse and Fixed Plant Workshop buildings was 100% complete
- Main Product Storage Building (capable of holding 10,000 tonnes of product) – concrete works were in progress and structural steel erection has commenced
- Accommodation Camp – 100% availability of rooms for construction and operations with a total capacity for 660 personnel. Approximately 55% of permanent operations personnel are already engaged and located on site
- Water licence for extraction from Chipembe Dam was extended from 5 to 10 years
- Process and Raw Water Ponds – lining of these ponds was completed. Concrete works for the process water tank and pumps are well advanced
- Tailings Storage Facility – earthworks for Tailings Storage facility cell 1A nearing completion ready for process plant commissioning and ramp up. Liner installation in progress with 184,000 $m^2$ of a total 280,000 $m^2$ installed.

## Operations readiness and commissioning

The preparation for the commencement of commissioning and production ramp up is progressing well:

> The commissioning plan, procedures and schedule continue to be developed with emphasis of staged commissioning of the process plant
> Development of operational resourcing and systems are in progress to ensure a smooth transition from construction to operations
> Production ramp up scheduled to commence during Q3 2017

## Logistics – mine to port

Significant progress was made with a preferred provider (a leading logistics company in Africa) on the terms of a logistics and distribution contract for the transportation of product from Balama to Nacala Port.

The Company will continue to progress discussions with Nacala Port regarding the movement of product through the port and will finalise initial shipping agreements with international shipping lines who operate services to and from Nacala Port during Q2 2017.

## Marketing

Syrah continues to receive positive feedback from customers who have affirmed the high quality of Balama graphite concentrate and spherical graphite, reporting no concerns with quality, deleterious elements or structure.

Customer engagement and commercial negotiation in both the traditional flake and battery anode material segments has continued to progress well, with a focus on both the implementation of existing flake offtake agreements and additional fines sales. The Company is currently engaged in commercial discussions with potential customers in China, Japan, Korea, Europe, South America and the USA.

During June 2016, the Company finalised a five year Offtake Agreement with Marubeni Corporation (Marubeni) to purchase a total of 50,000 tonnes of coated and uncoated spherical graphite per annum for major battery and anode customers in Japan and Korea. Marubeni will have the exclusive right to import and sell Balama coated and uncoated spherical graphite (Product) in Japan and Korea (Territory). Marubeni will also have the exclusive right to sell Product to a subsidiary of a Japanese or Korean headquartered corporation (excluding certain specifically agreed customers), located outside of the Territory.

Marubeni's obligation to purchase commences after Syrah issues a notice that it has adequate commercial production rates of the Product so as it can supply Marubeni, provided that such notice must be given by 31 December 2019. Product prices will be negotiated on a quarterly basis between the parties with reference to the market prices prevailing in the Territory.

### Operational planning and market analysis

The following activities were initiated during the year:

> Sales and Operational Planning (S&OP) processes have been defined to ensure integrated activity between Operations and Marketing through commissioning, production ramp-up and into operations
> Market analysis and sales forecasting activities have intensified with focus on market segmentation, product placement, and battery anode material commercial opportunities
> Better definition of value-in-use and price differential analysis developed across the product range
> Sales placement for balancing demand with the production ramp-up profile
> Back office systems and process development.

## Sustainability

### Health and safety

During 2016, 2.8 million hours were worked with a Total Recordable Injury Rate (TRIFR) of 2.5. The total workforce on site at the end of December 2016 was 1,600. A recordable injury occurred during the December 2016 quarter, involving a contractor team member falling off a truck trailer during unloading activities. The individual is recovering well.

A Health and Safety Committee has been established involving all key contractors and convenes monthly to ensure alignment with the Company's Health and Safety Management Plan and associated requirements.

The Project's emergency response capability has been strengthened significantly with the arrival of the First-Response Fire Rescue Vehicle. This coincided with the formation and training of the Balama Emergency Response Team to ensure the requisite skills exist to manage all site emergency events should they arise.

High risk activities on site associated with cranes and rigging, working at heights and vehicles and driving are being managed closely by the Critical Hazard Management Standards which have been implemented across all work fronts and contract partners.

### Resettlement action plan

Resettlement Action Plan (RAP) activities are significantly advanced with all major resettlement completed. To date, 406 farms have been resettled and a total of 548 hectares of resettlement land cleared.

### Community development

The Community Development Agreement (CDA) outlines the Company's commitment to Social Performance during the term of the Mining Concession. This agreement has been finalised and is now ready for the Minister of Mineral Resources & Energy (Mozambique) to endorse prior to being signed by the District parties to the Agreement.

Work is being undertaken to ensure the Company's social governance architecture is in place and aligned with international standards. This will help to ensure the successful transition from resettlement to social sustainability as per the Company's strategy.

Syrah remains committed to the employment and development of people residing in the local communities and significant local employment, training and skills development continues. As at 31 December 2016, 93% of the workforce are Mozambicans, and 24% come from the local communities surrounding Balama.

FIGURE 1 – WORKFORCE COMPOSITION AS AT 31 DECEMBER 2016

| CLASSIFICATION | EMPLOYEES | CONTRACTORS | TOTAL |
|---|---|---|---|
| Local | 256 | 128 | 384 |
| National | 86 | 1,011 | 1,097 |
| Expatriate | 32 | 87 | 119 |
| Total | 374 | 1,226 | 1,600 |
| Female participation | 19.8% | 5.8% | 9.1% |

### Environment

Representatives from the Mozambique Ministry of Land, Environment and Rural Development (MITADER) visited Balama and commended the Company's Environmental Monitoring Program, which is progressing in line with the conditions of the Environmental License. An annual external environmental audit has been undertaken with no material issues identified.

An archaeological survey of the Mining Concession was undertaken with no areas of cultural or heritage significance identified. A site visit from the National Directorate of Mines and Energy during the December 2016 quarter also did not identify any material issues.

### Mining agreement

Syrah continues to progress the finalisation of its discussions with the Mozambique Government in relation to a Mining Agreement for the Balama Project. While this agreement is not required for Syrah to commence mining, it will assist in clarifying a range of matters including community development matters, employment of expatriate employees, application of the Mega Projects Law, exchange controls, mineral/information data and other matters typically covered in such agreements in developing countries.

## CORPORATE

### Financial summary

The corporate segment made a loss after income tax of $14.6 million during the year (6 month period ended 31 December 2015: $1.1 million).

Total segment expenses for the year were $15.9 million (6 month period ended 31 December 2015: $5.7 million) comprising employee benefits, legal and consulting costs, general and corporate administration costs. These costs include 'non-cash' costs of $3.9 million (6 months ended 31 December 2015: $3.1 million), being share based payments, depreciation and amortisation, and impairment of assets.

Total segment assets, after consolidation adjustments, were $165.9 million as at 31 December 2016 (2015: $141.1 million), with the increase driven by the equity raising completed in June 2016, offset by the investing activities, mainly the development and construction of the Balama Graphite Project.

The corporate assets at 31 December 2016 are principally made up of cash and cash equivalents ('cash reserves'). These cash reserves will be used to fund the:

> completion of development and construction activities for the Balama Graphite Project;

> working capital requirements during the commissioning and production ramp up period;

> general corporate and administrative cost requirements; and

> provide balance sheet flexibility and allow the Company to accelerate its downstream strategy for Battery Anode Material in response to significant market demand.

The company has also commenced discussions with a number of potential financiers to arrange a debt facility of US$50 million for the Balama Project and general corporate activities, as a conservative contingency measure for the commissioning and production ramp-up phase.

### Downstream Project – Battery Anode Material (BAM)

In November 2016, Syrah provided an update on its downstream strategy for battery anode material. The strategy consists of three principal stages:

> A Qualification Plant (first line) in Louisiana to enable customers to complete the product qualification process

> A Commercial Plant, also to be located in Louisiana, to produce initially 20,000 tonnes of battery anode material per annum with permitting to be sought for expansion to 60,000 tonnes per annum

> Development of a technology centre in Perth for optimisation of product and production processes.

The BAM strategy includes an update on test work conducted and feedback provided by customers.

Discussions have since progressed with a number of potential customers, as well as industry participants, which have identified a number of new and value enhancing options.

### Balama Vanadium Project

In addition to the Balama Project's substantial graphite Ore Reserves, the deposit also hosts a significant vanadium resource. The Company has completed a Scoping Study on the Balama Vanadium Project which demonstrated the viability of the project (refer to ASX Announcement dated 30 July 2014).

Due to focus on the delivery of the Balama Graphite Project and the technical and processing requirements of Vanadium, which are more complex than graphite, Syrah has decided to delay consideration of the potential development of the Balama's vanadium resource until after graphite production has commenced.

## FUTURE OUTLOOK

The likely developments and outlook in the operations of the Group in future financial years includes:

> Completion of the development and construction of the Balama Graphite Project and commencement of plant commissioning in Q2 2017, and production ramp up in Q3 2017.
> Further sales contracts and supply arrangements with targeted customers and end-users of natural flake and spherical graphite products
> Finalise outbound logistics contract and other related supply chain arrangements.
> Progress battery anode material strategies including further product development testwork, construction of qualification plant in Louisiana, USA and completion of the bankable feasibility study on a commercial plant.

## MATERIAL BUSINESS RISKS

The Group continues to assess and manage various business risks that could impact the Group's operating and financial performance and its ability to successfully deliver corporate objectives. The material business risks that may have an impact on the Group include:

### MARKET RISK

The demand for, and the price of, graphite products is highly dependent on a range of factors including international supply and demand, underlying demand for the applications for which graphite may be used, competition from existing producers, potential new entrants, the price and availability of substitutes, global economic growth and government policies and actions in key geographical markets.

Syrah's activities may generate revenues and incur expenses in different currencies, including the US dollar and Mozambique metical, which are subject to fluctuations in their value.

Market uncertainty and volatility arising from the above factors may, therefore, materially affect financial performance and/or cash-flows, possibly impacting or limiting the Company's ability to fund planned activities in desired timeframes, including battery anode material opportunities.

### MINERAL RESOURCES AND ORE RESERVES

The JORC Code (2012 Edition) compliant statements relating to Ore Reserves and Mineral Resources are estimates only. An estimate is an expression of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available.

In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate. This may result in alterations to development and mining plans or changes to the quality or quantity of Ore Reserves and Mineral Resources which may, in turn, adversely affect Syrah's operations.

No assurance can be given that the anticipated tonnages or grade of minerals will be achieved during exploration or production or that the indicated level of recovery rates will be realised. Additionally, material price fluctuations, as well as increased anticipated production costs or reduced anticipated recovery rates, may render any potential mineral resources or reserves containing relatively lower grades uneconomic and may ultimately result in a restatement of such resource or reserve.

### COUNTERPARTY RISK

The ability of Syrah to achieve its stated objectives will depend on the performance of the counterparties under the various agreements it has.

Syrah has entered into certain offtake and other agreements for the Balama Project and the proposed spherical graphite project. The obligations of the counterparties to the offtake agreements are subject to certain conditions precedent, including in some cases Syrah achieving specified commercial production rates by a specified date and/or subsequent agreements being entered into to reflect matters arising after the original execution of the agreement. There is no guarantee that these conditions precedent will be satisfied. Failure to satisfy these conditions precedent may result in the termination of the relevant agreements, which may in turn adversely impact Syrah's revenue and profitability.

Syrah is also in discussion with a number of parties in relation to a number of off-table agreements for the Balama Project. While some of the discussions are well progressed and taking place under non-binding memoranda of understanding, there is no guarantee that they will result in the execution of formal off-take agreements.

Syrah has entered (and will enter) into various agreements for the construction, development and operation of Balama Project (including the supply of equipment, construction services, diesel fuel supply, electricity generation, contract mining and product handling and logistics). Failure to enter into such agreements on acceptable terms, or at all, or under-performance of these third party contractors may have a negative impact on the construction, development and/or operation of the Balama Project, and in turn on the financial performance of Syrah.

### BALAMA PROJECT – DEVELOPMENT, CONSTRUCTION AND OPERATIONAL RISK

The Group is currently progressing the development and construction of the Balama Graphite Project. The development of any resources project comes with inherent risks, such as the risks associated with construction of a mine processing plant and associated infrastructure, the processing and separation of heavy mineral concentrate and other construction and production related activities. There is no guarantee that anticipated or forecast timeframes or the anticipated production profile of the Balama Project will be met.

The construction of the Balama Project may be impacted by risks associated with the performance of a large-scale construction project, including but not limited to weather, availability of materials, availability of skilled and experienced workers and contractors, industrial and environmental accidents, delays in licences being granted, industrial disputes and unexpected shortages or increases in the costs of labour, consumables, spare parts, plant and equipment.

Syrah's mining and production operations will be subject to a range of hazards and risks normally encountered such operations including unexpected geological conditions, interruption to and/or underperformance of plant and equipment, difficulties with product quality, interruption to key production inputs, health and safety incidents. Any of these risks could negatively impact on costs, production, completion timeframes and profitability and the ability to meet customers' product qualifications and specification requirements.

The Balama Project is in a relatively remote location. Logistics activities to transport its product from mine to the customer efficiently and effectively faces a range of risks typically faced for such activities including, accidents, interruptions to and delay in road transport, port activities and/or constraints in access to key infrastructure. Any of these risks could negatively impact on costs, ability to sell product and profitability.

## WATER SOURCES

Syrah currently holds a ten year water licence for the Balama Project which gives it a right to extract up to 2 million $m^3$ of water annually from the nearby Chipembe Dam, which has a capacity of approximately 25 million $m^3$. Syrah has assessed that the optimal means of supplying water to the Balama Project is to construct a pipeline between the project and the Chipembe Dam (which is located 12km away from the project). An application for the construction of the pipeline is currently with the relevant government authorities in Mozambique, pending approval. If the necessary approval is not obtained in a timely manner, Syrah may need to explore alternative means of water supply. This could result in project delays and/or additional costs which could delay ramp up and otherwise adversely impact Syrah's operational and financial performance. To assist in the mitigation of the risk of delay in water supply the Company has established water bores at the site which, in the event they are required, will be used to fill the raw water and process water ponds.

Whilst Syrah's water entitlement is less than ten percent of the capacity of the Chipembe Dam, there is no guarantee that Syrah will be able to access alternative water sources in the event of prolonged drought conditions or other interruptions to water access arrangements.

## HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

Mining, construction, production and logistics are potentially hazardous activities. If any injuries or accidents occur , this could have negative employee, community and/or financial implications for the Company including potential delays or stoppages in construction or mining activities.

There are inherent environmental risks in conducting exploration, mining, construction, production and logistics activities giving rise to potentially substantial costs for rehabilitation, damage control and losses. These risks need to be managed in such a manner that meets all regulatory and licence requirements. Syrah holds an environmental licence for the Balama Project (due to expire on 23 April 2020) and its renewal is conditional upon appropriate levels of performance and ongoing update of the environmental management plan.

In addition, changes in health, safety and environmental laws and regulations or their interpretation or enforcement may adversely affect Syrah's obligations and/or operations.

The Company's ongoing community engagement and management activities are focused on optimising positive impacts and minimising the risk of negative impacts. There is no guarantee, however, that the currently strong level of community support for and commitment to the project will be sustained over the life of the project.

## SOVEREIGN RISK

The Company operations could be adversely affected by government policies or actions in Mozambique or other countries or jurisdictions in which it has assets, business and operational activities, relationships and/or or investment interests. The Company's businesses are subject, in each of the countries in which it operates, to various national and local laws and regulations relating to, among other things, exploration, construction, mining, logistics, product development and sales and marketing activities. A change in the laws which apply to the Company's businesses or the way in which they are regulated could have a material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on the Company's businesses and financial condition.

Syrah's primary asset is located in Mozambique and it is subject to risks associated with operating in that country. These risks include economic, social or political instability or change, civil unrest, instability and changes in the law impacting foreign ownership and/or licences, taxation regime change or interpretations, changes in labour and employment requirements or conditions, widespread health emergencies or pandemics, reduced convertability of the local currency and sovereign loan default or collapse of the country's financial system.

These risks and uncertainties have the potential to have an adverse effect on the operations or profitability of the Company.

## REGULATORY RISK

Syrah's businesses are subject, in each of the countries in which it operates, to various national and local laws and regulations relating to, among other things, construction and exploration and mining activities. A change in the laws which apply to Syrah's businesses or the way in which they are regulated could have a material adverse effect on the carrying value of material assets or otherwise have a material adverse effect on Syrah's businesses and financial condition.

The Balama Project is subject to the laws of Mozambique. Under those laws, certain rights are granted in favour of the Mozambique Government and certain obligations imposed on Syrah. Some of these laws have been the subject of change or were enacted, and, in certain respects, their operation and application to Syrah is unclear and subject to the outcome of future discussions/negotiations with the Mozambique Government. One such law is the "Mega Projects Law" (Law No. 15/2012 of 10 August) under which a framework is outlined for an interest in certain projects (which includes the Balama Project) of between 5% and 20% to be reserved for sale to the Mozambique public via the Mozambique stock market. Such a sale of an interest in the Balama Project would dilute Syrah's interest in the project.

The Mega-Projects Law provides that with respect to the sale of an interest to the public, such sale must be on commercial market terms. While Syrah will endeavour to achieve a sale on terms that adequately reflect the value of the interest being sold and that are otherwise satisfactory from Syrah's perspective, there is no guarantee that it will be successful in achieving this outcome.

Additionally, the regulations in respect of the Mega Projects Law provide for certain potential benefits in favour of the State, including the right to negotiate a participating interest, free of charge, of at least 5% in projects covered by the law (which, as noted above, includes the Balama Project).

Further, under the Mega Projects Law the Mozambique Government may seek to impose various requirements on Syrah (as a large mining project in Mozambique) including requiring it to: (a) make available for sale, via the Mozambique stock market an interest in the project company of between 5% and 20% (each inclusive) for the benefit of the Mozambique public (the legislation provides that any such sale would be on commercial market terms); (b) provide for certain potential benefits in favour of the State, including the right to negotiate an interest in the project company , free of charge, of at least 5% ; and (c) provide for the equitable sharing of the extraordinary direct benefits from the project which could include carrying out of reinvestment of a portion of any of Syrah project company's extraordinary profits in Mozambique.

Syrah has made significant progress in its discussions with the Mozambique Government in relation to the application and its understanding of the Mozambique legal and regulatory regime (including the laws, regulations and requirements referred to above) to the Balama Project, as part of broader discussions relating to a mining agreement ('Mining Agreement') and certain other agreements for the Balama Project. As at the date of this report, these discussions are ongoing and a draft Mining Agreement has been developed and submitted to relevant government authorities in Mozambique for approval. There is no certainty as to the outcome of this approval process. Subject to that outcome, the final position reached with the Mozambique Government in respect of these matters could have an adverse impact on Syrah's operational and financial performance.

### SPHERICAL GRAPHITE (BATTERY ANODE MATERIAL) PROJECT EXECUTION RISK

In November 2016 the Company announced its intentions to develop a spherical graphite processing facility to take advantage of market opportunities for battery anode material supply. A project such as this faces a number of inherent risks including delays or interruptions in the development of a qualification plant and/or completion of a bankable feasibility study for a commercial plant, unexpected delays and/or cost overruns in building the plant, interruptions or under-performance in the operation of the plant and/or failure to meet prospective customers' product qualification and specification requirements within the timeframes planned. These risks have the potential to have an adverse impact on the Company's strategy, operations, financial position and/or performance.

### FUNDING RISK

The Company is not yet generating operating cash flows and is currently funding its activities from cash reserves. The Company may require additional financing, in addition to current cash reserves, to fund its working capital requirements, general and administrative expenditure and studies relating to the battery anode material project.

While the Directors believe the Company has a number of alternatives to raise additional funding there can be no guarantee that Syrah will be able to raise sufficient funding on acceptable terms or at all. An inability to obtain finance on acceptable terms or at all may cause substantial delays in, or prevent, the completion of commissioning and production ramp-up of the Balama Project, and/or the pursuit of future potential projects, including the battery anode material project.

## RISK MANAGEMENT

The Company has developed and implemented a corporate risk management framework, endorsed by the Board and relevant sub-Committees (which is subject to annual review), within which:

> an over-arching risk management policy, which sets out its commitment to and the expected behaviours required of its employees and contractors. This is supported by a number of other more specific business policies that set out other key requirements of employees and contractors;

> a risk management process and risk assessment criteria that defines the key steps required to identify, analyse, treat, evaluate controls and monitor and report on the risks listed above and other risks on an ongoing basis;

> accountabilities and responsibilities for overseeing, managing and monitoring these risks and other identified risks are clearly defined;

> key priorities for management of risks are identified on a regular and ongoing basis;

> material or potentially material incidents that arise are reviewed and appropriate action taken.

The Executive Management team, and the Board, through its sub-committees; the Audit, Financial Risk and Compliance Committee and the Sustainability and Risk Committee, regularly review the Company's risks and the effectiveness of the Company's management of those risks. The Board, with Executive Management's input, regularly consider the nature and extent of the risks the organisation is prepared to take to meet the Company's objectives.

Other key areas of risk management focus for the Company include:

> Implementation of health, safety and environmental management systems across the organisation;

> Development of its crisis management and business continuity capability;

> Implementation of appropriate policies and processes to support business integrity and compliance;

> An insurance program to provide efficient and effective levels of risk transfer;

> Implementation of appropriate front, middle and back office processes and controls

> Development of mechanisms to provide management and independent assurance on the effectiveness of the Company's internal control environment;

## ENVIRONMENTAL REGULATION

Syrah's holdings are subject to environmental regulations in the jurisdictions in which it operates. The granting of mining and/or exploration tenements require the holder to comply with the terms of the grant of the tenement and all directions given to it under those terms. There have been no known breaches of tenement conditions in any jurisdiction in which the Company operates and no such breaches have been notified by any Government agency during the year ended 31 December 2016.

During April 2015, Twigg Exploration and Mining Limitada was granted an Environmental Licence (5 year period and renewable) for the Balama Graphite Project. The regulations under which the Company must comply are set out in the Mozambican Environmental Law No 20/97 and the Environmental Impact Study submitted by the Company and signed off by the Mozambican Government. These requirements include mitigation measures and monitoring programs outlined by the study to comply with regulations. The Company has employed an Environmental Manager to ensure all programs and measures are implemented appropriately and that the Company complies with all regulatory requirements under the law.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the nature of activities or the state of affairs during the current financial year other than those included in the Review of Operations.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Commentary on likely developments and expected results of operations is set out in the Review of Operations.

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the financial year ended 31 December 2016, and the number of meetings attended by each Director was:

| | | | COMMITTEE MEETINGS | | | | | |
|---|---|---|---|---|---|---|---|---|
| | BOARD MEETINGS | | AUDIT, FINANCIAL RISK AND COMPLIANCE COMMITTEE | | SUSTAINABILITY AND RISK COMMITTEE | | REMUNERATION AND NOMINATION COMMITTEE | |
| | A | B | A | B | A | B | A | B |
| J Askew | 6 | 6 | 3 | 3 | 2 | 2 | 4 | 4 |
| T Kumova [(1)] | 5 | 5 | - | - | - | - | - | - |
| S Riggall | 6 | 6 | 3 | 3 | - | - | 4 | 4 |
| C Lampe-Onnerud[(2)] | 4 | 4 | - | - | 2 | 2 | 2 | 2 |
| R Brans | 6 | 6 | 3 | 3 | 2 | 2 | 4 | 4 |
| J Caldeira | 3 | 6 | - | - | - | - | - | - |

(A) Number of meetings attended.

(B) Number of meetings held during the time the Director held office or was a member of the committee during the year ended 31 December 2016.

(1) T Kumova resigned as Managing Director of the Company on 5 October 2016.

(2) C Lampe-Onnerud was appointed as a Non-Executive Director of the Company on 24 May 2016.

## INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

The relevant interest of each Director in the share capital, options and performance rights of the Company as at the date of this report is:

| | FULLY PAID ORDINARY SHARES | UNLISTED SHARE OPTIONS | PERFORMANCE RIGHTS |
|---|---|---|---|
| J Askew | - | 600,000 [(1)] | - |
| S Verner | 5,500 | 600,000 [(2)] | - |
| S Riggall | - | 400,000 [(3)] | - |
| C Lampe-Onnerud | - | 400,000 [(4)] | - |
| R Brans | 4,000 | 400,000 [(5)] | - |
| J Caldeira | - | 400,000 [(6)] | - |

(1) 600,000 unlisted options exercisable at $4.71 and expiring 30 November 2018

(2) 600,000 unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. As a result of his appointment as Managing Director, these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholder approval.

(3) 400,000 unlisted options exercisable at $4.71 and expiring 30 November 2018

(4) 400,000 unlisted options exercisable at $5.07 and expiring 24 May 2019

(5) 400,000 unlisted options exercisable at $6.26 and expiring on 2 October 2019

(6) 400,000 unlisted options exercisable at $6.26 and expiring 2 October 2019.

# REMUNERATION REPORT

The Remuneration Report contains details of remuneration paid to the Non-Executive Directors, Executive Directors and Key Management Personnel ("KMP") of the Group as well as the remuneration strategy and policies that were applicable in the financial year ended 31 December 2016.

The remuneration report is structured as follows:

- **(A) Remuneration Governance**
- **(B) Director and Key Management Personnel Details**
- **(C) Remuneration Strategy and Philosophy**
- **(D) Remuneration Components**
- **(E) Details of Remuneration Expenses**
- **(F) Executive Service Agreements**
- **(G) Terms and Conditions of Share-Based Payment Arrangements**
- **(H) Director and Key Management Personnel Equity Holdings**
- **(I) Additional information**

## (A) REMUNERATION GOVERNANCE

### REMUNERATION AND NOMINATION COMMITTEE

The Board has established a Remuneration and Nomination Committee consisting solely of Non-Executive Directors to assist the Board in achieving its objective in relation to the following:

- having a Board of Directors of an effective composition, size and commitment to adequately discharge its responsibilities and duties;
- having coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders;
- observing those remuneration policies and practices;
- fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executives and industry remuneration conditions;
- the preparation of the Remuneration Report to be included in the Company's Annual Report; and
- communicating the Company's remuneration policy to shareholders and any proposed changes to that remuneration policy and the Committee's work on behalf of the Board

The Remuneration and Nomination Committee is comprised of Rhett Brans (Committee Chairperson); James Askew, Sam Riggall and Christina Lampe-Onnerud.

The Charter for the Remuneration and Nomination Committee is available on the Company's website.

## (B) DIRECTOR AND KEY MANAGEMENT PERSONNEL DETAILS

### DIRECTORS

The following persons were directors of Syrah Resources Limited during the financial year ended 31 December 2016 and up to the date of this report, unless otherwise stated:

| EXECUTIVE AND NON-EXECUTIVE DIRECTORS | |
|---|---|
| **NAME** | **POSITION** |
| James Askew | Non-Executive Chairman (1) |
| Shaun Verner | Managing Director (Appointed 3 February 2017) |
| Tolga Kumova | Managing Director (Resigned 5 October 2016) |
| Sam Riggall | Non-Executive Director (2) |
| Christina Lampe-Onnerud | Non-Executive Director (Appointed 24 May 2016) |
| Rhett Brans | Non-Executive Director |
| José Caldeira | Non-Executive Director |

(1) J Askew acted as Executive Chairman of the Company from 5 October 2016 to 3 February 2017

(2) S Riggall acted as Lead Independent Director from 5 October 2016 to 3 February 2017

## (B) DIRECTOR AND KEY MANAGEMENT PERSONNEL DETAILS (CONTINUED)

### KEY MANAGEMENT PERSONNEL

The following persons were Key Management Personnel ('KMP') of Syrah during the year ended 31 December 2016 and up to the date of this report, unless otherwise stated:

| KEY MANAGEMENT PERSONNEL | |
|---|---|
| **NAME** | **POSITION** |
| Shaun Verner | Executive General Manager – Sales & Marketing (1) |
| Darrin Strange | Chief Operating Officer |
| David Corr | Chief Financial Officer |
| Robert Schaefer | Chief Commercial Officer (Commenced 1 March 2017) |
| Jordan Morrissey | Chief People Officer (2) |

(1) S Verner joined the Company as Executive General Manager – Sales and Marketing on 24 October 2016 and was appointed Managing Director and Chief Executive Officer on 3 February 2017

(2) J Morrissey was appointed Chief People Officer effective from 1 January 2017. He was previously General Manager – Health, Safety, Environment, People & Culture and was considered key management personnel from 1 January 2016.

## (C) REMUNERATION STRATEGY AND PHILOSOPHY

### NON-EXECUTIVE DIRECTOR REMUNERATION

The Board policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Board determines payments to Non-Executive Directors and annually reviews their remuneration taking into account comparable roles, comparative market data and if required the advice of independent remuneration consultants.

### EXECUTIVE REMUNERATION

The Board in consultation with the Remuneration and Nomination Committee, reviews the Company's Executive Remuneration Strategy annually to ensure that the executive remuneration framework remains appropriate and aligned to the business needs.

The Board aims to ensure the Company's Remuneration Practices are performance based and designed to:

- Motivate executives to pursue the Group's long term growth and success; and
- Demonstrate a clear relationship between the Group's overall performance and the performance of executives.

### REMUNERATION CONSULTANTS

The Company engages the services of independent and specialist remuneration consultants from time to time to provide recommendations on the remuneration of Directors and Key Management Personnel. During the year, the Company updated the remuneration strategy and structures for Directors and Executives with the assistance of independent remuneration consultants, Mercer Australia. The Company paid fees of $23,820 for independent and specialist remuneration consultants (6 month period ended 31 December 2015: NIL).

## (D) REMUNERATION COMPONENTS

### NON-EXECUTIVE DIRECTOR FEES

The fee structure for Non-Executive directors was changed with effect from 1 January 2016, to a structure that provides for Non-Executive Directors to receive a Board fee and additional fees for chairing and participating on Board Committees. Except for participation in the Share Option Plan or Long Term Incentive Plan, Non-Executive Directors do not receive performance-based pay or retirement allowances.

Non-executive Directors' fees are determined within an aggregate Directors' fee pool limit, which is periodically reviewed for adequacy. Any increase to the aggregate Directors' fee pool is submitted to shareholders for approval. The maximum currently stands at A$1,000,000 per annum and was approved by shareholders at an Annual General Meeting on 26 May 2016.

The annual Non-Executive Director fees (inclusive of superannuation contribution amounts where applicable) for being a member of the Board and participating in its sub committees were as follows:

| | | 2016 | | 2015 | |
|---|---|---|---|---|---|
| | | ANNUAL FEES | ANNUAL FEES | ANNUAL FEES | ANNUAL FEES |
| | | A$ | US$(1) | A$ | US$(1) |
| **Board Fees** | Chairperson | 160,000 | 119,088 | 142,350 | 102,948 |
| | Member | 95,000 | 70,709 | 93,075 | 67,312 |
| **Sub Committees** | | | | | |
| Audit, Financial Risk and Compliance Committee | Chairperson | 20,000 | 14,886 | - | - |
| | Members | 10,000 | 7,743 | - | - |
| Sustainability and Risk Committee | Chairperson | 15,000 | 11,615 | - | - |
| | Members | 10,000 | 7,743 | - | - |
| Remuneration and Nomination Committee | Chairperson | 15,000 | 11,615 | - | - |
| | Members | 10,000 | 7,743 | - | - |

(1) Annual fees for Non-Executive Directors are set in Australian dollars and have been translated to US dollars at the average exchange rate for the year ended 31 December 2016 of 0.7443 (2015:0.7232)

In addition to the above fees, Non-Executive Directors are entitled receive a travel stipend of $3,720 (A$5,000) for each international trip where the travel time is in excess of eight hours each way (2015: NIL).

All Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter of appointment summarises the Board policies and terms, including remuneration, relevant to the office of director of the Company.

To align the Non-Executive Directors' interests with shareholder interests, Non-Executive Directors are able to participate in the Share Option Plan and Long Term Incentive Plan. Amounts expensed through the Company's profit and loss statement for options issued to Non-Executive Directors with shareholder approval are not included in the calculation of Non-Executive Directors fees for the purposes of determining the aggregate Directors' fee pool amount.

## (D) REMUNERATION COMPONENTS (CONTINUED)

### EXECUTIVE REMUNERATION

The Company's remuneration policy for Executives incorporates a Total Fixed Remuneration ("TFR") component (base salary plus statutory superannuation) and 'at risk' performance components; being a Short Term Incentive ('STI') component and a Long Term Incentive ('LTI') component. These components for the year ended 31 December 2016 are as summarised below:

| ELEMENT | DELIVERY | PURPOSE | PERFORMANCE METRICS | POTENTIAL VALUE |
|---|---|---|---|---|
| **Total Fixed Remuneration (TFR)** | 100% Cash | To attract high calibre executives by offering competitive market salary including superannuation and non-monetary benefits | Nil | Positioned at the 25th percentile of a comparative group of companies |
| **Short Term Incentive (STI)** | 50% Cash<br>50% Shares | Reward for annual performance<br>50% awarded in shares to encourage executives to hold shares in the Company | Combination of corporate and personal performance measures weighted 50:50 | **Managing Director**<br>35% of TFR<br>**Other executives (COO, CFO)**<br>35% of TFR |
| **Long Term Incentive (LTI)** | 100% Shares or other equity instruments | Alignment to long-term shareholder value. Award given in shares to encourage executives to hold shares in the Company | 3 year TSR performance relative to a comparative group of companies | **Managing Director**<br>45% of TFR<br>**Other executives (COO, CFO)**<br>45% of TFR |

The following table sets out the relative mix of fixed remuneration and total opportunity for performance related remuneration for Executive Directors and Key Management Personnel for the current and prior financial period:

| | | | AT RISK REMUNERATION | | | |
|---|---|---|---|---|---|---|
| | TOTAL FIXED REMUNERATION | | STI | | LTI | |
| NAME | DEC-2016 | DEC-2015 | DEC-2016 | DEC-2015 | DEC-2016 | DEC-2015 |
| **Executive Directors** | | | | | | |
| T Kumova (1) | 56% | 100% | 19% | - | 25% | - |
| **Key Management Personnel** | | | | | | |
| S Verner (2) | 100% | - | - | - | - | - |
| D Strange | 56% | 61% | 19% | 11% | 25% | 28% |
| D Corr | 56% | 61% | 19% | 11% | 25% | 28% |
| J Morrissey | 77% | - | 8% | - | 15% | - |

(1) T Kumova did not participate in the Group's at risk remuneration plans for the six month financial period ended 31 December 2015. T Kumova entered into a new Employment Contract with the Company effective 1 January 2016 which entitled him to participate in the STI and LTI plans for the year ended 31 December 2016.

(2) S Verner joined the Company on 24 October 2016 and was not eligible to participate in the STI and LTI plans for the year ended 31 December 2016

**Changes to executive remuneration mix for the year ending 31 December 2017**

The Board has approved a change to the remuneration structure for Executives for the year ended 31 December 2017 that provides for a larger 'at risk' variable component. Effective from 1 January 2017, the STI and LTI target levels for the Managing Director will increase to 75% of TFR and for Other Executives to 50% of TFR.

## (D) REMUNERATION COMPONENTS (CONTINUED)

### TOTAL FIXED REMUNERATION

The Remuneration and Nomination Committee annually reviews and determines the fixed remuneration, inclusive of superannuation contribution amounts and salary sacrifice arrangements, for Executive Directors and Key Management Personnel with oversight from the Board of Directors. The process consists of a review of group and individual performance, relevant comparative remuneration and, where appropriate, external advice from remuneration consultants. The Total Fixed Remuneration for Executives is currently positioned at the 25$^{th}$ percentile (P25) of a comparative group of companies.

Total Fixed Remuneration for Key Management Personnel for financial year ended 31 December 2016 is set out in section (e).

### 'AT RISK' PERFORMANCE BASED REMUNERATION

#### Short Term Incentive

The objective of the STI plan is to align reward of Executives with the attainment of Key Performance Indicators ("KPI's") which drive short to medium term outcomes for the business incorporating a mixture of business development; operational and investor relations performance indicators. Corporate and personal performance measures are set and agreed annually by the Remuneration and Nomination Committee with oversight from the Board of Directors.

**Structure of the Short Term Incentive Plan - 31 December 2016**

<table>
<tr><th>FEATURE</th><th>DESCRIPTION</th></tr>
<tr><td>Maximum Opportunity</td><td>Managing Director – 35% of Total Fixed Remuneration<br>Other Executives (COO, CFO) – 35% of Total Fixed Remuneration</td></tr>
<tr><td>Performance Metrics</td><td>The STI metrics are made up of a combination of corporate and personal performance measures.<br>The table below summarise the performance metrics for 2016:
<table>
<tr><th>METRIC</th><th>WEIGHTING</th><th>REASON FOR SELECTION</th></tr>
<tr><td>Corporate performance measures:</td><td></td><td>Corporate measures are aligned with the strategic priorities for the Group</td></tr>
<tr><td>Safety</td><td>15%</td><td>Promoting a strong culture of safe practices in all activities</td></tr>
<tr><td>Budget</td><td>10%</td><td>Discipline in managing Group budgets</td></tr>
<tr><td>Schedule</td><td>10%</td><td>Delivery of the Balama project according to the project schedule</td></tr>
<tr><td>Social Responsibility</td><td>5%</td><td>Focus on being a good corporate citizen in all jurisdictions where the Group operates.</td></tr>
<tr><td>Discretionary</td><td>10%</td><td>Discretion to assess the performance of the management team relative to corporate values.</td></tr>
<tr><td>Total corporate performance measures</td><td>50%</td><td></td></tr>
<tr><td>Individual performance measures</td><td>50%</td><td>Targeted metrics that are critical to individual roles</td></tr>
<tr><td>Total</td><td>100%</td><td></td></tr>
</table></td></tr>
<tr><td>Determination of Outcomes</td><td>The STI outcomes are determined by the Remuneration and Nomination Committee, with oversight from the Board.</td></tr>
<tr><td>Delivery of STI</td><td>50% of the STI award is paid in cash<br>50% of the STI award is paid in shares</td></tr>
</table>

## (D) REMUNERATION COMPONENTS (CONTINUED)

**Relationship between performance and awards for the year ended 31 December 2016**

The Board approved an overall attainment of 82% for the corporate performance measures for the year ended 31 December 2016. The overall award takes into account the following achievements made by the Company during the year:

> Strong performance in safety, with a TRIFR of 2.5
> Progression of the Balama Graphite project construction, with a number of key milestones met during the year
> Scope changes and enhancements to the Balama Graphite project to improve the long term prospects of the project, through reliable power supply, improved product grades and environmental sustainability
> Successful completion of an equity raising of $144 million (A$194 million) in June 2016 to provide the balance of funding for the Balama project and provide further balance sheet flexibility
> Strong engagement with the local communities surrounding the Balama project
> Successful completion of the resettlement programme at Balama, with positive feedback and recognition from local authorities
> Ongoing development of corporate structures and processes to support the growing business
> Progression of sales and marketing initiatives
> Development of a downstream strategy to capture battery anode material (BAM) opportunities
> Board discretion of management's performance in working through challenges faced by the Company in developing a graphite project of an unprecedented scale in a remote location.

The following table shows details of the STI opportunity, as a percentage of Total Fixed Remuneration, for each KMP and the amounts granted for the year ended 31 December 2016:

| | MAXIMUM OPPORTUNITY | | AMOUNT GRANTED | AMOUNT FORFEITED |
|---|---|---|---|---|
| NAME | % OF TFR | AMOUNT'$ (1) | % | % |
| **Executive Director** | | | | |
| T Kumova (2) | 35% | $134,152 | - | 100% |
| **Key Management Personnel** | | | | |
| S Verner (3) | - | - | - | - |
| D Strange | 35% | $105,498 | 91% | 9% |
| D Corr | 35% | $92,473 | 91% | 9% |
| J Morrissey | 10% | $16,299 | 91% | 9% |

(1) Amounts translated from Australian dollars to US dollars using an average exchange rate for the year ended 31 December 2016 of 0.7444

(2) T Kumova resigned as Managing Director of the Company on 5 October 2016 and became ineligible to participate in the STI plan for the year ended 31 December 2016

(3) S Verner joined the Company on 24 October 2016 and was not eligible to participate in the STI plan for the year ended 31 December 2016

### Long Term Incentive

The Company has an LTI Plan, under which the Company may issue performance rights, options and shares to directors and employees of the Company (or a subsidiary). The grant of performance rights, options and shares is subject to such conditions (if any) as determined by a committee established by the Board to administer the LTI Plan (or, if no such committee has been established, as determined by the Board) ("Plan Committee"). Any performance rights, options and shares granted under the LTI Plan may be subject to such vesting conditions (if any) as determined by the Plan Committee.

The LTI Plan is part of the Company's remuneration strategy and is designed to align the interests of management and shareholders and assist the Company to attract, motivate and retain Executives. In particular, the LTI Plan is designed to provide relevant directors and key employees with an incentive to remain with Syrah and contribute to the future performance of the Group over the long term.

### Performance Rights

Executives are granted performance rights on an annual basis and vesting will be contingent on the achievement of specific performance hurdles over a three year period. The 'at risk' value of the annual grant over a three year period represents between 20% and 75% of an eligible employees' total fixed remuneration (exclusive of the required superannuation contribution). The performance hurdles involve an assessment of the Company's Total Shareholder Return ("TSR") relative to a comparative group of companies.

The actual number of performance rights granted each year is calculated by dividing between 20% and 75% of each eligible employee's Total Fixed Remuneration by the closing volume-weighted average price ("VWAP") of the Company's shares on the ASX in the one month preceding the commencement of the performance period.

## (D) REMUNERATION COMPONENTS (CONTINUED)

### *Vesting Conditions*

Vesting of performance rights will be subject to the performance hurdles referred to above, which will be tested over a three year vesting period. If the performance hurdles are not satisfied (or become incapable of being satisfied), the performance rights will lapse (unless the Plan Committee determines otherwise).

The number of performance rights that vest will be determined by assessing the performance of the Company, measured by TSR as at the date that is three years after the commencement of the performance period ("Performance Date"), relative to a comparative group of companies (the "TSR Hurdle"). The closing VWAP of the Company's shares on ASX in the one month preceding the Performance Date, compared against the closing VWAP of the Company's shares on ASX in the one month preceding the grant date of the performance rights, will be used to calculate TSR over the three year vesting period. The TSR will incorporate capital returns as well as dividends notionally reinvested and, at present, is considered the most appropriate means of measuring Company performance.

The following table provides a summary of the TSR Hurdle and the relationship between Company performance and the vesting of performance rights:

| PERFORMANCE AGAINST TSR TARGET | PERCENTAGE OF PERFORMANCE RIGHTS ELIGIBLE TO VEST |
|---|---|
| TSR performance is at or below the median performance of the comparator group | 0% |
| TSR performance of between the median and 75th percentile performance of the comparator group | Straight line pro-rata between 0% and 100% |
| TSR performance is at or above the 75th percentile performance of the comparator group | 100% |

In the event that a participant in the LTI Plan ceases to be a director or employee of the Group, the treatment of any performance rights held by the participant will depend on the circumstances surrounding the cessation of his/her directorship/employment. In general terms, and subject to the discretion of the Plan Committee, if the participant is a "bad leaver", any unvested performance rights will immediately lapse; whereas if the participant is not a "bad leaver", he/she will be entitled to retain a pro-rata amount of unvested performance rights (based on the proportion of the vesting period that the participant was a director/employee). The Plan Committee also has power to deem that performance rights will lapse in a number of scenarios, including if a participant commits an act of fraud, defalcation or gross misconduct, or materially breaches his or her duties or brings the Syrah Group (or any member thereof) into disrepute.

In the event of a change of control, all unvested performance rights will vest.

In the event that vesting conditions attached to performance rights were (or were deemed to have been) satisfied due to a material misstatement in the Company's financial statements in respect of an applicable vesting period (or another event during such vesting period), the holder of those performance rights will cease to be entitled to them and the Plan Committee may, among other things, cancel those performance rights for no consideration.

### *TSR Comparative Group*

Performance rights will be tested against Syrah's TSR performance relative to the comparative group on the Performance Date.

**Year ended 31 December 2015 Grant**

The TSR comparative group as selected by the Board of Directors for the performance rights for the year ended 31 December 2015 for testing as at 31 December 2017 is as follows:

| | | |
|---|---|---|
| Alkane Resources Limited | Imerys SA | SGL Carbon SE |
| AMG Advanced Metallurgical Group N.V. | Kenmare Resources Plc | Triton Minerals Limited |
| Bacanora Minerals Limited | Mason Graphite Inc. | Valence Industries Limited) |
| CleanTeQ Holdings Limited | Metals of Africa Limited | Western Lithium USA Corporation |
| Flinders Resources Limited | Minerals Deposits Limited | Wolf Minerals Limited |
| Iluka Resources Limited | Orocobre Limited | |

## (D) REMUNERATION COMPONENTS (CONTINUED)

**Year ended 31 December 2016 Grant**

The TSR comparative group as selected by the Board of Directors for the performance rights for the year ended 31 December 2016 for testing as at 31 December 2018 is as follows:

| | | |
|---|---|---|
| Ferroglobe PLC | Magnis Resources Limited | Sandfire Resources NL |
| HudBay Minerals Inc | Materion Corporation | Talga Resources Limited |
| Iluka Resources Limited | Nevsun Resources Ltd | Tokai Carbon Co. Ltd |
| Imperial Metals Corp | Metals X Limited | Vedanta Resources plc |
| Independence Group NL | OZ Minerals Limited | Western Areas Limited |
| Ivanhoe Mines Ltd | Polymet Mining Corp | |

**Year ending 31 December 2017 Grant**

The TSR comparative group as selected by the Board of Directors for the performance rights for the year ended 31 December 2017 for testing as at 31 December 2019 is as follows:

| | | |
|---|---|---|
| Ferroglobe PLC | Magnis Resources Limited | Sandfire Resources NL |
| HudBay Minerals Inc | Materion Corporation | Talga Resources Limited |
| Iluka Resources Limited | Metals X Limited | Tokai Carbon Co. Ltd |
| Imperial Metals Corp | Nevsun Resources Ltd | Vedanta Resources plc |
| Independence Group NL | OZ Minerals Limited | Western Areas Limited |
| Ivanhoe Mines Ltd | Polymet Mining Corp | |

The Board reserves the right to adjust the composition and number of the companies in the comparative group from time to time to take into account events including, but not limited to, takeovers, mergers and liquidations that might occur during the performance period.

The table below summarises the number and movements in Performance Rights issued during the year:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| Balance at the beginning of the period | 100,707 | - |
| Granted during the period | 232,296 | 100,707 |
| Vested during the period | - | - |
| Lapsed during the period | - | - |
| Forfeited during the period | (8,249) | - |
| **Balance at the end of the period** | **324,754** | **100,707** |

378,770 Performance Rights were issued on 21 March 2017 as the LTI grant for the year ending 31 December 2017 (for testing as at 31 December 2019).

100,000 performance rights were also issued on 21 March 2017 to selected senior employees with vesting contingent on the achievement of performance hurdles associated with the successful completion of construction activities for the Balama Graphite Project.

## (D) REMUNERATION COMPONENTS (CONTINUED)

### Share Options

The Group has a Long Term Incentive Plan ("LTIP") and a Share Option Plan ("SOP") in existence. The SOP is now effectively dormant with no new options to be issued under this plan.

### *Share Option Plan*

The SOP was established to enable the Company, at the discretion of the Board of Directors, to offer employees and directors options.

As at 31 December 2016, there were 5,675,000 options outstanding (31 December 2015: 5,947,000) under this plan. The table below summarises the number and movements in Options under this plan during the year:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| Balance at the beginning of the period | 5,947,000 | 6,622,005 |
| Granted during the period | - | 250,000 |
| Exercised during the period | (272,000) | (925,001) |
| Expired during the period | - | (4) |
| **Balance at the end of the period** | **5,675,000** | **5,947,000** |

### *Long Term Incentive Plan*

The LTIP enables the Company, at the discretion of the Board of Directors, to offer employees and directors a number of equity related interests, including options, performance rights and shares.

Options issued under this plan are for a specified period and each option or performance right is convertible into one ordinary share.

There are no voting or dividend rights attached to the Options. Voting rights will attach to the ordinary shares when the options have been exercised. Unvested Options will not be quoted on the ASX.

As at 31 December 2016, there were 3,000,000 options outstanding (31 December 2015: 1,000,000 options outstanding) under this plan. The table below summarises the number and movements in Options under this plan during the year:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| Balance at the beginning of the period | 1,000,000 | - |
| Granted during the period | 2,300,000 | 1,000,000 |
| Forfeited during the period | (300,000) | - |
| Expired during the period | - | - |
| **Balance at the end of the period** | **3,000,000** | **1,000,000** |

## (E) DETAILS OF REMUNERATION EXPENSES

The following tables show details of the remuneration expense recognised for the Group's Non-Executive Directors; Executive Directors and Other Key Management Personnel for the current and previous financial periods measured in accordance with the requirements of the accounting standards:

### TABLE 1: REMUNERATION FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

| | FIXED REMUNERATION | | | | VARIABLE REMUNERATION | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | SALARY & FEES | LEAVE (2) | SUPER-ANNUATION | OTHER | STI CASH (3) | STI SHARES (3) | LTI RIGHTS (4) | OPTIONS (4) | TOTAL |
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | | |
| J Askew (5) | 141,379 | - | - | 107,368 (6) | - | - | - | 395,094 | 643,841 |
| S Riggall | 90,714 | - | 6,392 | - | - | - | - | 263,396 | 360,502 |
| R Brans | 75,785 | - | 21,322 | - | - | - | - | - | 97,107 |
| C Lampe-Onnerud | 54,838 | - | - | - | - | - | - | 323,235 | 378,073 |
| J Caldeira | 74,373 | - | - | - | - | - | - | - | 74,373 |
| **Sub-total Non-Executive Directors** | **437,089** | **-** | **27,714** | **107,368** | **-** | **-** | **-** | **981,725** | **1,553,896** |
| **EXECUTIVE DIRECTOR** | | | | | | | | | |
| T Kumova (7) | 274,172 | 23,883 | 17,860 | - | - | - | 43,790 | 733,336 | 1,093,041 |
| **Sub-total Executive Directors** | **274,172** | **23,883** | **17,860** | **-** | **-** | **-** | **43,790** | **733,336** | **1,093,041** |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | | | |
| S Verner (8) | 39,790 | - | 3,873 | - | - | - | - | 87,917 | 131,580 |
| D Strange (9) | 301,250 | 10,133 | 16,552 | - | 48,001 | 48,001 | 85,016 | 44,156 | 553,109 |
| D Corr | 246,908 | 17,672 | 16,951 | - | 42,075 | 42,075 | 70,727 | 44,156 | 480,564 |
| J Morrissey (10) | 148,851 | 9,855 | 14,141 | - | 7,416 | 7,416 | 10,866 | 118,898 | 317,443 |
| **Sub-total Key Management Personnel** | **736,799** | **37,660** | **51,517** | **-** | **97,492** | **97,492** | **166,609** | **295,127** | **1,482,696** |
| **TOTAL** | **1,448,060** | **61,543** | **97,091** | **107,368** | **97,492** | **97,492** | **210,399** | **2,010,188** | **4,129,633** |

(1) All amounts translated from Australian Dollars to United States dollars at an average exchange for the year ended 31 December 2016 of 0.7444.

(2) Represents annual leave and long service leave entitlements, being the movement in the entitlements measured on an accrual basis during the financial period.

(3) Represents STI payments made in cash and shares for the year ended 31 December 2016 as approved by the Remuneration and Nomination Committee.

(4) Represents amounts expensed through the Company's profit and loss for performance rights and options issued under the Company's LTIP. These amounts are recognised in the Company's profit and loss over the vesting period in accordance with AASB 2 Share-based Payments.

(5) Directors fees paid to J Askew are paid to International Mining and Finance Corp, a company of which he is a Director. J Askew acted as Executive Chairman of the Company from 5 October 2016 to 3 February 2017.

(6) Represents the current year portion of a one-off payment of $148,880 (A$200,000) to J Askew for additional services provided to the Company as Executive Chairman from 5 October 2016 to 3 February 2017. This amount will be paid in shares, subject to shareholder approval. In the event the Company does not receive shareholder approval in relation to the proposed issue of fully paid ordinary shares, the amount payable will be paid in cash.

(7) T Kumova resigned as Managing Director of the Company on 5 October 2016. T Kumova retains his options and performance rights entitlements as if an employee of the Company (and also subject to the same vesting periods and TSR performance hurdle) for so long as he remains an advisor/consultant to Syrah.

(8) S Verner joined the Company as Executive General Manager – Sales and Marketing on 24 October 2016 and was appointed Managing Director and Chief Executive Officer on 3 February 2017.

(9) D Strange has been seconded to Twigg Exploration and Mining Limitada (Twigg), a wholly owned subsidiary of the Company, for a period of 12 months effective from 15 November 2016. Details in relation to his remuneration entitlements whilst on secondment are set out in section (f) of the report.

(10) J Morrissey was considered Key Management Personnel from 1 January 2016.

## (E) DETAILS OF REMUNERATION EXPENSES (CONTINUED)

### TABLE 2: REMUNERATION FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2015

| | FIXED REMUNERATION | | | | VARIABLE REMUNERATION | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | SALARY & FEES | LEAVE (2) | SUPER-ANNUATION | OTHER (3) | STI CASH (4) | STI SHARES (5) | LTI RIGHTS (6) | OPTIONS (6) | TOTAL |
| | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ | US$ |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | | |
| J Askew (7) | 51,474 | - | - | 7,232 | - | - | - | 34,381 | 93,087 |
| S Riggall | 33,251 | - | 3,157 | 7,232 | - | - | - | 22,920 | 66,560 |
| R Brans | 30,695 | - | 2,916 | - | - | - | - | 118,289 | 151,900 |
| J Caldeira | 33,656 | - | - | - | - | - | - | 118,289 | 151,945 |
| **Sub-total Non-Executive Directors** | **149,076** | **-** | **6,073** | **14,464** | **-** | **-** | **-** | **293,879** | **463,492** |
| **EXECUTIVE DIRECTOR** | | | | | | | | | |
| T Kumova | 65,745 | 838 | 6,575 | - | - | 360,877 | - | 699,923 | 1,133,958 |
| **Sub-total Executive Directors** | **65,745** | **838** | **6,575** | **-** | **-** | **360,877** | **-** | **699,923** | **1,133,958** |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | | | |
| D Strange | 115,712 | 3,161 | 10,993 | - | 46,285 | 92,570 | 38,465 | 281,960 | 589,146 |
| D Corr | 90,400 | 1,462 | 8,588 | - | 36,160 | 72,320 | 30,051 | 281,960 | 520,941 |
| **Sub-total Key Management Personnel** | **206,112** | **4,623** | **19,581** | **-** | **82,445** | **164,890** | **68,516** | **563,920** | **1,110,087** |
| **TOTAL** | **420,933** | **5,461** | **32,229** | **14,464** | **82,445** | **525,767** | **68,516** | **1,557,722** | **2,707,537** |

(1) All amounts translated from Australian Dollars to United States dollars at an average exchange for the 6 month period ended 31 December 2015 of 0.7232.

(2) Represents annual leave and long service leave entitlements; being the movement in the entitlements measured on an accrual basis during the financial period.

(3) Represents consultancy fees paid to J Askew and S Riggall for additional services provided to the Company as members of the Due Diligence Committee for the capital raising during August 2015. These consulting fees were in addition to their fees earned as Non-Executive Chairman and Non-Executive Director respectively.

(4) Represents cash portion of STI payments for the year ended 31 December 2015 as approved by the Remuneration and Nomination Committee.

(5) Includes a once-off bonus of 142,745 shares to T Kumova, 36,056 shares to D Strange and 28,169 shares to D Corr in recognition of the significant contribution made to ensure the finalisation of the feasibility study, the success of the Company's fundraising activities, the commencement of mine development and the on-going work to establish key sales and marketing targets as the mine moves towards commissioning.

(6) Represents amounts expensed through the Company's profit and loss for performance and options issued under the Company's LTIP and SOP. These amounts are recognised in the Company's profit and loss over the vesting period in accordance with AASB 2 Share-based Payments.

(7) Directors fees paid to J Askew are paid to International Mining and Finance Corp, a company of which he is a Director.

## (F) EXECUTIVE SERVICE AGREEMENTS

Remuneration and other key terms of employment for Executive Directors and Key Management Personnel as of the date of this report are formalised in Employment Agreements and summarised in the following table:

| NAME | POSITION | TERM OF AGREEMENT | TOTAL FIXED REMUNERATION | ANNUAL STI OPPORTUNITY | ANNUAL LTI GRANT | NOTICE PERIOD BY EXECUTIVE(4) | NOTICE PERIOD BY COMPANY(6) | TERMINATION PAYMENT(5) |
|---|---|---|---|---|---|---|---|---|
| S Verner(1) | Managing Director | Ongoing | A$492,750 | 75% of TFR | 75% of TFR | 3 months | 12 months | 12 months TFR |
| D Strange(2) | Chief Operating Officer | Ongoing | A$405,000 | 50% of TFR | 50% of TFR | 3 months | 3 months | 6 months TFR |
| D Corr | Chief Financial Officer | Ongoing | A$355,000 | 50% of TFR | 50% of TFR | 3 months | 3 months | 6 months TFR |
| R Schaefer(3) | Chief Commercial Officer | Ongoing | A$328,500 | 50% of TFR | 50% of TFR | 3 months | 3 months | 3 months TFR |
| J Morrissey | Chief People Officer | Ongoing | A$301,125 | 50% of TFR | 50% of TFR | 3 months | 3 months | 3 months TFR |

(1) S Verner was appointed Managing Director and Chief Executive Officer of the Company on 3 February 2017.

(2) D Strange has been seconded to Twigg Exploration and Mining Limitada (Twigg), a wholly owned subsidiary of the Company, for a period of 12 months effective from 15 November 2016. During this secondment, he will be based in Mozambique, overseeing the completion of the Balama Project construction activities, commissioning activities and production ramp-up, and be entitled to a net monthly salary of US$25,000 from Twigg (gross annual equivalent amount of US$441,175, inclusive of income taxes paid in Mozambique). D Strange will not receive the TFR component of his Executive Service Agreement with Syrah Resources Limited during this time but remains eligible to participate in the Group's STI and LTI plans.

(3) R Schaefer joined the Company as Chief Commercial Officer on 1 March 2017.

(4) Options will be forfeited upon cessation of employment prior to the conclusion of the vesting period. Any options which the holder is entitled to exercise upon cessation of employment are exercisable within 30 days otherwise the options will lapse. In the event of cessation of employment by reason of death, any options which the holder is entitled to exercise are exercisable within 12 months by a legal representative otherwise the options will lapse.

(5) In the event of termination of employment by the Company (except for serious misconduct or wilful neglect), any options which the holder is entitled to exercise are exercisable within 6 months and any options not exercised during this period will lapse. Termination of employment by the Company for serious misconduct or wilful neglect will result in the forfeiture of options.

(6) The Company may make a payment in lieu of notice.

## (G) TERMS AND CONDITIONS OF SHARE-BASED PAYMENT ARRANGEMENTS

### PERFORMANCE RIGHTS

The terms and conditions of each grant of performance rights affecting the remuneration of Directors and Key Management Personnel in the current or a future reporting period are as follows:

| GRANT DATE | VESTING AND EXERCISABLE DATE | EXPIRY DATE | EXERCISE PRICE | NUMBER OR RIGHTS | VALUE PER OPTION AT GRANT DATE |
|---|---|---|---|---|---|
| 1 December 2015 | 31 December 2017 | 1 January 2018 | - | 100,707 | A$2.83 |
| 17 May 2016 | 31 December 2018 | 1 January 2019 | - | 110,960 | A$3.47 |
| 21 March 2017 | 31 December 2019 | 1 January 2020 | - | 232,058(1) | A$2.88 |

(1) S Verner is entitled to 121,773 Performance Rights for the year ended 31 December 2017 (for testing as at 31 December 2019). The issuance of these Performance Rights remains subject to shareholder approval and are not included in the above table.

### OPTIONS

The terms and conditions of each grant of options affecting the remuneration of Directors and Key Management Personnel in the current or a future reporting period are as follows:

| GRANT DATE | VESTING AND EXERCISABLE DATE | EXPIRY DATE | EXERCISE PRICE | NUMBER UNDER OPTION | VALUE PER OPTION AT GRANT DATE |
|---|---|---|---|---|---|
| 28 January 2015 | 28 January 2016 | 28 January 2018 | A$4.08 (1) | 1,200,000 (2) | A$1.29 |
| 9 June 2015 | 9 June 2016 | 9 June 2018 | A$4.99 (1) | 300,000 (3) | A$1.21 |
| 1 December 2015 | 30 November 2016 | 30 November 2018 | A$4.71 | 1,000,000 (4) | A$0.96 |
| 24 May 2016 | 24 May 2017 | 24 May 2019 | A$5.07 | 400,000 (5) | A$1.79 |
| 9 June 2016 | 9 June 2017 | 9 June 2019 | A$4.58 | 1,000,000 (6) | A$3.05 |
| 24 October 2016 | 24 October 2017 | 24 October 2019 | A$5.09 | 600,000 (7) | A$1.06 |
| 1 March 2017 | 1 March 2018 | 1 March 2020 | A$4.14 | 600,000 (8) | A$0.75 |

(1) Effective from 9 September 2015, the exercise price of these options was reduced by $0.05 (5 cents) per option in accordance with the term of the options, ASX Listing Rule 3.11.2 and the formula contained in ASX Listing Rule 7.22.3 as a result of the issuance of shares from a 4 for 19 accelerated renounceable entitlement offer.

(2) 600,000 unlisted options issued to D Strange, Chief Operating Officer and 600,000 unlisted options issued to D Corr, Chief Financial Officer.

(3) 300,000 unlisted options issued to J Morrissey, Chief People Officer .

(4) 600,000 unlisted options issued to J Askew, Non-Executive Chairman and 400,000 unlisted options issued to S Riggall, Non-Executive Director.

(5) 400,000 unlisted options issued to C Lampe-Onnerud, Non-Executive Director.

(6) 1,000,000 unlisted options issued to T Kumova in accordance with resolution passed at the Annual General Meeting on 26 May 2016. T Kumova retains his options as if an employee of the Company for so long as he remains an advisor/consultant to Syrah.

(7) 600,000 unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. S Verner was appointed as Managing Director and Chief Executive Officer of the Company on 3 February 2017. As a result of his appointment as Managing Director, these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholder approval.

(8) 600,000 unlisted options issued to R Schaefer, Chief Commercial Officer.

## (H) DIRECTORS AND KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

### SHAREHOLDINGS

A reconciliation of the number of shares held by Directors and Key Management Personnel, including their personally related parties, in the Company is set out below:

| | BALANCE 1 JANUARY 2016 | ORDINARY SHARES GRANTED | ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS | ON MARKET ACQUISITIONS/ (DISPOSALS) | OTHER | BALANCE 31 DECEMBER 2016 |
|---|---|---|---|---|---|---|
| **DIRECTORS** | | | | | | |
| R Brans | - | - | 250,000 | (246,000) | - | 4,000 |
| T Kumova | 14,522,215 | 142,745 [(1)] | - | - | (14,664,960) [(2)] | - |
| **KEY MANAGEMENT PERSONNEL** | | | | | | |
| S Verner | - | - | - | 5,500 | - | 5,500 |
| D Strange | - | 36,056 [(3,4)] | - | - | - | 36,056 |
| D Corr | - | 28,169 [(3,4)] | - | - | - | 28,169 |
| J Morrissey | - | 11,268 [(3,4)] | - | - | - | 11,268 |

(1) T Kumova was granted 142,745 shares to in recognition of the significant contribution made since becoming Managing Director. The grant was approved by shareholders at the annual general meeting held on 26 May 2016.

(2) T Kumova resigned as Managing Director of the Company on 5 October 2016.

(3) These shares were issued on 19 February 2016 in recognition of the significant contribution made for the year ended 31 December 2015.

(4) The Board of Directors resolved to issue 21,008 shares to D Strange, 18,415 to D Corr and 3,246 to J Morrissey pursuant to the STI plan for the year ended 31 December 2016. These shares were issued on 21 March 2017 and are not included in the above reconciliation.

### PERFORMANCE RIGHTS

A reconciliation of the number of Performance Rights held by Directors and Key Management Personnel, including their personally related parties, in the Company is set out below:

| | GRANT | BALANCE 1 JANUARY 2016 | GRANTED DURING THE PERIOD | ISSUED ON VESTING | NET CHANGE OTHER | BALANCE 31 DECEMBER 2016 | VESTED | UNVESTED |
|---|---|---|---|---|---|---|---|---|
| **DIRECTORS** | | | | | | | | |
| T Kumova [(1)] | 2016 | - | 66,654 | - | (66,654) | - | - | - |
| | 2015 | - | - | - | - | - | - | - |
| | **Total** | **-** | **66,654** | **-** | **(66,654)** | **-** | **-** | **-** |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | | |
| D Strange | 2016 | - | 52,417 | - | - | 52,417 | - | 52,417 |
| | 2015 | 56,537 | - | - | - | 56,537 | - | 56,537 |
| | **Total** | **56,537** | **52,417** | **-** | **-** | **108,954** | **-** | **108,954** |
| D Corr | 2016 | - | 45,946 | - | - | 45,946 | - | 45,946 |
| | 2015 | 44,170 | - | - | - | 44,170 | | 44,170 |
| | **Total** | **44,170** | **45,946** | **-** | **-** | **90,116** | **-** | **90,116** |
| J Morrissey | 2016 | - | 12,597 | - | - | 12,597 | - | 12,597 |
| | 2015 | - | - | - | - | - | - | - |
| | **Total** | **-** | **12,597** | **-** | **-** | **12,597** | **-** | **12,597** |

(1) T Kumova resigned as Managing Director of the Company on 5 October 2016. T Kumova retains his performance rights entitlements as if an employee of the Company (and also subject to the same vesting periods and TSR performance hurdle) for so long as he remains an advisor/consultant to Syrah.

Details of the Performance Rights Plan and vesting conditions are provided on page 21 to 23 of this report.

## (H) DIRECTORS AND KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS (CONTINUED)

### OPTIONS

A reconciliation of the number of Options held by Directors and Key Management Personnel, including their personally related parties, over unissued ordinary shares in the Company is set out below:

| | BALANCE 1 JANUARY 2016 | GRANTED DURING THE PERIOD | OPTIONS EXERCISED | NET CHANGE OTHER | BALANCE 31 DECEMBER 2016 | VESTED | UNVESTED |
|---|---|---|---|---|---|---|---|
| **DIRECTORS** | | | | | | | |
| J Askew | 600,000 | - | - | - | 600,000 | 600,000 | - |
| T Kumova (1) | 2,000,000 | 1,000,000 | - | (3,000,000) (1) | - | - | - |
| S Riggall | 400,000 | - | - | - | 400,000 | 400,000 | - |
| C Lampe-Onnerud | - | 400,000 | - | - | 400,000 | - | 400,000 |
| R Brans | 650,000 | - | (250,000) | - | 400,000 | 400,000 | - |
| J Caldeira | 400,000 | - | - | - | 400,000 | 400,000 | - |
| **KEY MANAGEMENT PERSONNEL** | | | | | | | |
| S Verner | - | 600,000 | - | - | 600,000 | - | 600,000 (2) |
| D Strange | 600,000 | - | - | - | 600,000 | 600,000 | - |
| D Corr | 600,000 | - | - | - | 600,000 | 600,000 | - |
| J Morrissey | 300,000 | - | - | - | 300,000 | 300,000 | - |

(1) The Board of Directors issued T Kumova with 1,000,000 unlisted options exercisable at $4.58 and expiring three years from the date of grant on 9 June 2016. The issue was approved by the shareholders at the AGM held on 26 May 2016. T Kumova resigned as Managing Director on 5 October 2016. T Kumova retains his options as if an employee of the Company for so long as he remains an advisor/consultant to Syrah.

(2) 600,000 unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. S Verner was appointed as Managing Director and Chief Executive Officer of the Company on 3 February 2017. As a result of his appointment as Managing Director, these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholder approval.

## (I) OTHER TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL

Aggregate amounts of other transactions with Directors and Key Management Personnel is set out below:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$ | US$ |
| ***Provision of services*** | | |
| Legal services provided by Sal & Caldeira Advogados, Lda (1) | 338,931 | 371,397 |
| Consultancy services provided by Proman Consulting Engineers Pty Ltd (2) | 66,987 | 19,888 |
| Consultancy services provided by Christina Lampe-Onnerud | 130,000 | - |
| | **535,918** | **391,285** |

(1) Represents legal services provided to the Company by Sal & Caldeira Advogados, Ltd in Mozambique. J Caldeira is a Non-Executive Director of the Company and is a Senior Partner at Sal & Caldeira Advogados, Lda.

(2) Represents consultancy services provided to the Company by R Brans who is a Non-Executive Director of the Company.

These services are provided on normal commercial terms and conditions.

The following balances were outstanding at the end of the period in relation to the above transactions:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$ | US$ |
| Trade and other payables | 108,770 | 56,451 |

## (J) ADDITIONAL INFORMATION

The Company aims to align executive remuneration to drive short, medium and long term outcomes for the business which create shareholder value. The table below shows the Group's performance over the past 5 years. These performance measures may not necessarily be consistent with the measures used in determining performance based remuneration and accordingly there may not always be a direct correlation between these measures and the variable remuneration awarded.

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 | 30 JUNE 2015 | 30 JUNE 2014 | 30 JUNE 2013 |
|---|---|---|---|---|---|
| Market capitalisation (US$'000) | 582,107 | 658,231 | 465,476 | 633,733 | 279,591 |
| Closing share price (US$) | 2.21 | 2.85 | 2.81 | 3.90 | 1.89 |
| Loss after income tax for the period (US$'000) | (14,491) | (2,356) | (9,751) | (6,201) | (4,888) |
| Basic earnings per share (US cents) | (5.84) | (1.09) | (5.86) | (3.94) | (3.56) |

## (J) ADDITIONAL INFORMATION (CONTINUED)

### SHARES OPTIONS AND PERFORMANCE RIGHTS

#### (I) UNISSUED ORDINARY SHARES

Unissued ordinary shares of Syrah Resources Limited under option and performance rights as at the date of this report are as follows:

| GRANT DATE | VESTING AND EXERCISABLE DATE | EXPIRY DATE | EXERCISE PRICE | NUMBER OF SHARES UNDER OPTION / PERFORMANCE RIGHTS | VALUE PER OPTION/ PERFORMANCE RIGHT AT GRANT DATE |
|---|---|---|---|---|---|
| ***Share Options*** | | | | | |
| 19 May 2014 | 19 May 2015 | 19 May 2019 | A$5.41 | 500,000 | A$2.24 |
| 2 October 2014 | 2 October 2015 | 2 October 2019 | A$6.26 | 2,800,000 | A$1.88 |
| 28 January 2015 | 28 January 2016 | 28 January 2018 | A$4.08 | 1,200,000 | A$1.29 |
| 27 April 2015 | - (1) | 27 April 2017 | - (1) | 125,000 | A$3.80 |
| 7 May 2015 | 7 May 2016 | 7 May 2018 | A$5.40 | 500,000 | A$1.24 |
| 9 June 2015 | 9 June 2016 | 9 June 2018 | A$4.99 | 300,000 | A$1.22 |
| 26 October 2015 | 26 October 2016 | 26 October 2020 | A$4.38 | 250,000 | A$1.18 |
| 1 December 2015 | 1 December 2016 | 1 December 2018 | A$4.71 | 1,000,000 | A$0.96 |
| 24 May 2016 | 24 May 2017 | 24 May 2019 | A$5.07 | 400,000 | A$1.79 |
| 9 June 2016 | 9 June 2017 | 9 June 2019 | A$4.58 | 1,000,000 | A$3.05 |
| 24 October 2016 | 24 October 2017 | 24 October 2019 | A$5.09 | 600,000 (2) | A$1.06 |
| 1 March 2017 | 1 March 2018 | 1 March 2020 | A$4.14 | 600,000 | A$0.75 |
| **Total Options** | | | | **9,275,000** | |
| ***Performance Rights*** | | | | | |
| 1 December 2015 | 31 December 2017 | 1 January 2018 | - | 100,707 | A$2.83 |
| 17 May 2016 | 31 December 2018 | 1 January 2019 | - | 110,960 | A$3.47 |
| 9 June 2016 | 31 December 2018 | 1 January 2019 | - | 113,087 | A$3.47 |
| 21 March 2017 | 31 December 2019 | 1 January 2020 | | 378,770 (4) | A$2.88 |
| 21 March 2017 | - (3) | - (3) | - | 100,000 | A$2.88 |
| **Total Performance Rights** | | | | **803,524** | |

(1) Represents options that were granted to a selected senior employee for nil consideration with exercise conditional on the achievement of certain performance hurdles that are aligned with the creation of shareholder value.

(2) 600,000 unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. S Verner was appointed Managing Director and Chief Executive Officer of the Company on 3 February 2017. As a result of his appointment as Managing Director and Chief Executive Officer these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholder approval.

(3) Represents Performance Rights that were granted to selected senior employees with vesting contingent on the achievement of performance hurdles associated with the successful completion of construction activities for the Balama Graphite Project. Any Performance Rights that do not vest will lapse on the day such determination is made.

(4) S Verner is entitled to 121,733 Performance Rights for the year ending 31 December 2017 (for testing as at 31 December 2019). The issuance of these Performance Rights remains subject to shareholder approval and are not included in the above table.

If the performance hurdles are not satisfied (or incapable of being satisfied), the performance rights will lapse on this date (unless the Plan Committee determines otherwise).

No option holder has any right under the options to participate in any share issue of the Company.

## (J) ADDITIONAL INFORMATION (CONTINUED)

### (II) SHARES ISSUED ON EXERCISE OF OPTIONS

Ordinary shares of Syrah Resources Limited issued during the year ended 31 December 2016 and up to the date of this report on the exercise of options under the Share Option Plan were as follows:

| GRANT DATE | SHARE ISSUANCE DATE | EXERCISE PRICE | NUMBER OF SHARES ISSUED |
|---|---|---|---|
| 16 July 2012 | 24 May 2016 | A$2.12 | 22,000 |
| 12 June 2013 | 23 June 2016 | A$2.81 | 250,000 |

# INDEMNIFICATION OF OFFICERS

During the year the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretaries and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has entered into a Deed of Indemnity, Insurance and Access with each director, secretary and executive officer. In summary the Deed provides for:

> Access to corporate records for each director, secretary or executive officer for a period after ceasing to hold office in the Company;

> The provision of Directors and Officers Liability Insurance; and

> Indemnity for legal costs incurred by directors, secretary or executive officers in carrying out the business affairs of the Company.

# INDEMNITY OF AUDITORS

The Company has entered into an agreement to indemnify its auditor, PricewaterhouseCoopers Australia, against any claims or liabilities (including legal costs) asserted by third parties arising out of their services as auditor of the Company, where the liabilities arise as a direct result of the Company's breach of its obligations to the Auditors, unless prohibited by the *Corporations Act 2001.*

# AUDIT AND NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for audit and non-audit services provided during the year are set out below:

The Board of Directors has considered the position and, in accordance with advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

> all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and

> none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditors of the parent entity, its related practices and non-related audit firms:

| | 12 MONTHS TO 31 DECEMBER 2015 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US $'000 | US $'000 |
| *Assurance Services:* | | |
| PwC Australian firm | 98 | 59 |
| Network firms of PwC Australian firm | 60 | 31 |
| Total remuneration for audit services | 158 | 90 |
| *Non-assurance services* | | |
| Taxation compliance services | 53 | 17 |
| Taxation consulting services | 140 | 223 |
| Total remuneration for non-assurance services | 193 | 240 |
| **Total remuneration paid to PricewaterhouseCoopers** | **351** | **330** |

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers expertise and experience with the Group are important. These assignments are principally tax consulting and advice or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting assignments. Group policy also requires the Chairperson of the Audit, Risk and Compliance Committee to approve all individual assignments performed by PricewaterhouseCoopers with total fees of greater than $20,000.

## AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35.

## ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded off to the nearest $'000 (where rounding is applicable) under the relief available to the Company under ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

## AUDITOR

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

The report is made in accordance with a resolution of Directors.

**James Askew**
*Chairman*

Melbourne, Australia
24 March 2017

# AUDITOR'S INDEPENDENCE DECLARATION

## Auditor's Independence Declaration

As lead auditor for the audit of Syrah Resources Limited for the year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Syrah Resources Limited and the entities it controlled during the period.

John O'Donoghue
Partner
PricewaterhouseCoopers

Melbourne
24 March 2017

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# FINANCIAL STATEMENTS

## For the financial year ended 31 December 2016


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These financial statements are the consolidated financial statements of the consolidated entity consisting of Syrah Resources Limited and its subsidiaries. The financial statements are presented in US Dollars.

Syrah Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 28
360 Collins Street
Melbourne VIC 3000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 4 to 34, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 24 March 2017. The Directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available on our website: www.syrahresources.com.au

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## For the year ended 31 December 2016

| | NOTES | 12 MONTHS TO 31 DECEMBER 2016 US$'000 | 6 MONTHS TO 31 DECEMBER 2015 US$'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 3 | 1,284 | 291 |
| Other income | 4 | 61 | 4,335 |
| | | 1,345 | 4,626 |
| **Expenses** | | | |
| Employee benefits expense | 5 | (7,320) | (3,934) |
| Legal and consulting expenses | 5 | (2,773) | (893) |
| Depreciation and amortisation expense | 8c | (277) | (237) |
| Impairment of assets | 5 | (34) | (833) |
| Foreign exchange loss – net | | (3,171) | - |
| Other expenses | | (2,261) | (1,085) |
| **Loss before income tax expense from continuing operations** | | (14,491) | (2,356) |
| Income tax expense | 6 | - | - |
| **Loss after income tax expense for the period attributable to the owners of Syrah Resources Limited** | | **(14,491)** | **(2,356)** |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to the profit or loss* | | | |
| Exchange differences on translation of foreign subsidiaries | 9b | (3,897) | (7,063) |
| **Other comprehensive income for the period, net of tax** | | **(3,897)** | **(7,063)** |
| **Total comprehensive income for the period attributable to the owners of Syrah Resources Limited** | | **(18,388)** | **(9,419)** |
| **Loss per share attributable to the owners of Syrah Resources Limited** | | **Cents** | **Cents** |
| Basic loss per share | 17 | (5.84) | (1.09) |
| Diluted loss per share | 17 | (5.84) | (1.09) |

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## As at 31 December 2016

| | | 31 DECEMBER 2016 | 31 DECEMBER 2015 | 1 JULY 2015 |
|---|---|---|---|---|
| | NOTES | US$'000 | US$'000 | US$'000 |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | 7a | 163,275 | 139,978 | 6,859 |
| Trade and other receivables | 7b | 3,795 | 3,360 | 1,785 |
| Available-for-sale financial assets | 7c | 85 | 119 | 25 |
| **Total current assets** | | **167,155** | **143,457** | **8,669** |
| **Non-current assets** | | | | |
| Mine properties and development | 8a | 154,422 | 45,063 | 32,193 |
| Exploration and evaluation | 8b | 890 | 890 | 623 |
| Property, plant and equipment | 8c | 1,736 | 2,498 | 3,764 |
| Trade and other receivables | 7b | 5,768 | - | - |
| Intangibles | | 61 | 101 | 142 |
| **Total non-current assets** | | **162,877** | **48,552** | **36,722** |
| **Total assets** | | **330,032** | **192,009** | **45,391** |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 7d | 14,502 | 5,868 | 1,957 |
| Provisions | 8d | 250 | 133 | 108 |
| **Total current liabilities** | | **14,752** | **6,001** | **2,065** |
| **Non-current liabilities** | | | | |
| Provisions | 8d | 4,531 | 1,040 | 7 |
| **Total non-current liabilities** | | **4,531** | **1,040** | **7** |
| **Total liabilities** | | **19,283** | **7,041** | **2,072** |
| **Net assets** | | **310,749** | **184,968** | **43,319** |
| **Equity** | | | | |
| Issued capital | 9a | 366,427 | 225,008 | 76,483 |
| Reserves | 9b | (11,861) | (10,714) | (6,194) |
| Accumulated losses | | (43,817) | (29,326) | (26,970) |
| **Total equity** | | **310,749** | **184,968** | **43,319** |

*The above consolidated statement of financial position should be read in conjunction with the accompanying notes*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2016

| | CONTRIBUTED EQUITY | ACCUMULATED LOSSES | RESERVES | TOTAL EQUITY |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **Balance at 1 January 2016** | **225,008** | **(29,326)** | **(10,714)** | **184,968** |
| Loss after income tax expense for the period | - | (14,491) | - | (14,491) |
| Other comprehensive income for the period, net of tax | - | - | (3,897) | (3,897) |
| Total comprehensive income for the period | - | (14,491) | (3,897) | (18,388) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Contributions of equity, net of transaction costs | 140,478 | - | - | 140,478 |
| Share-based payments (note 15) | - | - | 3,691 | 3,691 |
| Issuance of shares | 718 | - | (718) | - |
| Exercise of options | 223 | - | (223) | - |
| | 141,419 | - | 2,750 | 144,169 |
| **Balance at 31 December 2016** | **366,427** | **(43,817)** | **(11,861)** | **310,749** |
| **Balance at 1 July 2015** | **76,483** | **(26,970)** | **(6,194)** | **43,319** |
| Loss after income tax expense for the period | - | (2,356) | - | (2,356) |
| Other comprehensive income for the period, net of tax | - | - | (7,063) | (7,063) |
| Total comprehensive income for the period | - | (2,356) | (7,063) | (9,419) |
| *Transactions with owners in their capacity as owners:* | | | | |
| Contributions of equity, net of transaction costs | 148,086 | - | - | 148,086 |
| Share-based payments (note 15) | - | - | 2,982 | 2,982 |
| Exercise of options | 439 | - | (439) | - |
| | 148,525 | - | 2,543 | 151,068 |
| **Balance at 31 December 2015** | **225,008** | **(29,326)** | **(10,714)** | **184,968** |

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the year ended 31 December 2016

| | NOTES | 12 MONTHS TO 31 DECEMBER 2016 US$'000 | 6 MONTHS TO 31 DECEMBER 2015 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (8,405) | (2,818) |
| Interest received | | 1,262 | 136 |
| **Net cash outflow from operating activities** | 10 | **(7,143)** | **(2,682)** |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (306) | (69) |
| Payments for mine properties and development | | (109,572) | (11,565) |
| Payments for exploration and evaluation | | - | (294) |
| Loan recovered from other parties | | - | 217 |
| **Net cash outflow from investing activities** | | **(109,878)** | **(11,711)** |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 144,671 | 154,517 |
| Share issue transaction costs | | (4,195) | (6,431) |
| **Net cash inflow from financing activities** | | **140,476** | **148,086** |
| **Net increase in cash and cash equivalents** | | 23,455 | 133,693 |
| Cash and cash equivalents at beginning of the period | | 139,978 | 6,859 |
| Effects of exchange rate changes on cash and cash equivalents | | (158) | (574) |
| **Cash and cash equivalents at end of the period** | 7a | **163,275** | **139,978** |

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## HOW THE NUMBERS ARE CALCULATED

**This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Group, including:**

a. **accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction**
b. **analysis and sub-totals, including segment information**
c. **information about estimates and judgements made in relation to particular items.**


| | HOW NUMBERS ARE CALCULATED | PAGE |
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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. INTRODUCTION

### (A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Syrah Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

#### Compliance with IFRS

The consolidated financial statements of the Syrah Resources Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### Historical cost convention

These financial statements have been prepared under the historical cost convention, except for certain assets which, as noted, are at fair value.

#### Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes.

#### Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 18.

### (B) CHANGE OF REPORTING CURRENCY

During the year, the Company changed its reporting (presentation) currency from Australian dollars (AUD) to US dollars (USD). The Company believes that the change in reporting currency will provide shareholders with a more accurate reflection of the Company's underlying performance and enhance the comparability of Syrah's financial information.

The change in reporting currency represents a voluntary change in accounting policy which is accounted for retrospectively. Comparative information included in this financial report, previously reported in AUD and the statement of financial position at the opening of the comparative period (1 July 2015), has been restated into USD as follows:

- The Income Statement has been translated into US dollars using the average foreign currency exchange rates prevailing for the relevant period. The average exchange rate of the comparative period presented was as follows:
  - 6 months to 31 December 2015 0.7232
- Assets and Liabilities in the Statement of Financial Position have been translated into US dollars at the closing foreign currency exchange rates on the relevant balance sheet dates. The exchange rates as at each comparative reporting date presented were as follows:
  - 31 December 2015 0.7306
  - 1 July 2015 0.7680
- The Equity section of the Statement of Financial Position has been translated to US dollars using historical exchange rates.
- Cash flows from operating and investing activities in the Statement of Cash Flows have been translated into US dollars using the average foreign currency exchange rates prevailing for the relevant period.
- Cash flows from financing activities in the Statement of Cash Flows have been translated into US dollars using the foreign currency exchange rates prevailing at the date of each transaction.

## NOTE 2. SEGMENT INFORMATION

### (A) DESCRIPTION OF SEGMENTS

Management has determined and presented operating segments based on the reports reviewed by the Executive Management Team, who are the Group's chief operating decision makers in terms of assessing performance and allocating resources. The Board of Directors reviews the performance of the Group on a similar basis.

The Group primarily monitors performance according to the following two segments:

| | |
|---|---|
| Balama | Mining, mineral exploration, evaluation and development activities associated with the Balama Graphite Project in Mozambique. |
| Corporate | Corporate administration and investing activities including development of the group's battery anode material strategy. |

### (B) SEGMENT INFORMATION PROVIDED TO THE EXECUTIVE MANAGEMENT TEAM

| | BALAMA US$'000 | CORPORATE US$'000 | CONSOLIDATED US$'000 |
|---|---|---|---|
| **12 MONTHS TO 31 DECEMBER 2016** | | | |
| **Revenues** | | | |
| Interest income | - | 1,284 | 1,284 |
| Other income | 48 | 13 | 61 |
| **Total revenues** | 48 | 1,297 | 1,345 |
| Profit/(Loss) after income tax expense | 101 | (14,592) | (14,491) |
| *Included within segment results:* | | | |
| Share-based payments expense | - | (3,691) | (3,691) |
| Other employee benefits expense | (489) | (3,140) | (3,629) |
| Legal and consulting expenses | (486) | (2,287) | (2,773) |
| Depreciation and amortisation expense | (191) | (86) | (277) |
| Foreign exchange gain/(loss) – net | 1,737 | (4,908) | (3,171) |
| Impairment of assets | - | (34) | (34) |
| Other expenses | (518) | (1,743) | (2,261) |
| **AS AT 31 DECEMBER 2016** | | | |
| **Assets** | | | |
| Segment assets | 164,083 | 165,949 | 330,032 |
| **Total assets** | 164,083 | 165,949 | 330,032 |
| **Liabilities** | | | |
| Segment liabilities | 18,222 | 1,061 | 19,283 |
| **Total liabilities** | 18,222 | 1,061 | 19,283 |

## NOTE 2. SEGMENT INFORMATION (CONTINUED)

### (B) SEGMENT INFORMATION PROVIDED TO THE EXECUTIVE MANAGEMENT TEAM (CONTINUED)

| | BALAMA US$'000 | CORPORATE US$'000 | CONSOLIDATED US$'000 |
|---|---|---|---|
| **6 MONTHS TO 31 DECEMBER 2015** | | | |
| **Revenues** | | | |
| Interest income | - | 291 | 291 |
| Other income | 58 | 4,277 | 4,335 |
| **Total revenues** | 58 | 4,568 | 4,626 |
| **Results** | | | |
| Profit/(Loss) after income tax expense | (1,232) | (1,124) | (2,356) |
| *Included within segment results:* | | | |
| Share-based payments expense | - | (2,982) | (2,982) |
| Other employee benefits expense | (12) | (940) | (952) |
| Legal and consulting expenses | (95) | (798) | (893) |
| Depreciation and amortisation expense | (198) | (39) | (237) |
| Impairment of assets | (782) | (51) | (833) |
| Other expenses | (203) | (882) | (1,085) |
| **AS AT 31 DECEMBER 2015** | | | |
| **Assets** | | | |
| Segment assets | 50,917 | 141,092 | 192,009 |
| **Total assets** | 50,917 | 141,092 | 192,009 |
| **Liabilities** | | | |
| Segment liabilities | 6,093 | 948 | 7,041 |
| **Total liabilities** | 6,093 | 948 | 7,041 |

## NOTE 3. REVENUE

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Interest income | 1,284 | 291 |
| | 1,284 | 291 |

## NOTE 4. OTHER INCOME

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Net foreign exchange gain | - | 4,335 |
| Other sundry income | 61 | - |
| | 61 | 4,335 |

## NOTE 5. EXPENSES

Loss before income tax from continuing operations includes the following specific expenses:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| *Legal and consulting expenses* | | |
| Legal expenses | 944 | 356 |
| Consulting expenses | 1,829 | 537 |
| Total legal and consulting expenses | 2,773 | 893 |
| | | |
| *Employee benefits expense* | | |
| Salaries and wages | 3,249 | 845 |
| Share-based payments | 3,691 | 2,982 |
| Employee entitlements | 210 | 50 |
| Defined contribution superannuation expense | 170 | 57 |
| Total employee benefits expenses | 7,320 | 3,934 |
| | | |
| *Impairment of assets* | | |
| Plant and equipment | - | 782 |
| Available-for-sale financial assets | 34 | 51 |
| Total impairment charges | 34 | 833 |

## NOTE 6. INCOME TAX EXPENSE

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| *(a) Numerical reconciliation of income tax expense to prima facie tax payable* | | |
| Loss before income tax expense from continuing operations | (14,491) | (2,356) |
| Tax at the Australian tax rate of 30% | (4,347) | (707) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| - Share-based payments | 1,129 | 906 |
| - Other non-deductible expenses | 1,488 | 64 |
| - Differences in overseas tax rates | (30) | 371 |
| - Movement in unrecognised temporary differences | (602) | (477) |
| - (Over)/under provision in the prior period | (156) | 40 |
| - Current period taxation losses not recognised as deferred tax assets | 2,518 | - |
| - Utilisation of previously unrecognised taxation losses | - | (197) |
| Income tax expense | - | - |
| *(b) Taxation losses and temporary differences not recognised* | | |
| Unused taxation losses for which no deferred tax asset has been recognised | 18,899 | 12,178 |
| Potential taxation benefit at 30% | 5,670 | 3,653 |
| Unrecognised tax asset from temporary differences | 510 | 1,684 |

The taxation benefits of taxation losses and temporary differences not brought to account will only be obtained if:

> the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised in the respective jurisdictions and within the allowed timeframes for tax loss utilisation

> the consolidated entity continues to comply with the conditions for deductibility imposed by law; and

> no change in tax legislation adversely affects the consolidated entity in realising the benefits from deducting the losses.

**SIGNIFICANT ESTIMATES AND JUDGEMENTS**

The Group's accounting policy for taxation requires management judgment in relation to the application of income tax legislation. There are many transactions and calculations undertaken during the ordinary course of business where the ultimate tax determination is uncertain. The Group recognises liabilities for tax, and if applicable taxation investigation or audit issues, based on whether tax will be due and payable. Where the taxation outcome of such matters is different from the amount initially recorded, such difference will impact the current and deferred tax positions in the period in which the assessment is made.

Judgement is required in assessing whether deferred tax assets and liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent upon the generation of future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised. In addition, the utilisation of taxation losses also depends on the ability of the tax consolidated entities to satisfy certain tests at the time the losses are recouped.

## NOTE 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### (A) CASH AND CASH EQUIVALENTS

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Cash at bank and in hand | 13,803 | 110,725 |
| Deposits at call | 149,472 | 29,253 |
| | 163,275 | 139,978 |

Total cash is held in trading accounts or term deposits with major financial institutions under normal terms and conditions appropriate to the operation of the accounts. These deposits earn interest at rates set by these institutions. As at 31 December 2016 the weighted average interest rate on the Australian dollar accounts and deposits was 2.3% (31 December 2015: 2.7%) and the weighted average interest rate on the United States dollar accounts was 0.85% (31 December 2015: 0.1%).

**(i) Risk exposure**

The Group's exposure to foreign exchange and interest rate risk is discussed in Note 11. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

### (B) TRADE AND OTHER RECEIVABLES

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Current** | | |
| Other receivables | 381 | 429 |
| Prepayments | 3,223 | 1,256 |
| Input tax credits | 94 | 1,611 |
| Security deposits [1] | 97 | 64 |
| Total current trade and other receivables | 3,795 | 3,360 |
| | | |
| **Non-current** | | |
| Input tax credits | 5,768 | - |
| Total non-current trade and other receivables | 5,768 | - |

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

#### (i) Impairment of receivables

The Group has no receivables past due as at 31 December 2016, nor does it consider there to be any potential impairment loss on these receivables.

#### (ii) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 11.

#### (iii) Fair value measurement and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note 11 for more information on the credit quality of the Group's trade and other receivables.

## NOTE 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

**Significant estimates and judgements**

Certain input tax credits in overseas subsidiaries amounting to $5.8 million (31 December 2015: $1.2 million) have been recognised at cost. The Group views these input tax credits as recoverable through a cash refund or tax credits based on interpretation of the relevant tax and investment laws. Should management determine that some of these input tax credits are not recoverable in future, the Group will reclassify those amounts to the cost base of related assets, or recognise an expense in the profit or loss in the period the determination is made.

## (C) AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Listed securities | | |
| - Australian listed securities | 85 | 119 |
| | 85 | 119 |
| *Movements in available-for-sale financial assets are set out below*: | | |
| Balance at the beginning of period | 119 | 25 |
| Additions | - | 145 |
| Impairment expense | (34) | (51) |
| Balance at the end of period | 85 | 119 |

### (i) Fair value measurement

In accordance with AASB 13, *Fair Value Measurement,* the Company has classified, according to the fair value hierarchy, the Group's available-for-sale financial assets as Level 1 assets. The available-for-sale financial assets comprise listed securities whose fair value is based on quoted prices as at 31 December 2016. There are no Level 2 or 3 assets or liabilities as at 31 December 2016.

The Group did not transfer any fair value amounts between the fair value hierarchies during the financial year ended 31 December 2016.

## (D) TRADE AND OTHER PAYABLES

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Trade payables and accruals | 12,312 | 5,599 |
| Other payables | 2,190 | 269 |
| | 14,502 | 5,868 |

### (i) Risk exposure

Trade payables are non-interest bearing and are normally settled on repayment terms between 7 and 30 days. Information about the Group's exposure to foreign exchange risk is provided in Note 11.

### (ii) Fair value measurement

Due to the short-term nature of these payables, their carrying amount is assumed to approximate their fair value.

## NOTE 8. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES

### (A) MINE PROPERTIES AND DEVELOPMENT

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Mine properties and development (at cost) | 31,094 | 31,395 |
| Mines under construction | 123,328 | 13,668 |
| Total mine properties and development | 154,422 | 45,063 |

*Movements in mine properties and development are set out below:*

| | MINE PROPERTIES AND DEVELOPMENT | MINES UNDER CONSTRUCTION | TOTAL |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **12 months to 31 December 2016** | | | |
| Balance at beginning of period | 31,395 | 13,668 | 45,063 |
| Current period expenditure capitalised | - | 116,277 | 116,277 |
| Provision for decommissioning and restoration | - | 4,484 | 4,484 |
| Exchange differences | (301) | (11,101) | (11,402) |
| Balance at end of period | 31,094 | 123,328 | 154,422 |
| | | | |
| **6 months to 31 December 2015** | | | |
| Balance at beginning of period | 32,193 | - | 32,193 |
| Current period expenditure capitalised | 1,547 | 12,792 | 14,339 |
| Provision for decommissioning and restoration | - | 1,020 | 1,020 |
| Exchange differences | (2,345) | (144) | (2,489) |
| Balance at end of period | 31,395 | 13,668 | 45,063 |

### (B) EXPLORATION AND EVALUATION

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Exploration & evaluation properties (at cost) | 890 | 890 |
| | 890 | 890 |

*Movements in exploration and evaluation expenditure are set out below:*

| | | |
|---|---|---|
| Balance at beginning of period | 890 | 623 |
| Current period expenditure capitalised | 2 | 294 |
| Exchange differences | (2) | (27) |
| Balance at end of period | 890 | 890 |

The balance of exploration and evaluation relates to the Vanadium project at Balama and continues to be carried forward in accordance with the exploration and evaluation accounting policy. The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation or alternatively the sale of the respective areas of interest at an amount at least equal to book value.

## NOTE 8. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

### (C) PROPERTY, PLANT AND EQUIPMENT

| | LAND AND BUILDINGS | PLANT AND EQUIPMENT | COMPUTER EQUIPMENT | TOTAL |
|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 |
| **At 1 January 2016** | | | | |
| Cost | 1,250 | 2,699 | 209 | 4,158 |
| Accumulated depreciation and impairment | (43) | (1,590) | (27) | (1,660) |
| Net book amount | 1,207 | 1,109 | 182 | 2,498 |
| **12 months to 31 December 2016** | | | | |
| Balance at beginning of period | 1,207 | 1,109 | 182 | 2,498 |
| Additions | - | 286 | 20 | 306 |
| Disposals (at net book value) | - | (8) | - | (8) |
| Depreciation charge | (47) | (364) | (53) | (464) |
| Exchange differences | (430) | (130) | (36) | (596) |
| Balance at end of period | 730 | 893 | 113 | 1,736 |
| **At 31 December 2016** | | | | |
| Cost | 797 | 2,465 | 184 | 3,446 |
| Accumulated depreciation and impairment | (67) | (1,572) | (71) | (1,710) |
| Net book amount | 730 | 893 | 113 | 1,736 |
| **At 1 July 2015** | | | | |
| Cost | 1,298 | 3,100 | 83 | 4,481 |
| Accumulated depreciation | (16) | (662) | (39) | (717) |
| Net book amount | 1,282 | 2,438 | 44 | 3,764 |
| **6 months to 31 December 2015** | | | | |
| Balance at beginning of period | 1,282 | 2,438 | 44 | 3,764 |
| Additions | 150 | - | 155 | 305 |
| Disposals (at net book value) | - | (7) | (2) | (9) |
| Depreciation charge | (31) | (281) | (9) | (321) |
| Impairment of asset | - | (782) | - | (782) |
| Exchange differences | (194) | (259) | (6) | (459) |
| Balance at end of period | 1,207 | 1,109 | 182 | 2,498 |
| **At 31 December 2015** | | | | |
| Cost | 1,250 | 2,699 | 209 | 4,158 |
| Accumulated depreciation and impairment | (43) | (1,590) | (27) | (1,660) |
| Net book amount | 1,207 | 1,109 | 182 | 2,498 |

## NOTE 8. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

### (C) PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### (i) Assets under construction

Capitalised costs in relation to construction of the Balama Graphite Project at 31 December 2016 are included in mine properties and development.

#### (ii) Depreciation charge

Of the total depreciation charge for the financial year ended 31 December 2016, $236,821 was charged to profit or loss (31 December 2015: $210,357), and $226,454 was capitalised to mine properties and development (31 December 2015: $110,013).

#### (iii) Impairment of assets

The impairment expense for the six months ended 31 December 2015 relates to the write-off of mobile equipment that was no longer expected to be used in the manner and to the extent originally planned. The recoverable value of these assets was determined by reference to the fair value less costs of disposal.

**Significant estimates and judgements**

***Impairment of non-financial assets***

The Group performs an impairment assessment where there is an indication of possible impairment. Impairment assessments are performed using information from the Feasibility Study as well as external sources, including industry analysts and analysis performed by external parties.

The recoverable amount of each cash generating unit is considered to be the higher of fair value less costs of disposal or value-in-use. Where an impairment assessment is required, the Group undertakes cash flow calculations based on a number of critical estimates, assumptions and forward estimates including commodity price expectations, foreign exchange rates, discount rates, reserves and resources and expectations regarding future development costs as well as production, sales and operating costs which are subject to risk and uncertainty.

Variations to expected future cash flows, and timing thereof, could result in significant changes to the impairment test results, which in turn could impact future financial results.

No indicator of impairment was identified as at 31 December 2016.

***Estimation of useful lives of assets***

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of change in ore reserve and technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets are abandoned or sold and written off or written down.

***Determination of mineral resources and ore reserves***

Mineral resources and ore reserves are based on information compiled by a Competent Person as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 code). There are numerous uncertainties inherent in estimating ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact on depreciation and amortisation rates, asset carrying values and provisions for decommissioning and restoration.

***Impairment of exploration and evaluation expenditure***

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to develop and exploit an area of interest or, if not, whether it recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include; the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes and changes to commodity prices and foreign exchange rates.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

## NOTE 8. NON-FINANCIAL ASSETS AND NON-FINANCIAL LIABILITIES (CONTINUED)

### (D) PROVISIONS

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Current** | | |
| Employee benefits | 250 | 133 |
| | 250 | 133 |
| **Non-current** | | |
| Decommissioning and restoration | 4,504 | 1,031 |
| Employee benefits | 27 | 9 |
| | 4,531 | 1,040 |

#### Movements in decommissioning and restoration provision

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Balance at beginning of period | 1,031 | - |
| Additional provisions: | | |
| - Capitalised to mines properties and development | 4,484 | 1,020 |
| - Unwind of discount | 11 | - |
| - Exchange differences | (1,022) | 11 |
| Balance at end of period | 4,504 | 1,031 |

#### Information regarding provisions

**Employee benefits**

Employee benefits provisions relate to employee entitlements such as annual leave and long service leave.

**Decommissioning and restoration**

Decommissioning, dismantling of property, plant and equipment and restoration are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision, consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

**Significant estimates and judgements**

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including progression of construction/development activities, changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results. These estimates are reviewed annually and adjusted where necessary to ensure that the most up to date data is used.

The provision is the present value of estimated future expenditure to restore the current level of disturbance during the development phase. These costs have been capitalised as part of mine properties and development and will be amortised over the estimated life of the mine.

Additional decommissioning and restoration provisions required as a result of continuing development activities or future operations will be recognised in the future as and when new areas are disturbed or new structures built, and the obligation to remediate the affected areas arises.

## NOTE 9. EQUITY

### (A) ISSUED CAPITAL

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|---|---|
| | SHARES | SHARES | US$'000 | US$'000 |
| Issued and fully paid ordinary shares | 263,757,392 | 231,267,154 | 366,427 | 225,008 |
| | 263,757,392 | 231,267,154 | 366,427 | 225,008 |

#### (i) Movements in ordinary share capital

| | NUMBER OF SHARES | WEIGHTED AVERAGE ISSUE PRICE (A$) | US$'000 |
|---|---|---|---|
| **12 months to 31 December 2016** | | | |
| Balance at beginning of period | 231,267,154 | | 225,008 |
| Issue of new shares: | | | |
| - Institutional placement | 32,000,000 | A$ 6.05 | 144,116 |
| - Equity-settled remuneration | 218,238 | -(1) | - |
| - Exercise of options | 272,000 | A$ 2.76 | 555 |
| Transfers from share based payment reserve on exercise of options and shares issued to employees | - | | 941 |
| Capital raising costs | - | | (4,195) |
| **Balance at end of period** | **263,757,392** | | **366,427** |
| | | | |
| **6 months to 31 December 2015** | | | |
| Balance at beginning of period | 165,223,076 | | 76,483 |
| Issue of new shares: | | | |
| - Entitlement offer | 34,862,753 | A$ 3.25 | 83,618 |
| - Institutional placement | 30,001,032 | A$ 3.25 | 70,308 |
| - Exercise of options | 925,001 | A$ 0.17 | 112 |
| - Other equity-settled transaction | 255,292 | A$ 2.61 | 479 |
| Transfers from share based payment reserve on exercise of options | - | - | 439 |
| Capital raising costs | - | - | (6,431) |
| **Balance at end of period** | **231,267,154** | | **225,008** |

(1) The cost associated with issuance of these shares is included in the transfer from share-based payment reserve on exercise of options and shares issued to employees line item.

#### (ii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds of winding up of the Company in proportion to the number of and amounts paid on the shares held.

Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the Company.

Ordinary shares have no par value and the Company does not have a limited amount of authorised share capital.

#### (iii) Share options

The Company has a share-based payment scheme under which options to subscribe for the Company's shares have been granted to Non-Executive Directors, Executives and selected Senior Employees. Information in relation to the Group's Long Term Incentive Plan and Share Option Plan including details of options issued and exercised during the financial period and options outstanding at the end of the financial period are set out in Note 15.

There are no voting or dividend rights attached to share options. Voting and dividend rights will attach to the ordinary shares when the options have been exercised.

## NOTE 9. EQUITY (CONTINUED)

### (A) ISSUED CAPITAL (CONTINUED)

#### (iv) Share buy-back

There is no current on-market share buy-back.

#### (v) Capital risk management

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may return capital to shareholders, or issue new shares.

### (B) RESERVES

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Foreign currency translation reserve | (22,505) | (18,608) |
| Share-based payments reserve | 10,644 | 7,894 |
| | (11,861) | (10,714) |

#### (i) Movements in reserves

Movements in each class of reserve are set out below:

| | FOREIGN CURRENCY RESERVE | SHARE-BASED PAYMENTS RESERVE | TOTAL |
|---|---|---|---|
| | US$'000 | US$'000 | US$'000 |
| **12 months to 31 December 2016** | | | |
| Balance at beginning of period | (18,608) | 7,894 | (10,714) |
| Foreign currency translation | (3,897) | - | (3,897) |
| Share-based payments | - | 3,691 | 3,691 |
| Issuance of shares | - | (718) | (718) |
| Exercise of options | - | (223) | (223) |
| Balance at end of period | (22,505) | 10,644 | (11,861) |
| **6 months to 31 December 2015** | | | |
| Balance at beginning of period | (11,545) | 5,351 | (6,194) |
| Foreign currency translation | (7,063) | - | (7,063) |
| Share-based payments | - | 2,982 | 2,982 |
| Exercise of options | - | (439) | (439) |
| Balance at end of period | (18,608) | 7,894 | (10,714) |

## NOTE 9. EQUITY (CONTINUED)

### (B) RESERVES (CONTINUED)

#### (ii) Nature and purpose of reserves

**Foreign currency reserve**

Exchange differences arising on translation of foreign controlled entities are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to the profit and loss when the net investment is disposed of.

**Share-based payments reserve**

The share-based payments reserve is used to recognise the fair value of equity benefits issued by the Company.

## NOTE 10. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Loss after income tax expense for the period | (14,491) | (2,356) |
| *Adjustments for:* | | |
| Depreciation and amortisation expense | 286 | 237 |
| Share-based payments | 3,691 | 2,982 |
| Unwind of discount on provisions | 11 | - |
| Impairment of assets | 34 | 832 |
| Other sundry income | (61) | - |
| Net foreign exchange loss/ (gain) | 3,171 | (4,336) |
| *Changes in operating assets and liabilities:* | | |
| (Decrease)/Increase in trade and other receivables | 413 | (320) |
| (Decrease)/Increase in trade and other payables | (322) | 247 |
| (Decrease)/Increase in provisions | 134 | 32 |
| Net cash outflow from operating activities | (7,143) | (2,682) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## RISK

**This section of the notes discusses the group's exposure to various risks and shows how these could affect the group's financial position and performance.**



| | RISK | PAGE |
|---|---|---|
| 11 | Financial risk management | 57 |

## NOTE 11. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, foreign exchange risk and aging analysis for credit risk.

Financial risk management is carried out by Audit, Financial Risk and Compliance Committee under guidelines established by the Board. The policies employed by the Company identify and analyse financial risks and establish appropriate procedures and controls to mitigate risks which includes foreign exchange risk, credit risk, use of derivate financial instruments and non-derivative financial instruments and investment of surplus cash reserves. The Group holds the following financial instruments:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Financial Assets** | | |
| Cash and cash equivalents | 163,275 | 139,978 |
| Trade and other receivables | 9,563 | 3,360 |
| Available-for-sale financial assets | 85 | 119 |
| | 172,923 | 143,457 |
| **Financial Liabilities** | | |
| Trade and other payables | 14,502 | 5,868 |
| | 14,502 | 5,868 |

## (A) MARKET RISK

### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States Dollar (USD).

Foreign exchange risk arises from recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency and the impact of exchange rate movements on net investment in foreign subsidiaries. The risk is measured using sensitivity analysis and cash flow forecasting.

At this time the Group does not manage its prospective foreign exchange risk with currency hedges.

The Group's exposure to foreign currency risk at the reporting date, expressed in USD, was as follows:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Assets | | |
| - US Dollars [(1)] | 1,367 | 524 |
| | 1,367 | 524 |
| Liabilities | | |
| - US Dollars | 8,739 | 2,928 |
| - South African Rand | 150 | 316 |
| - Australian Dollars | 32 | - |
| | 8,921 | 3,244 |
| Net deficit position | (7,554) | (2,720) |

(1) The Group held $145.4 million in US Dollars as at 31 December 2016 (31 December 2015: US$105.0 million), through a wholly owned subsidiary with a US Dollars functional currency, to fund the development expenditure for the Balama project which is primarily being incurred in US Dollars.

## NOTE 11. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (A) MARKET RISK (CONTINUED)

#### (i) Foreign exchange risk (continued)

**Group sensitivity**

Based on the financial instruments held at 31 December 2016 and the net investments in foreign subsidiaries, had the USD strengthened/weakened by 5% against the above currencies with all other variables held constant, the impact on consolidated results for the financial period would have changed as follow:

| | IMPACT ON LOSS AFTER TAX (HIGHER)/LOWER | | IMPACT ON EQUITY HIGHER/(LOWER) | |
|---|---|---|---|---|
| | 12 MONTHS ENDED 31 DECEMBER 2016 | 6 MONTHS ENDED 31 DECEMBER 2015 | 12 MONTHS ENDED 31 DECEMBER 2016 | 6 MONTHS ENDED 31 DECEMBER 2015 |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| USD +5% | (364) | (142) | (8,313) | (9,248) |
| USD -5% | 393 | 128 | 8,476 | 9,352 |

#### (ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk relates to interest income on cash and cash equivalents. The entity does not hold any financial assets or liabilities whose fair value would be impacted by interest rates.

### (B) CREDIT RISK

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions.

The Group limits its counterparty credit risk on liquid funds by dealing only with reputable global banks or financial institutions. The Group has no receivables past due as at 31 December 2016 (31 December 2015: Nil).

### (C) LIQUIDITY RISK

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

The Company may require additional financing, in addition to current cash reserves to meet its working capital requirements, general and administrative expenditure and studies relating to battery anode material project. The Company has a number of alternatives to raise additional funding which may include both debt and equity sources of funding.

#### Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period as at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

## NOTE 11. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (C) LIQUIDITY RISK (CONTINUED)

| AS AT 31 DECEMBER 2016 | LESS THAN 6 MONTHS | 6 12 MONTHS | BETWEEN 1 AND 2 YEARS | BETWEEN 2 AND 5 YEARS | OVER 5 YEARS | TOTAL CONTRACTUAL CASH FLOWS | CARRYING AMOUNT LIABILITIES |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Nonderivatives** | | | | | | | |
| *Non-interest bearing* | | | | | | | |
| Trade and other payables | 14,502 | - | - | - | - | 14,502 | 14,502 |
| **Total non-derivatives** | 14,502 | - | - | - | - | 14,502 | 14,502 |

| AS AT 31 DECEMBER 2015 | LESS THAN 6 MONTHS | 6 12 MONTHS | BETWEEN 1 AND 2 YEARS | BETWEEN 2 AND 5 YEARS | OVER 5 YEARS | TOTAL CONTRACTUAL CASH FLOWS | CARRYING AMOUNT LIABILITIES |
|---|---|---|---|---|---|---|---|
| | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 | US$'000 |
| **Nonderivatives** | | | | | | | |
| *Non-interest bearing* | | | | | | | |
| Trade and other payables | 5,868 | - | - | - | - | 5,868 | 5,868 |
| **Total non-derivatives** | 5,868 | - | - | - | - | 5,868 | 5,868 |

### (D) CAPITAL RISK MANAGEMENT

When managing capital, the Group's objective is to safeguard the ability to continue as a going concern so that the Group continues to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Management is constantly reviewing and adjusting, where necessary, the capital structure. This involves the use of corporate forecasting models which enable analysis of the Group's financial position including cash flow forecasts to determine future capital management requirements. To ensure sufficient funding, a range of assumptions are modelled to determine sensitivities of the Group's financial position and capital requirements under different circumstances and/ or potential outcomes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## UNRECOGNISED ITEMS

**This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.**


| | UNRECOGNISED ITEMS | PAGE |
|---|---|---|
| 12 | Commitments, contingencies and guarantees | 61 |
| 13 | Events occurring after the reporting period | 61 |

## NOTE 12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

### (A) CAPITAL EXPENDITURE COMMITMENTS

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Mine properties and development | | |
| - Mines under construction | 30,506 | 32,626 |
| Total capital commitments | 30,506 | 32,626 |

The above capital expenditure commitments are in relation to the development and construction of the Balama Graphite Project in Mozambique.

### (B) OPERATING LEASE EXPENDITURE COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Within one year | 469 | 92 |
| After one year but not more than five years | 659 | 43 |
| Minimum lease payments | 1,128 | 135 |

### (C) TENEMENT EXPENDITURE COMMITMENTS

The Group has to meet the conditions under which mining and exploration tenements were granted to maintain the right of tenure. The minimum expenditure requirements, including interests in joint venture arrangements, for current tenements held is as follows:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Within one year | 20 | 21 |
| After one year but not more than five years | 90 | 115 |
| | 110 | 136 |

### (D) CONTINGENCIES

The Group did not have any contingent assets or liabilities at the end of the current and previous financial periods.

## NOTE 13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No event has occurred subsequent to 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the state of affairs in future financial periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## OTHER INFORMATION

**This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.**


| | OTHER INFORMATION | PAGE |
|---|---|---|
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| 15 | Share-based payments | 64 |
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| 21 | Summary of significant accounting policies | 72 |

## NOTE 14. RELATED PARTY TRANSACTIONS

### (A) ULTIMATE PARENT

Syrah Resources Limited is the ultimate holding company of the Group.

### (B) SUBSIDIARIES

Interests in subsidiaries are set out in Note 19.

### (C) KEY MANAGEMENT PERSONNEL COMPENSATION

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$ | US$ |
| Short-term employee benefits | 1,714,463 | 523,303 |
| Post-employment benefits | 97,091 | 32,229 |
| Share-based payments | 2,318,079 | 2,152,005 |
| | 4,129,633 | 2,707,537 |

Detailed remuneration disclosures are provided in the Remuneration Report on pages 16 to 33.

### (D) TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are set out below:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$ | US$ |
| *Purchases of goods and services* | | |
| Legal services provided by Sal & Caldeira Advogados, Lda [1] | 338,931 | 371,397 |
| Consultancy services provided by Proman Consulting Engineers Pty Ltd [2] | 66,987 | 19,888 |
| Consultancy services provided by Christina Lampe-Onnerud | 130,000 | - |
| | 535,918 | 391,285 |

(1) Represents legal services provided to the Company by Sal & Caldeira Advogados, Ltd in Mozambique. J Caldeira is a Non-Executive Director of the Company and is a Senior Partner at Sal & Caldeira Advogados, Lda

(2) Represents consultancy services provided to the Company by R Brans who is a Non-Executive Director of the Company.

These services are provided on normal commercial terms and conditions.

### (E) OUTSTANDING BALANCES ARISING FROM PURCHASES OF GOODS AND SERVICES

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$ | US$ |
| **Trade and other payables** | | |
| Related parties | 108,770 | 56,451 |
| | 108,770 | 56,451 |

## NOTE 15. SHARE-BASED PAYMENTS

### (A) TYPES OF SHARE BASED PAYMENT PLANS

The Group has a Long Term Incentive Plan and a Share Option Plan in existence.

These share based payment plans form an important part of a comprehensive remuneration strategy for the Company's employees and Directors, and aligns their interests with those of shareholders by linking rewards to the long term success of the Company and its financial performance.

#### (i) Long Term Incentive Plan (LTIP)

The LTIP was established and approved by shareholders at an Annual General Meeting held on 13 November 2015 and enables the Company, at the discretion of the Board of Directors, to offer employees and Directors a number of equity related interests, including options, performance rights and shares.

#### (ii) Share option plan (SOP)

The SOP was established and approved by shareholders at an Annual General Meeting held on 19 November 2013 and enables the Company, at the discretion of the Board of Directors, to offer employees and Directors options. No further options will be issued under this plan.

### (B) SUMMARY AND MOVEMENT OF OPTIONS ON ISSUE

The table below summarises the number, weighted average exercise prices and movements in Options issued during the financial period:

| | 12 MONTHS TO 31 DECEMBER 2016 | | 6 MONTHS TO 31 DECEMBER 2015 | |
|---|---|---|---|---|
| | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE OPTION | NUMBER OF OPTIONS | WEIGHTED AVERAGE EXERCISE PRICE PER SHARE OPTION | NUMBER OF OPTIONS |
| Balance at beginning of the period | A$5.17 | 6,947,000 | A$4.56 | 6,622,005 |
| Granted during the period | A$ 5.18 | 2,300,000 | A$4.64 | 1,250,000 |
| Exercised during the period (1) | A$ 2.76 | (272,000) | A$0.15 | (925,001) |
| Expired during the period | A$ 7.48 | (300,000) | A$0.17 | (4) |
| Balance at end of the period | A$ 5.16 | 8,675,000 | A$5.17 | 6,947,000 |
| Vested and exercisable at end of period | A$ 5.36 | 6,550,000 | A$5.89 | 3,572,000 |

(1) The weighted average share price at the date of exercise of options during the period ended 31 December 2016 was A$6.18 (31 December 2015: A$3.53)

Each option is convertible into one ordinary share. There are no voting or dividend rights attached to the options. Voting and dividend rights will attach to the ordinary shares when the options have been exercised.

The outstanding balance of options as at 31 December 2016 is represented by:

| | AS AT 31 DECEMBER 2016 | | AS AT 31 DECEMBER 2015 | |
|---|---|---|---|---|
| | NUMBER OF OPTIONS | EXERCISE PRICE RANGE | NUMBER OF OPTIONS | EXERCISE PRICE RANGE |
| Options issued as part of the SOP | 5,675,000 | $nil to A$6.26 | 5,947,000 | $nil to A$6.26 |
| Options issued as part of the LTIP | 3,000,000 | A$4.71 to A$5.09 | 1,000,000 | A$4.71 |

## NOTE 15. SHARE-BASED PAYMENTS (CONTINUED)

### (B) SUMMARY AND MOVEMENT OF OPTIONS ON ISSUE (CONTINUED)

Share options outstanding at the end of the financial period have the following expiry date and exercise prices:

| | | | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|---|---|
| GRANT DATE | EXPIRY DATE | EXERCISE PRICE | NUMBER | NUMBER |
| 16 July 2012 | 16 July 2016 | A$2.12 | - | 22,000 |
| 19 May 2014 | 19 May 2019 | A$5.41 | 500,000 | 500,000 |
| 12 June 2014 | 12 June 2016 | A$2.81 | - | 250,000 |
| 2 October 2014 | 2 October 2019 | A$6.26 | 2,800,000 | 2,800,000 |
| 28 January 2015 | 28 January 2018 | A$4.08 | 1,200,000 | 1,200,000 |
| 27 April 2015 | 27 April 2017 | - (1) | 125,000 | 125,000 |
| 7 May 2015 | 7 May 2018 | A$5.40 | 500,000 | 500,000 |
| 9 June 2015 | 9 June 2018 | A$4.99 | 300,000 | 300,000 |
| 26 October 2015 | 26 October 2020 | A$4.38 | 250,000 | 250,000 |
| 1 December 2015 | 1 December 2018 | A$4.71 | 1,000,000 | 1,000,000 |
| 24 May 2016 | 24 May 2019 | A$5.07 | 400,000 | - |
| 9 June 2016 | 9 June 2019 | A$4.58 | 1,000,000 | - |
| 24 October 2016 | 24 October 2019 | A$5.09 | 600,000(2) | - |
| **TOTAL Options** | | | 8,675,000 | 6,947,000 |
| Weighted average remaining contractual life of options outstanding at the end of the period | | | 2.22 years | 3.03 years |

(1) Represents options that were granted to a selected senior employee for NIL consideration with exercise conditional on the achievement of certain performance hurdles that are aligned with the creation of shareholder value.

(2) Represents unlisted options issued to S Verner on his appointment as Executive General Manager – Sales and Marketing. As a result of his appointment as Managing Director and Chief Executive Officer these options will be cancelled and replaced with 1,000,000 unlisted options exercisable at A$4.33 and expiring in three years from the date of grant. The issuance of these options remains subject to shareholder approval.

#### Fair value of options granted

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

| GRANT DATE | EXPIRY DATE | SHARE PRICE AT GRANT DATE | EXERCISE PRICE | EXPECTED VOLATILITY (1) | DIVIDEND YIELD | RISK-FREE INTEREST RATE | FAIR VALUE AT GRANT DATE |
|---|---|---|---|---|---|---|---|
| 16 May 2016 | 16 May 2017 | A$5.39 | A$7.48 | 52.10% | - | 1.54% | A$1.40 |
| 24 May 2016 | 24 May 2019 | A$5.00 | A$5.07 | 52.00% | - | 1.59% | A$1.79 |
| 9 June 2016 | 9 June 2019 | A$6.44 | A$4.58 | 51.27% | - | 1.54% | A$3.05 |
| 24 October 2016 | 24 October 2019 | A$3.93 | A$5.09 | 50.12% | - | 1.68% | A$1.06 |

(1) Expected volatility was calculated based on the historical market share price for the 12-month period prior to the Grant Date.

## NOTE 15. SHARE-BASED PAYMENTS (CONTINUED)

### (C) SUMMARY AND MOVEMENT OF PERFORMANCE RIGHTS ON ISSUE

The table below summarises the number and movements in Performance Rights issued during the financial period:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| Balance at the beginning of the period | 100,707 | - |
| Granted during the period | 232,296 | 100,707 |
| Vested during the period | - | - |
| Lapsed during the period | - | - |
| Forfeited during the period | (8,249) | - |
| Balance at the end of the period | 324,754 | 100,707 |
| **Performance testing dates for Granted Performance Rights above are as follows:** | | |
| - 31 December 2017 | 100,707 | 100,707 |
| - 31 December 2018 | 224,047 | - |
| Balance at end of the period | 324,754 | 100,707 |

Performance rights on issue as part of the LTIP have a nil exercise price.

### (D) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the financial period as part of employee benefit expense were as follows:

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| Options issued under the LTIP and SOP | 2,998 | 2,358 |
| Performance rights issued under the LTIP | 264 | 69 |
| Shares to be issued under the STI (1) | 429 (1)(2) | 555 (1) |
| | 3,691 | 2,982 |

(1) Represents amount expensed for a once-off bonus of 142,745 shares awarded to T Kumova (shareholder approval obtained on 26 May 2016) and 75,493 shares awarded to selected senior employees (issued on 19 February 2016) in recognition of the significant contribution made to ensure the finalisation of the feasibility study, the success of the Company's fundraising activities, the commencement of mine development and the on-going work to establish key sales and marketing targets as the mine moves towards commissioning.

(2) Represents the current year portion of a one-off payment of $148,880 (A$200,000) to J Askew for additional services provided to the Company as Executive Chairman from 5 October 2016 to 3 February 2017. This amount will be paid in shares, subject to shareholder approval. In the event the Company does not receive shareholdeer approval in relation to the proposed issue of fully paid ordinary shares, the amount payable will be paid in cash.

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 of options granted is determined by using the Black-Scholes model considering the terms and conditions upon which the instruments were granted and based upon the assumptions detailed above. 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 annual reporting period but may impact profit or loss and equity.

## NOTE 16. REMUNERATION OF AUDITORS

During the financial period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| *Assurance services:* | | |
| PwC Australian firm | 98 | 59 |
| Network firms of PwC Australian firm | 60 | 31 |
| Total remuneration for audit services | 158 | 90 |
| *Non-assurance services* | | |
| Tax compliance services | 53 | 17 |
| Tax consulting services | 140 | 223 |
| Total remuneration for non-assurance services | 193 | 240 |
| **Total remuneration paid to PricewaterhouseCoopers** | **351** | **330** |

## NOTE 17. EARNINGS PER SHARE

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US CENTS | US CENTS |
| **Earnings/ (losses) per share** | | |
| Basic loss per share | (5.84) | (1.09) |
| Diluted loss per share | (5.84) | (1.09) |

### (A) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Basic loss** | | |
| Total profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic loss per share | (14,491) | (2,356) |
| **Diluted loss** | | |
| Total profit/(loss) attributable to the ordinary equity holders of the Company used in calculating diluted loss per share | (14,491) | (2,356) |

## NOTE 17. EARNINGS PER SHARE (CONTINUED)

### (B) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | NUMBER | NUMBER |
| Weighted average number of ordinary shares used as the denominator in calculating basic loss per share | 248,338,800 | 215,758,310 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted loss per share | 248,338,800 | 215,758,310 |

**Options**

The rights to options held by option holders have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted EPS as they do not meet the requirements for inclusion in AASB 133 "Earnings per Share". The rights to options are non-dilutive as the group is loss making.

## NOTE 18. PARENT ENTITY FINANCIAL INFORMATION

### (A) SUMMARY FINANCIAL INFORMATION

The individual financial statements for the parent entity show the following aggregate amounts:

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Balance sheet** | | |
| Current assets | 25,785 | 35,070 |
| **Total assets** | **323,877** | **198,451** |
| | | |
| Current liabilities | 5,796 | 4,326 |
| **Total liabilities** | **5,809** | **4,336** |
| | | |
| Shareholders' equity | | |
| Issued capital | 366,427 | 225,008 |
| Reserves | (6,987) | (4,643) |
| Accumulated losses | (41,372) | (26,250) |
| **Total equity** | **318,068** | **194,115** |
| | | |
| **Loss after income tax for the year** | **(15,122)** | **(1,125)** |
| | | |
| Other comprehensive income | (5,094) | (2,029) |
| | | |
| **Total comprehensive income for the year** | **(20,216)** | **(3,154)** |

### (B) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The parent entity has no contingent liabilities as at 31 December 2016 and 31 December 2015.

## NOTE 19. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 21.

| | | PERCENTAGE OF EQUITY INTEREST HELD BY THE GROUP | |
|---|---|---|---|
| **NAME** | **PRINCIPAL PLACE OF BUSINESS / COUNTRY OF INCORPORATION** | **31 DECEMBER 2016 (%)** | **31 DECEMBER 2015 (%)** |
| Jacana Resources Limited | Australia | 100 | 100 |
| Syrah Resources (KSA) Pty Ltd | Australia | 100 | 100 |
| Twigg Exploration and Mining, Limitada | Mozambique | 100 | 100 |
| Jacana Resources (Zambia) Ltd | Zambia | 100 | 100 |
| Syrah Resources Saudi Arabia LLC | Saudi Arabia | 100 | 100 |
| Syrah Resources Group Holdings Pty Ltd | Australia | 100 | 100 |
| Syrah Resources and Trading DMCC | United Arab Emirates | 100 | 100 |
| Syrah Resources and Trading Operation DMCC [(1)] | United Arab Emirates | 100 | - |

(1) Syrah Resources and Trading Operation DMCC was incorporated on 30 June 2016

## NOTE 20. DEED OF CROSS GUARANTEE

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Syrah Resources Limited

Jacana Resources Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and a directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Syrah Resources Limited, they also represent the 'Extended Closed Group'.

### (A) CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND SUMMARY OF MOVEMENTS IN CONSOLIDATED ACCUMULATED LOSSES

Set out below is a consolidated statement of comprehensive income and a summary of movements in consolidated accumulated losses for the current or previous financial period for the 'Closed Group'.

| | 12 MONTHS TO 31 DECEMBER 2016 | 6 MONTHS TO 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| *Consolidated statement of comprehensive income* | | |
| Revenue from continuing operations | 683 | 283 |
| Other income | 13 | 4,277 |
| **Expenses** | | |
| Employee benefits expense | (6,831) | (3,928) |
| Legal and consulting expense | (2,247) | (997) |
| Depreciation and amortisation expense | (86) | (32) |
| Impairment of available-for-sale financial assets | (34) | (51) |
| Foreign exchange loss - net | (4,908) | - |
| Other expenses | (1,712) | (678) |
| **Loss for the period before income tax expense** | **(15,122)** | **(1,126)** |
| Income tax expense | - | - |
| **Loss after income tax expense for the period** | **(15,122)** | **(1,126)** |
| **Other comprehensive income** | | |
| Exchange differences on translation of foreign subsidiaries | (2,972) | 220 |
| **Total comprehensive income for the period** | **(18,094)** | **(906)** |
| *Summary of movements in consolidated accumulated losses* | | |
| Balance at beginning of period | (27,266) | (26,140) |
| Loss after income tax expense for the period | (15,122) | (1,126) |
| Balance at end of period | (42,388) | (27,266) |

## NOTE 20. DEED OF CROSS GUARANTEE (CONTINUED)

### (A) CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Set out below is a consolidated statement of financial position as at the end of the current and previous financial period for the 'Closed Group'.

| | 31 DECEMBER 2016 | 31 DECEMBER 2015 |
|---|---|---|
| | US$'000 | US$'000 |
| **Current assets** | | |
| Cash and cash equivalents | 16,679 | 34,278 |
| Trade and other receivables | 705 | 673 |
| Available-for-sale financial assets | 84 | 119 |
| **Total current assets** | **17,468** | **35,070** |
| **Non-current assets** | | |
| Mine properties and development | 96,635 | 31,150 |
| Exploration and evaluation | 890 | 890 |
| Property, plant and equipment | 873 | 611 |
| Investments in subsidiaries | 210,013 | 130,569 |
| Intangibles | 60 | 100 |
| **Total non-current assets** | **308,471** | **163,320** |
| **Total assets** | **325,939** | **198,390** |
| **Current liabilities** | | |
| Trade and other payables | 5,329 | 4,213 |
| Provisions | 454 | 113 |
| **Total current liabilities** | **5,783** | **4,326** |
| **Non-current liabilities** | | |
| Provisions | 27 | 9 |
| **Total non-current liabilities** | **27** | **9** |
| **Total liabilities** | **5,810** | **4,335** |
| **Net assets** | **320,129** | **194,055** |
| **Equity** | | |
| Issued capital | 366,427 | 225,008 |
| Reserves | (3,910) | (3,687) |
| Accumulated losses | (42,388) | (27,266) |
| **Total equity** | **320,129** | **194,055** |

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied for all the periods presented, unless otherwise stated.

The financial statements are for the consolidated entity consisting of Syrah Resources Limited and its subsidiaries. Syrah Resources Limited and its subsidiaries together are referred to in these financial statements as the Group or the 'consolidated entity'

### (A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Syrah Resources Limited ('company' or 'parent entity') as at 31 December 2016 and the results of all subsidiaries for the financial year then ended.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity 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 to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases. Details of subsidiaries are set out in Note 19.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in the profit and loss.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Syrah Resources Limited.

### (B) SEGMENT REPORTING

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. Refer to Note 2 for further information on segment descriptions.

### (C) FOREIGN CURRENCY TRANSLATION

#### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United States dollars (USD).

#### TRANSACTIONS AND BALANCES

All foreign currency transactions during the financial period are translated into the functional currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of comprehensive income within finance costs. All other foreign exchange gains and losses are presented in the statement of comprehensive income on a net basis within other income or other expenses.

#### GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

> assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,

> income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

> all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the profit and loss, as part of the gain or loss on sale where applicable. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (D) REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised for the major business transactions as follows:

#### INTEREST

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

#### OTHER REVENUE

Other revenue is recognised when it is received or when the right to receive payment is established.

### (E) INCOME TAX

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences, including unused tax losses, only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and the tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### TAX CONSOLIDATION LEGISLATION

Syrah Resources Limited (the "head entity") and its wholly-owned Australian subsidiaries formed an income tax consolidated group on 1 July 2014. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### (F) LEASES

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in current liabilities and non-current liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the assets useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group, as lessee, are classified as operating leases. Payment made under operating leases (net of incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (G) CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### (H) CASH AND CASH EQUIVALENTS

For the purpose of presentation in the statement of cash flows, cash and cash equivalents comprises cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (I) TRADE AND OTHER RECEIVABLES

Other receivables are recognised at amortised cost, less any provision for impairment.

### (J) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation, amortisation or impairment in value. 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. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Land is not depreciated. Assets under construction are measured at cost and are not depreciated until they are ready and available for use. Depreciation on assets is calculated using either a straight-line or diminishing value method to allocate the cost, net of their residual values, over the estimated useful lives or the life of the mine, whichever is shorter. Leasehold improvements and certain leased plant and equipment are depreciated over the shorter lease term.

Other non-mine plant and equipment typically has the following estimated useful lives:

| | |
|---|---|
| Buildings | 20 years |
| Plant and Equipment | 2 to 10 years |
| Computer Equipment | 3 to 5 years |

The assets residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, at each financial period end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the period the asset is derecognised.

### (K) INTANGIBLE ASSETS

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment in value. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment in value. The gains or losses recognised in profit and loss arising from the de-recognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### SOFTWARE

Significant costs associated with software are deferred and amortised on either a straight-line or diminishing value method over the estimated useful life, being a finite life not exceeding 5 years.

### (L) MINE PROPERTIES AND DEVELOPMENT

#### MINE PROPERTIES AND DEVELOPMENT

Mine properties and development represents the accumulation of all exploration, evaluation and development expenditure incurred by, or on behalf of, the entity in relation to areas of interest in which construction or development has commenced and/or mining of a mineral resource has commenced. Where further development expenditure is incurred in respect of a production property after the commencement of production, such expenditure is carried as part of the cost of that production property only when substantial future economic benefits arise, otherwise such expenditure is classified as part of the cost of production.

Mine development costs for production properties in which the Group has an interest are amortised over the life of the area of interest to which the costs relate on a units of production basis over the estimated proved and probable ore reserves and a proportion of other measured and indicated mineral resources where there is a higher degree of confidence that they can be extracted economically. Changes in the life of the area of interest and/or or ore reserves and other mineral resources are accounted for prospectively.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (L) MINE PROPERTIES AND DEVELOPMENT (CONTINUED)

#### MINES UNDER CONSTRUCTION

Expenditure incurred in constructing a mine is accumulated separately for each area of interest. This expenditure includes all direct costs of construction, borrowing costs capitalised during construction and an appropriate allocation of attributable overheads up to the time of commissioning the project. Upon successful commissioning of the project the aggregated costs of construction are transferred to non-current assets as either mine properties and development or property, plant and equipment as appropriate.

The carrying value of mine properties and development for each area of interest is assessed annually for impairment in accordance with Note 8.

### (M) EXPLORATION AND EVALUATION

Exploration and evaluation expenditure comprises costs which are directly attributable to:

> research and analysing exploration data
> conducting geological studies, exploratory drilling and sampling
> examining and testing extraction and treatment methods
> compiling scoping and feasibility studies.

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the balance sheet where it is expected that expenditure will be recovered through the successful development and exploitation of an area or interest, or by its sale; or exploration and evaluation activities are continuing in an area of interest and those activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off to the profit and loss in the financial period in which the decision is made.

Exploration and evaluation expenditure is reclassified to mine properties and development in the financial period when the technical feasibility and commercial viability of extracting a mineral resource is demonstrated. The carrying value of the exploration and evaluation expenditure is assessed for impairment prior to reclassification (Refer to Note 8).

### (N) IMPAIRMENT OF ASSETS

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

At each reporting date, the Group assesses whether there is any indication that other non-financial assets may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in profit and loss.

Recoverable amount is the greater of fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Where there is no binding sale agreement or active market, fair value less costs of disposal is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the pre-impairment value, adjusted for any depreciation that would have been recognised on the asset had the initial impairment loss not occurred. Such reversal is recognised in profit or loss.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### (O) ORE RESERVES

The Company estimates its mineral resources and ore reserves based on information compiled by Competent Persons as defined in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of December 2012 (the JORC 2012 code). Reserves, and for certain mineral resources, determined in this way are used in the calculation of depreciation, amortisation and impairment charges.

In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (P) INVESTMENTS AND OTHER FINANCIAL ASSETS

#### CLASSIFICATION

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition, and in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets classified as held for trading purposes are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

#### LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### HELD-TO-MATURITY INVESTMENTS

Bills of exchange and debentures are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

#### AVAILABLE-FOR-SALE FINANCIAL ASSETS

Financial assets that are available-for-sale are stated at fair value with gains and losses arising from changes in fair value recognised directly in the available-for-sale revaluation reserve, until the investment is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in the available-for-sale revaluation reserve is included in profit and loss for the period.

#### IMPAIRMENT OF FINANCIAL ASSETS

The Group assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and an impairment loss is recognised in profit or loss only if there is evidence of a 'loss event' after initial recognition that has an impact on the estimated future cash flows of the financial asset. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Impairment losses on an equity instrument that were recognised in profit or loss are not reversed through profit or loss in subsequent periods.

### (Q) TRADE AND OTHER PAYABLES

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid. They arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### (R) PROVISIONS

Provisions are recognised when the Group has a present obligation, it is probable that there will be a future sacrifice of economic benefits and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be recovered from a third party, for example under an insurance contract, the receivable is recognised as a separate asset but only when the reimbursement is virtually certain and it can be measured reliably. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessment of the time value of money. Where this is the case, its carrying amount is the present value of these estimated future cash flows. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### DECOMMISSIONING AND RESTORATION PROVISION

Decommissioning and restoration provisions include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. The provision is recognised in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. The costs are estimated on the basis of a closure plan drawn in accordance with the business plan and environmental regulations. The cost estimates are calculated annually during the life of the operation to reflect known developments and are subject to formal review at regular intervals.

The amortisation or 'unwinding' of the discount applied in establishing the net present value of provisions is charged to the profit or loss in each accounting period as a finance cost. Any changes in the provision, including those resulting from new disturbances, updated cost estimates, changes to the lives of operations and revisions to discount rates, are accounted for prospectively.

On initial recognition of the provision and for prospective changes in estimates, an equivalent amount is capitalised as part of mine properties and development, or the respective asset or area of interest that the restoration obligation relates to. Capitalised decommissioning and restoration provision costs are depreciated over the life of the respective assets. Where future changes in the provision result in a significant addition to the cost of the related asset, consideration will be given to whether an indication of impairment exists and the impairment policy will apply.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (S) EMPLOYEE ENTITLEMENTS

#### SHORT-TERM EMPLOYEE BENEFITS

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### OTHER LONG-TERM EMPLOYEE BENEFITS

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### DEFINED CONTRIBUTION SUPERANNUATION EXPENSE

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

#### SHARE-BASED PAYMENTS

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit and loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit and loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying the Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit and loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award are treated as if they were a modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### (T) CONTRIBUTED EQUITY

Ordinary shares are classified as equity and recognised at the fair value of the consideration received by the Company.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, of the share proceeds received.

### (U) FAIR VALUE MEASUREMENT

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

# NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## (V) EARNINGS PER SHARE

### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares;
- by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

### DILUTED EARNINGS PER SHARE

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

## (W) GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part 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 tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

## (X) COMPARATIVE FIGURES

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

## (Y) ROUNDING OF AMOUNTS

The amounts contained in the financial report have been rounded off to the nearest $'000 (where rounding is applicable) under the relief available to the Company under ASIC Corporations (Rounding in Financial Reports) Instrument 2016/191. The Company is an entity to which the Class Order applies.

## (Z) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

There were no new or amended accounting standards and interpretations applicable for the first time for the reporting period commencing 1 January 2016.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

**(i) AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and* AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and* AASB 2012-6 *Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2018)**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities as well as impairment and hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption. The Company intends to apply the standard from 1 January 2018. The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company's preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statement when it is first adopted for the year ended 31 December 2018.

**(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)**

AASB 15 *Revenue from Contracts with Customers* will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts (and related interpretations). This standard is applicable from 1 January 2018. The Company is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the Company's preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first applied.

**(iii) IFRS 16 *Leases* (effective from 1 January 2019)**

IFRS 16 *Leases* will replace the current guidance in IAS 17 and requires all operating leases to be recognised on the balance sheet. The Group is applicable from 1 January 2019. The Company is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the Company's preliminary assessment, the standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 36 to 78 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

(ii) giving true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 19 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 20.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Managing Director and Chief Financial Officer as required by section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the Directors.

**James Askew**
*Chairman*

Melbourne, Australia

24 March 2017

# INDEPENDENT AUDITOR'S REPORT

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## *Independent auditor's report*

To the shareholders of Syrah Resources Limited

### *Report on the audit of the financial report*

#### *Our opinion*

In our opinion:

The accompanying financial report of Syrah Resources Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group's financial report comprises:

- the consolidated statement of financial position as at 31 December 2016
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

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

***Independence***

We are independent of the Group in accordance with the auditor independence requirements of 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.

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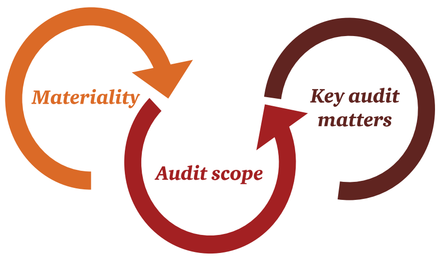
## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group's operations consist principally of the development of the Balama Graphite Project located in Mozambique, as well as the downstream strategy to produce spherical graphite.




| *Materiality* | *Audit scope* | *Key audit matters* |
|---|---|---|
| • For the purpose of our audit we used overall group materiality of $3,292,000, which represents approximately 1% of the Group's total assets.<br>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.<br>• Given the stage of development of the Balama Project and that production has not commenced, total assets was considered an appropriate benchmark. We selected 1% based on our professional judgement noting that it is within the range of commonly accepted asset related thresholds. | • Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.<br>• The Australian engagement team directed the involvement of the Mozambique component audit team, which performed an audit of the financial information of TWIGG Exploration & Mining Limitada given its financial significance to the Group. Their procedures included a visit to the Balama site.<br>• We, the Australian engagement team, determined the required level of our involvement in the work performed by the Mozambique component audit team, in order for us to be satisfied that sufficient | • Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:<br>– Liquidity and capital management<br>– Capitalisation of development costs<br>• They are further described in the *Key audit matters* section of our report. |

audit evidence had been obtained to support our opinion on the Group financial report as a whole. We had regular communication with the Mozambique component audit team throughout the year and performed a review of their audit working papers.

- All other audit procedures were performed by the Australian engagement team.

## *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 for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Liquidity and capital management***<br>*Refer to Note 11(c)*<br><br>The Group may require additional funds for working capital in the commissioning and ramp-up phase of the Balama Project, for future battery anode material projects or on-going corporate and administration expenditure. There are risks associated with the ability to obtain a debt facility or alternative sources of financing. There is also a level of uncertainty as to the financing amount that may be required, due to risks associated with the completion of construction activities and the timing for the commencement of commissioning and production activities of the Balama Project. As a result, our assessment of liquidity and capital management as it relates to the basis of preparation of the financial statements, is considered a key audit matter.<br><br>The Group has prepared a forecast of its cash requirements, which includes a number of assumptions such as capital cost estimates, timing of construction, commissioning and production ramp-up activities, expected revenues from and initial operating costs. | We assessed the main assumptions in the Group's cash flow forecast by performing the following procedures:<br><br>• We compared a selection of significant capital and operational cash outflows in the forecasts to the relevant contracts.<br>• We considered project reports and held discussions with senior management to evaluate the project status and risks to the estimated date for commissioning and production ramp-up.<br>• We discussed the risks surrounding the ramp-up of production and timing of sales forecasts including management's view of future supply and demand. We also read the conditional off-take agreements currently in place.<br>• We assessed the reasonableness of the commodity prices and foreign exchange rates used in the forecast against available information. |

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| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | We considered the cash position under various scenarios to evaluate the Group's ability to fund its working capital requirements. We further evaluated the Group's various options for raising additional funds as well as potential opportunities for cash conservation.<br><br>We also considered the appropriateness of the disclosure included within the financial statements. |
| ***Capitalisation of development costs***<br>*Refer to Note 8(a)*<br><br>Syrah's Balama Graphite Project in Mozambique is in the development phase. During the year ended 31 December 2016, the Group capitalised costs of $116.3 million which increased the carrying value of the project at 31 December 2016 to $154.4 million. Given the financial significance of the amounts capitalised this has been identified as a key audit matter.<br><br>The capitalisation of costs gives rise to financial reporting risks, as follows:<br>• capitalisation of costs not directly attributable to the Project or project costs incorrectly expensed (risk of incorrect classification of costs).<br>• capitalisation of costs for goods or services not yet delivered or not delivered to an appropriate standard.<br>• inaccurate recording of costs due to factors such as exchange rate conversions. | We understood and evaluated the Group's controls in relation to the capitalisation of costs to mine, properties and development.<br><br>We tested a sample of additions to mine, property and development for the current period to test whether the capitalised costs were supportable and appropriate.<br><br>We performed testing of a sample of costs incurred both immediately prior to and post balance date to test whether costs were recorded in the period in which the goods or services were delivered.<br><br>We recalculated a sample of the conversion of foreign currency costs into the functional currency of the entity incurring the costs. |

## *Other information*

The directors are responsible for the other information. The other information comprises the 2016 In Review, Chairman's Letter and the Director's Report included in the Group's annual report for the year ended 31 December 2016 but does not include the financial report and our auditor's report thereon.

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

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In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 have 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 16 to 33 of the directors' report for the year ended 31 December 2016.

In our opinion, the remuneration report of Syrah Resources Limited for the year ended 31 December 2016 complies with section 300A of the *Corporations Act 2001*.

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### *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.

PricewaterhouseCoopers

John O'Donoghue
Partner
Melbourne
24 March 2017

# ADDITIONAL ASX INFORMATION

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The shareholder information set out below was applicable as at 22 March 2017 except where otherwise indicated.

## EQUITY SECURITY HOLDERS

### TOP 20 LARGEST QUOTED SECURITY HOLDERS AS AT 22 MARCH 2017

The names of the twenty largest security holders of quoted equity securities are listed below:

| RANK | NAME | UNITS | % OF UNITS |
|---|---|---|---|
| 1. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 43,312,157 | 16.42 |
| 2. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 32,345,328 | 12.26 |
| 3. | CITICORP NOMINEES PTY LIMITED | 30,312,622 | 11.49 |
| 4. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 17,824,201 | 6.76 |
| 5. | COPPER STRIKE LIMITED | 11,000,005 | 4.17 |
| 6. | NATIONAL NOMINEES LIMITED | 10,720,727 | 4.06 |
| 7. | KITARA INVESTMENTS PTY LTD | 10,355,760 | 3.93 |
| 8. | UBS NOMINEES PTY LTD | 6,259,928 | 2.37 |
| 9. | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 4,984,726 | 1.89 |
| 10. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA | 4,701,513 | 1.78 |
| 11. | UBS NOMINEES PTY LTD | 4,680,201 | 1.77 |
| 12. | GONDWANA INVESTMENT GROUP PTY LTD | 2,777,778 | 1.05 |
| 13. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 2,504,414 | 0.95 |
| 14. | WARBONT NOMINEES PTY LTD | 2,466,064 | 0.93 |
| 15. | SANDHURST TRUSTEES LTD | 2,454,168 | 0.93 |
| 16. | CS FOURTH NOMINEES PTY LIMITED | 2,350,916 | 0.89 |
| 17. | BUPRESTID PTY LTD | 1,805,000 | 0.68 |
| 18. | MR TOLGA KUMOVA | 1,530,542 | 0.58 |
| 19. | FINANCE ASSOCIATES PTY LTD | 1,305,000 | 0.49 |
| 20. | HAWTHORN GROVE INVESTMENTS PTY LTD | 1,300,001 | 0.49 |
| **Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)** | | **194,991,051** | **73.91** |
| **Total Remaining Holders Balance** | | **68,829,149** | **26.09** |

## UNQUOTED EQUITY SECURITIES AS AT 22 MARCH 2017

| | NUMBER ON ISSUE | NUMBER OF HOLDERS |
|---|---|---|
| Options over ordinary shares issue | 9,275,000 | 15 |
| Performance rights over ordinary shares | 803,524 | 25 |

## SUBSTANTIAL SHAREHOLDERS

An extract of the Company's Register of Substantial Shareholders as at 22 March 2017 is set out below:

| RANK | NAME | UNITS | % OF UNITS |
|---|---|---|---|
| 1. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 43,312,157 | **16.42** |
| 2. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 32,345,328 | **12.26** |
| 3. | CITICORP NOMINEES PTY LIMITED | 30,312,622 | **11.49** |
| 4. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 17,824,201 | **6.76** |

## DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

| RANGE | TOTAL HOLDERS | UNITS | % OF ISSUED CAPITAL |
|---|---|---|---|
| 1 - 1,000 | 1,717 | 873,969 | 0.33 |
| 1,001 - 5,000 | 2,054 | 5,552,386 | 2.10 |
| 5,001 - 10,000 | 731 | 5,820,815 | 2.21 |
| 10,001 - 100,000 | 911 | 24,982,479 | 9.47 |
| 100,001 Over | 113 | 226,590,551 | 85.89 |
| **Total** | **5,526** | **263,820,200** | **100.00** |

The number of shareholders holding less than a marketable parcel of Ordinary Shares at 22 March 2017 was 382.

## VOTING RIGHTS

The voting rights attached to ordinary shares are set out below:

## ORDINARY SHARES

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

## TENEMENT SCHEDULE AS AT 24 MARCH 2017

| DESCRIPTION | TENEMENT NUMBER | INTEREST OWNED |
|---|---|---|
| Balama | 6432C | 100% |
| Balama (1) | 5684L | 100% |

(1) Syrah has entered into a tenement sale agreement (TSA) for the acquisition of a tenement (Tenement) in Balama from a third party (Seller).Under the TSA, Syrah may be required to issue to the Seller, as part of the contingent consideration for the acquisition of the Tenement, up to US$2.0 million of fully paid ordinary shares (Sale Shares) in various tranches, with the number of Sale Shares under each tranche to be calculated based on the 30 day volume weighted average price of Syrah shares prior to the issue date. The Sale Shares (if issued) will rank equally with Syrah's existing shares, and will not be issued to an existing class of security holders in Syrah. It is not expected that security holder approval will be required for the issue of Sale Shares.

# ANNUAL REPORT 2016

SYRAH RESOURCES

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