



**SYRAH** RESOURCES



# THE FUTURE OF GRAPHITE

ANNUAL REPORT 2017



# CORPORATE DIRECTORY

## Directors

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

**Shaun Verner** *Managing Director and Chief Executive Officer (appointed 3 February 2017)*

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

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

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

**Stefano Giorgini** *Non-Executive Director (appointed 16 October 2017)*

**Rhett Brans** *Non-Executive Director (ceased 31 December 2017)*

## Company secretary

**Jennifer Currie** *(appointed 16 October 2017)*

**Melanie Leydin** *(ceased 30 November 2017)*

## Registered and corporate offices

### Corporate Head Office - Melbourne

Syrah Resources Limited  
Level 28, 360 Collins Street  
Melbourne VIC 3000  
Telephone: +61 3 9670 7264  
Email: [enquiries@syrahresources.com.au](mailto:enquiries@syrahresources.com.au)  
Website: [www.syrahresources.com.au](http://www.syrahresources.com.au)

### Dubai Office

Syrah Global DMCC  
Office 22F, Gold Tower, Cluster I,  
Jumeirah Lakes Towers  
Dubai, United Arab Emirates  
Telephone: +971 4244 5955  
Email: [marketing@syrahresources.com.au](mailto:marketing@syrahresources.com.au)

### Mozambique Office

Twigg Exploration and Mining Limitada  
Av de Marginal, Paulo Samuel Kankhomba  
Predio Bahar, 1º Andar-Esquerda, Pemba  
Cabo Delgado, Mozambique  
Telephone: +285 27220713

## Share registry

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford Victoria 3067  
Telephone: 1300 850 505 (within Australia)  
+61 3 9415 4000 (overseas)  
Email: [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)  
Website: [www.computershare.com.au](http://www.computershare.com.au)

## Auditors

PricewaterhouseCoopers  
2 Riverside Quay  
Southbank VIC 3006

## Solicitors

Gilbert + Tobin  
Level 22, 101 Collins Street  
Melbourne VIC 3000

## Stock exchange listing

Australian Securities Exchange  
(ASX Code: SYR)  
American Depositary Receipts  
(Ticker Symbol: SRHY)

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# COMPANY PROFILE

## OUR VISION

Syrah will be the world's leading supplier of superior quality graphite products, working closely with customers and the supply chain to add value in battery and industrial markets.



## 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.

# 2017 HIGHLIGHTS

## **BALAMA GRAPHITE PROJECT**

- > First flake graphite production achieved in November 2017 and first fines production in December 2017
- > Construction and ore commissioning essentially complete
- > Transitioned from Project Development to Operations from 1 January 2018

## **SALES AND MARKETING**

- > Further diversification of the sales book by geography and end-use market
- > First sales contract to the battery anode material market
- > First major exporter of natural graphite to China

## **BATTERY ANODE MATERIAL (BAM) PROJECT**

- > BAM processing facility detailed design progressed, commercial supply negotiations and procurement of long lead time equipment progressing
- > Testing and benchmarking of the electrochemical properties of battery anode materials produced using Balama material completed

## **CORPORATE**

- > Successfully completed A\$110 million capital raising in October 2017
- > Board and Management teams strengthened with new appointments



# CHAIRMAN'S LETTER



Another year of progress and change is behind Syrah and the Company continues to deliver on the strategy of becoming the global base load provider of premium quality natural graphite. 2017 was notable for the commencement of production at the Balama Graphite Project (Balama), further equity financing of Syrah and the comprehensive buildout of a management team with sales and marketing capabilities for global products, plus the assembly of a small US team to manage the design and construction of our planned Battery Anode Material (BAM) facility in Louisiana.

The progress in our delivery of both Balama and Louisiana was slower than hoped. However, the Board observes that the rigorous commitment to delivery of safe, high quality operations has never been compromised. While much of this is quantitative, the basis for the achievements and progress reflects a strong culture of teamwork and enormously hard work building a plant at Balama which has never been done before.

I have now been your Chairman for the last three years. It is important to recall a Board decision made before Balama construction commenced two years ago; this was to commence construction before a few components of the plant had been fully designed, based on a strategy that ongoing bulk metallurgical tests would likely enable refinement to some areas of the plant design and thus improved product quality. The latter has proven to be the case. This drove a choice of construction contracting relying on owner management and subcontracting of each major work area. The early subcontracts went well, however, much of the delay and cost overrun in the delivery of Balama was attributable to the slower than planned contractor productivity in the completion of structural steel erection, piping installation and electrical work.

The equity financing decision made during 2017 was balanced against debt offers which were considered detrimental to the future of Syrah, for they were very restrictive to our optionality for growth and the downstream BAM strategy. Also, being fully funded and debt-free has afforded the sales and marketing team better leverage as they continue to deliver firm sales contracts for Balama graphite product.

The appointment of Shaun Verner as your Managing Director and CEO in February 2017 represents a milestone for Syrah. After an exhaustive global search, we found the right candidate internally, which meant a smooth transition from his role managing Sales and Marketing. The progress since made in establishing a strong performance culture, management systems and controls and a world class marketing team augers well for the future of Syrah.

At Board level, there was the addition of Stefano Giorgini as a Non-Executive Director. Stefano joined in late 2017 to augment our Board skills in financial and risk management, and was subsequently appointed as Chairman of the Audit Committee. He brings a lifetime of international experience in these areas from a storied career at BHP. Rhett Brans who was our longest serving director finished his time with the Board at the end of 2017. Rhett had oversight of the Balama design and construction, aligned with his long career in plant construction. With the completion of Balama construction, we thank Rhett for his guidance through a period of great change at Syrah.

We anticipate that there will be an addition of at least one more Non-Executive Director in 2018, for we see a specific need to expand the skills of your Board in the downstream battery anode technology and strategy. Syrah has evolved from a small Melbourne-based IPO to becoming a global player in the industrial minerals and renewable energy/electric vehicle space and we need to continue to evolve the Board accordingly.

Finally, the Board thanks our management team for all they have achieved in 2017, a momentous year for Syrah which has brought the incredible Balama geological deposit to account for commercial operation down through many decades in the future, their engagement with the host communities, and the adherence to world standards of safety and environmental compliance. The addition of a BAM facility in 2018 will drive Syrah further into the value supply chain and potentially beyond, as we seek to maximise returns to stakeholders.

A handwritten signature in black ink, appearing to read 'James Askew', with a long horizontal flourish extending to the right.

**James Askew**  
*Chairman*

# MANAGING DIRECTOR AND CEO'S LETTER

It is my privilege to present the 2017 Syrah Resources Limited (Syrah or the Company) Annual Report to shareholders, my first as Managing Director and CEO having been appointed on 3 February 2017, in a year of remarkable development and transition for the Company.

I joined Syrah in October 2016 for three key reasons. Firstly, the Balama Graphite Project (Balama) in Mozambique is simply an outstanding asset – its size, quality and life are unlike anything seen before in the graphite industry. With first quartile cash costs and high volumes, Syrah is well positioned to become the largest supplier of high quality natural graphite globally. Secondly, Syrah provides the chance to be a cornerstone of the energy storage revolution that is sweeping consumer and vehicle markets globally. And, thirdly, joining the Company at a pivotal point in time affords the opportunity to drive the culture of a new organisation from project into operations, and onward into research, development and value-added products.

I am grateful to the previous CEO Tolga Kumova, and our current Chairman Jim Askew, who fulfilled the role of Executive Chair for a short period, before reverting to Non-Executive Chairman upon my appointment. Their foresight and vision in funding and developing an operation of this scale in an industry that had not previously seen such development is the basis on which shareholder value will be derived.

Syrah has underpinned the Balama development with the highest standards of health, safety and environmental control from the commencement of the project. We continue to focus very strongly on the development of health and safety leadership, particularly given the developing nature of our local workforce. Safety remains the highest priority and our commitment is reflected in the outstanding safety performance record at Balama, ending the 2017 year with a Total Recordable Injury Frequency Rate (TRIFR) of 0.8, a significant improvement compared to 2.5 at the end of 2016, and noting the peak construction workforce of more than 2,300 personnel onsite. The Balama team also ensured that over 200 environmental licence conditions were met, with no significant issues recorded in 2017. As Balama ramps up operations, the

focus shifts to implementing the health, safety and environment routines, processes and systems that will drive ongoing performance improvement.

Our aim is to ensure our local communities in which we operate are engaged and benefit from the Company's operations. Over 90% of our employees at Balama are Mozambican nationals, including a large number from our eight local host communities. On site we have high quality, experienced and well trained Mozambican professionals in leadership positions. Training and development opportunities have been provided, resulting in many local people entering stable employment for the first time.

Based on our fundamental value of partnering with stakeholders for community and environmental sustainability, various community programmes continued to progress during the year. This included implementation of community health initiatives, development of the Balama Training Centre curriculum, completion of remediation works on the Chipembe Dam, ongoing provision of clean water to a number of local villages, and a large scale irrigation and agricultural program which is well advanced.

Balama is a long life asset, and relationships with our host communities are paramount to our success. We will continue to work with communities and government to ensure sustainable operations at Balama are founded on mutual benefit.

Our strategic goal is to be the pre-eminent supplier of flake graphite and the Company achieved a significant milestone with the commencement of operations at Balama in Q4 2017. Reaching this milestone was not without its challenges given the aggressive construction timeline, the location of the project and the scale compared to any previous graphite development.

Whilst the increase in budget and extended timeline did not meet our expectations, the owners team focussed on ensuring that plant construction was of an extremely high standard at handover to the operations and maintenance

teams. This included commissioning of the seven sections of the processing plant, completion of over 300 construction verification packages and in excess of 10,000 checklist items prior to handover. Despite the challenges in construction, it is a credit to the commissioning and operations team that Balama has transitioned from development into operations quickly, smoothly and safely.

This is a critical period for the Company and whilst challenges can arise during the commissioning of a new plant and in production ramp up, we remain focussed on optimising the processing plant to achieve planned recoveries and stabilising plant production to achieve our production and operating cash cost targets at Balama.

Graphite sales commenced shortly after initial production, with a mix of sales and qualification product shipped during January 2018 with further regular shipments scheduled. First revenue was received in February 2018. Our experienced sales and marketing team remains focussed on diversification of the sales book, selling natural flake graphite into all geographies and sectors of the market. In 2017, we were pleased to announce additional binding sales agreements for Balama graphite. This included sales directly into the Chinese battery anode material (BAM) market, representing the first significant import of natural graphite into China – an important milestone and signal given China's current dominance of global graphite supply. Pricing for graphite is bespoke with bilateral agreements not based on any index or benchmark prices. As interaction with our global customer base evolves and product qualification and sales progress, price discovery will develop further.

Syrah is well placed to become the first truly global graphite supplier, with sales into China, USA, Europe, Japan, Korea, Brazil and the Indian sub-continent, across all major segments including BAM, traditional steelmaking, industrial markets and expandable graphite.

Our other strategic goal is to be the first integrated BAM producer outside of China using Balama natural graphite as a key raw material. Syrah's first mover advantage with high value added product aims to provide the global supply chain with a key source of diversification.



During the year we made significant advances in our development of research, technology, engineering and commercial arrangements for entry into the BAM market. In conjunction with Cadenza Innovation Inc. in Connecticut USA, testing and benchmarking of Syrah BAM products against market leading products has progressed very well, and the development of our value add product roadmap is underway.

The engineering design and procurement for the first phase of our planned Louisiana BAM plant advanced quickly in the second half of 2017 and we were well advanced with commercial negotiations for a BAM facility in Port Manchac, Louisiana. Post year-end, the South Tangipahoa Parish Port Commission in Louisiana reversed support for our development, and whilst this is a disappointing outcome, we have quickly identified a range of alternative sites, and are poised to move quickly upon site selection being finalised. The majority of the work completed to date will be transferable to an alternative site. We remain focussed on the target of producing commercial BAM products by the end of 2018.

We expect global natural graphite demand growth to be driven by the increase in electric vehicles over the coming years. Global electric vehicle (battery and plug in) sales in 2017 were up 54% to 1.2 million units which is the first time over 1 million electric vehicles have been sold in a year, with China accountable for the majority of the sales growth. Our regular discussions and engagement with major anode and battery manufacturers, and their commitments to capacity expansion, indicates graphite dominance in anodes for the foreseeable future. With the sharp rise of artificial graphite prices during 2017 anode manufacturers are increasingly focussed on costs and the ratio of natural to artificial graphite used in their formulations. The quality of Balama graphite and consistent long term supply places Syrah in a leading position to capture this additional demand.

The composition of the Executive and Operational Management Teams was significantly strengthened in 2017. Rob Schaefer was appointed in February as Chief Commercial Officer with accountability for marketing strategy, outbound logistics, and strategic

supply contracts, bringing over 20 years of resource industry experience. Rob has driven the development and expansion of Syrah's sales book over the year. Jennifer Currie was appointed as Chief Legal Officer and Company Secretary in October. Jennifer brings extensive legal and company secretary experience and is responsible for managing Syrah's governance, risk and compliance requirements across our growing global remit. Jennifer replaces Melanie Leydin who provided tremendous support to Syrah throughout her five years as Company Secretary.

Darrin Strange, our Chief Operating Officer (COO) resigned from the Company and left at the end of November. Darrin was integral to driving Balama from engineering through construction and into successful commissioning over the last three years. Darrin, in conjunction with our Chief People Officer, Jordan Morrissey have established a highly capable operations team led by our Balama General Manager, David Griffith, who has over 20 years of mining and operations experience. We have commenced a global search for a new COO. I would like to thank Darrin and Melanie for their contributions to Syrah.

With the completion of construction and the transition to operations and sales, Syrah closed its Perth office, centralising corporate activity in Melbourne, and opened a Global Marketing hub in Dubai in 2017. Along with recruitment for our BAM activity in the USA, we have a committed and outstanding team in place to support Syrah's growth.

In September, Syrah successfully completed a A\$110 million equity raise with strong support from our institutional and retail shareholders. The Company ended the year with US\$112 million in cash and remains disciplined with spend as we enter operations. Maintaining a strong balance sheet to see Balama to operational positive cash flows, and to support development of our strategic opportunities in BAM is a key priority.

Syrah's focus on enhancing shareholder value has entered the exciting transition to operations, and the potential shareholder value in the BAM

market has only just begun to be explored. Only through the successful commissioning and profitable operation of Balama will we underpin and earn the right to further invest in the future of the Company. Our immediate objectives are to:

- > Optimise the Balama process plant and ramp up to ~70% of nameplate capacity by the end of 2018, continuing the consistent performance in grade >95% fixed carbon and particle size distribution
- > Capitalise on the potential for price differentials, through the successful installation and commissioning of attrition cells to consistently produce graphite of up to 98% fixed carbon
- > Continue to evolve the diversified customer base for Balama natural graphite by geography and market segment as production increases and successful customer qualification is completed
- > Ensure Balama is operationally cash flow positive as early as possible in H2 2018
- > Select a BAM site, complete installation and commence production, targeting commercial production by the end of 2018
- > Capitalise on the Balama first mover advantage with a review of Balama expansion and optimisation opportunities.

The Board of Directors and Management Teams of Syrah Resources are incredibly focussed on delivery against our commitments in production, cost, cashflow and development. The team is dedicated to delivering strong shareholder returns over the long term. I would like to take this opportunity to thank our investors, stakeholders, local community, government and most importantly our employees for their support during 2017, and I look forward with great optimism to the Company's future development.

**Shaun Verner**  
*Managing Director and Chief Executive Officer*

# DIRECTORS' REPORT

## 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 Askew**

*Non-Executive Chairman (Executive Chairman from 5 October 2016 to 3 February 2017)*

**Shaun Verner**

*Managing Director and Chief Executive Officer (appointed 3 February 2017)*

**Sam Riggall**

*Non-Executive Director*

**José Manuel Caldeira**

*Non-Executive Director*

**Christina Lampe-Onnerud**

*Non-Executive Director*

**Stefano Giorgini**

*Non-Executive Director (appointed 16 October 2017)*

**Rhett Brans**

*Non-Executive Director (ceased 31 December 2017)*

## 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 in listed entities<sup>1</sup>:**

Chairman of OceanaGold Corporation, Non-Executive Director of Evolution Mining Limited, Non-Executive Director of Endeavour Mining Corporation

**Former directorships in last 3 years<sup>2</sup>:**

Chairman of Asia Minerals Resources Limited, Non-Executive Director of Nevada Copper Corporation

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

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	100,790
Options over ordinary shares	600,000

**Length of service:** 3 years and 5 months

**Shaun Verner**

*Managing Director and Chief Executive Officer (appointed 3 February 2017)*

**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, Mr Verner was at BHP Billiton Limited 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 in listed entities<sup>1</sup>:**

None

**Former directorships in last 3 years<sup>2</sup>:**

None

**Special responsibilities:** Managing Director and Chief Executive Officer

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	6,284
Options over ordinary shares	1,000,000
Performance Rights	121,773

**Length of service:** 1 year and 2 months



# DIRECTORS' REPORT (CONT')

## 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 in listed entities<sup>1</sup>:** Chief Executive Officer of CleanTeq Holdings Limited

**Former directorships in last 3 years<sup>2</sup>:**

None

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

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	9,627
Options over ordinary shares	400,000

**Length of service:** 3 years and 5 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 most prominent lawyers in Mozambique and is currently a senior partner at Sal & Caldeira Advogados, Lda in Mozambique, one of the leading law firms in Mozambique.

**Other current directorships in listed entities<sup>1</sup>:** None

**Former directorships in last 3 years<sup>2</sup>:** None

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

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	Nil
Options over ordinary shares	400,000

**Length of service:** 3 years and 7 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 in listed entities<sup>1</sup>:** None

**Former directorships in last 3 years<sup>2</sup>:**

None

**Special responsibilities:** Member of the Remuneration and Nomination Committee

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	Nil
Options over ordinary shares	400,000

**Length of service:** 1 year and 10 months

## Stefano Giorgini

*Non-Executive Director*

(appointed 16 October 2017)

**Experience and expertise:** Mr Giorgini is a finance executive with over 30 years experience in senior finance, risk and assurance, governance, business development and commercial roles in the international resource and metals manufacturing industries.

During his career with BHP Billiton Limited, responsibilities included Vice President Finance/ CFO for the Aluminium, Manganese and Nickel Business and Head of Group Risk Assessment & Assurance.

Mr Giorgini was formerly Chairman of BHP Marine & General Insurances Pty Ltd and has held executive director roles for numerous international resource ventures based in Australia, South America and Africa including Mozal Aluminium.

**Other current directorships in listed entities<sup>1</sup>:** None

**Former directorships in last 3 years<sup>2</sup>:**

None

**Special responsibilities:** Chairman of the Audit Committee, Member of the Sustainability and Risk Committee

**Interest in shares and options:**

SECURITIES	NUMBER
Ordinary shares	10,000
Options over ordinary shares	400,000

**Length of service:** 5 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) Information as at the date of cessation as a Non-Executive Director of the Company.

## INFORMATION ON FORMER DIRECTORS

### Rhett Brans

Non-Executive Director  
(ceased 31 December 2017) <sup>(3)</sup>

**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 in listed entities <sup>(1)</sup>

Non-Executive Director of Carnavale Resources Limited

#### Former directorships in last 3 years <sup>(2)</sup>:

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 Committee, Member of the Sustainability and Risk Committee

#### Interest in shares and options <sup>(3)</sup>

SECURITIES	NUMBER
Shareholdings	4,000
Options	400,000 <sup>(4)</sup>

**Length of service:** 4 years and 3 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) Information as at the date of cessation as a Non-Executive Director of the Company.

(4) These options were granted in 2014 and expired on 30 January 2018 as a result of his cessation as a Non-Executive Director.

## COMPANY SECRETARY

### Jennifer Currie

(appointed 16 October 2017)  
Chief Legal Officer and Company Secretary

**Experience and expertise:** Ms Currie is an experienced ASX listed General Counsel and Company Secretary, who has worked across a broad range of industries. Her previous role was General Counsel & Company Secretary for Capitol Health Limited. She has also held the role of General Counsel & Company Secretary for the Baker Heart & Diabetes Institute and PRB Foods Limited, and her other in-house legal experience includes Medibank Private Limited and Telstra Corporation Limited.

She is a Chartered Secretary and a Fellow of the Governance Institute and ICSA and holds a Bachelor of Commerce, a Master of Laws and a Graduate Diploma in Applied Corporate Governance.

## PRINCIPAL ACTIVITIES

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

- > Construction, commissioning and production ramp-up 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 as an input into the production of battery anode material and industrial products; and
- > Development and execution of a downstream, battery anode material strategy

## DIVIDENDS

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

## REVIEW OF OPERATIONS

### OPERATING AND FINANCIAL REVIEW

#### CONSOLIDATED RESULTS

All financial data presented in this report is quoted in United States Dollars (US\$) unless otherwise stated.

##### Statement of comprehensive income

The loss for the consolidated entity after income tax for the financial year ended 31 December 2017 was \$12.3 million (2016: \$14.5 million).

Revenue for the year ended 31 December 2017 comprised of interest income of \$1.3 million (2016: \$1.3 million) and was earned on cash reserves placed on term deposits during the period, following the successful capital raisings completed in June 2016 and September 2017.

Other income of \$2.6 million for the year (2016: \$0.1 million) primarily consisted of a non-recurring \$1.2 million profit on the sale of previously written-off mobile mining equipment, and net foreign exchange gains of \$1.5 million (2016: \$3.2 net exchange loss) on foreign currency denominated transactions and balances principally as a result of the strengthening of Mozambique meticals (MZN).

Total expense for the year were \$14.8 million (2016: \$15.8 million), and included the following:

- > Employee benefits expense of \$7.6 million (2016: \$7.3 million), of which \$2.0 million (2016: \$3.7 million), were 'non-cash' share-based payment costs associated with issuance of shares, options and performance rights to directors, executives and senior employees;
- > Legal and other consulting expense of \$3.7 million (2016: \$2.8 million) associated with documentation of key commercial agreements, consulting services in relation to consideration of financing options and development of corporate functions;
- > Depreciation and amortisation of corporate and administration assets of \$0.3 million (2016: \$0.3 million); and
- > Other expense of \$3.3 million (2016: \$2.3 million) comprising general corporate administration costs.

The overall increase in costs for the year ended 31 December 2017, compared to the comparative period, adjusted for the foreign exchange loss, is a result of the increase in general business activities as the consolidated entity completed the construction of the Balama Graphite Project in Mozambique and the continued development of organisational structures and capabilities towards the commencement of operations.

The consolidated entity's comprehensive income for the year ended 31 December 2017 included a non-cash gain of \$6.6 million (2016: \$3.9 million loss) on translation of foreign subsidiaries, specifically translation of the holding company's financial statements from Australian dollars (A\$) to United States dollars (USD) presentation currency, with the gain attributable to the strengthening of the A\$ during the period. The functional currency of Twigg Exploration and Mining Limitada changed from Mozambique meticals (MZN) to USD during the period on the basis that the USD is the currency that will predominantly influence the ongoing activities of the entity.

Total comprehensive loss attributable to shareholders of Syrah Resources Limited for the year was \$5.7 million (2016: \$18.4 million).

##### Statement of financial position

Total assets of the consolidated entity as at 31 December 2017 were \$418.5 million (2016: \$330.0 million), with the increase principally as a result of the successful completion of a fully underwritten \$86.6 million (A\$110 million) capital raising, by way of an Institutional Placement and an Entitlement Offer ('the capital raising') at A\$3.38 per share, completed during the year (refer ASX announcement dated 19 September 2017).

The consolidated entity's cash and cash equivalents as at 31 December 2017 were \$111.9 million (2016: \$163.3 million) and working capital, being current assets less current liabilities, was \$101.0 million (2016: \$152.4 million). The net reduction in cash and cash equivalents and working capital, is a result of the continuing investment in the development of the Balama Graphite Project and the Battery Anode Material (BAM) Project.

Development and construction of the Balama Graphite Project continued during the period, with first production of saleable flake graphite achieved in November 2017 and fines graphite in December 2017. Production ramp-up is currently underway. Mining assets increased to \$273.5 million as at 31 December 2017

(2016: \$155.3 million) with additional project costs of \$112.6 million capitalised during the year (including provision for rehabilitation), and the remainder of the increase due to foreign exchange differences upon translation. The capitalised project costs for the period represent construction and development costs, as well as capitalised pre-production operating costs incurred in the commissioning and production ramp-up phase of the project.

Property, plant and equipment as at 31 December 2017 was \$9.0 million (2016: \$1.7 million), with the majority of the balance being BAM project development costs (assets under construction). The balance at the end of the year included laboratory equipment (net book value of \$1.3 million) sourced through a finance lease arrangement with a service provider.

Non-current trade and other receivables increased during the year to \$19.6 million as at 31 December 2017 (2016: \$5.8 million) with the increase mainly driven by Value Added Tax (input tax) credits paid on Balama Graphite Project construction costs of \$16.3 million (2016: \$5.8 million). The Group views these input tax credits as ultimately recoverable and continues to work with relevant authorities in Mozambique to recover these amounts. The consolidated entity also placed a deposit of \$2.7 million as security for an environmental guarantee of a similar amount issued in favour of the Ministry of Mineral Resources and Energy in Mozambique.

The consolidated entity had total liabilities of \$25.8 million as at 31 December 2017 (2016: \$19.3 million), which included trade and other payables of \$13.9 million (2016: \$14.5 million); a provision for decommissioning and rehabilitation for the Balama Graphite Project of \$8.3 million (2016: \$4.5 million); and lease liability of \$1.3 million (2016: nil). The lease liability is secured against the leased assets.

Net assets of the consolidated entity increased during the financial period to \$392.6 million as at 31 December 2017 (2016: \$310.7 million) mainly as a result of the capital raising, net of the comprehensive loss for the period.

##### Statement of cash flows

###### Cash flow from operating activities

Net cash outflow from operating activities for the year ended 31 December 2017 was \$10.7 million (2016: \$7.1 million), and principally consisted of employee benefits expenses, legal and other consulting costs, and general corporate administration costs. Net cash flow

# DIRECTORS' REPORT (CONT')

from operating activities includes interest received during the year of \$1.2 million (2016: \$1.3 million).

## Cash flow from investing activities

Net cash outflow from investing activities was \$127.0 million for the year (2016: \$109.9 million) and principally consisted of development and construction works for the Balama Graphite Project, as well progression of the BAM project.

## Cash flow from financing activities

Net cash inflow from financing activities was \$85.1 million during the year ended 31 December 2017 (2016: \$140.5 million) and principally consisted of proceeds received from the successful capital raising completed during the year, net of transaction costs.

## SEGMENT REVIEW

### BALAMA GRAPHITE PROJECT (BALAMA)

#### Financial summary

The segment result for the year was a net gain before tax of \$0.9 million (2016: \$0.1 million) due to a net non-recurring gain on disposal of previously written-off mobile mining equipment and an exchange gain principally arising from exchange rate movements between US dollar (USD) and Mozambique metical (MZN) partly offset by administration expenses. The MZN strengthened against the USD during the year, resulting in an unrealised net foreign exchange gain of \$2.0 million (2016: 1.7 million loss), principally from MZN denominated VAT receivables.

Balama segment total assets were \$299.6 million as at 31 December 2017 (2016: \$164.1 million), principally comprised of mining assets of \$273.5 million (2016: \$154.4 million); and trade and other receivables of \$22.9 million (2016: \$9.0 million) consisting of prepayments, security deposits and input tax credits. The increase in mining assets during the period represents construction and development costs, as well as capitalised pre-production operating costs incurred in the commissioning and production ramp-up phase of the Balama project. An additional \$3.9 million of capital expenditure for Balama was committed to as at 31 December 2017 but not recognised on the balance sheet (2016: \$30.5 million).

The Balama capital costs budget (excluding prior exploration costs, provision for decommissioning and restoration and pre-production operating costs) increased to \$215 million during the year, with \$211.0 million committed by 31 December 2017. The remaining capital costs will be used to complete remaining works such as installation of attrition cells in 2018.

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

## Sustainability

### Health and Safety

Health and safety is the highest priority for the Company, in particular given the developing nature of the Company's local workforce. Syrah continued its strong health and safety performance at the Balama Graphite Project (Balama) with a Total Recordable Injury Frequency Rate (TRIFR) of 0.8 as at 31 December 2017, a significant improvement from 2.5 as at 31 December 2016.

In conjunction with the District Health Authorities, Syrah continued implementation of community health programs addressing high prevalence diseases during the year.

### Community Development

As at 31 December 2017, Syrah had 567 direct employees in Mozambique of which 90% are Mozambican nationals. The Company plans to further increase the local employment numbers during 2018 and estimates a steady state work force at full production of approximately 650 people.

During the year, Syrah, in conjunction with Mozambique's national training and development body, the National Institute of Employment & Professional Training & Labour Studies (IFPELAC), signed the Balama Training Centre Memorandum of Understanding. The aim is to train 500 members from the local host communities in basic artisan training, work readiness and health promotion over the next five years.

Remediation works on the Chipembe Dam operating infrastructure, providing major improvements to the local community including valve and road access repair were completed. This work will lead to a net water storage benefit for the Chipembe Dam of up to 50,000 cubic metres of water per day, even after the drawing of Syrah's annual allocation.

In support of the Provincial Government's agricultural plans for the Balama District, the

Company advanced its work on the extensive rehabilitation of irrigation infrastructure adjacent to the Chipembe Dam and completed the clearing of 4.5 kilometres of irrigation channels and the cultivation of approximately 600 hectares of land in preparation for crop planting.

The Company continued the ongoing provision of water to a number of local villages, and commenced the provision of power infrastructure to select host communities in conjunction with the national grid provider.

## Environment

In 2017, the Environmental Monitoring Program continued with over 200 environmental license conditions met with no significant incidents reported. Monitoring programs including measurement of surface and ground water quality, ambient noise, dust levels, geo-hydrology, background radiation and air quality continued as part of the Company's Environmental Monitoring Program.

As at 31 December 2017, the Company has placed in favour of the Ministry of Mineral Resources and Energy (MIREME) in Mozambique a bank guarantee totalling \$2.7 million in relation to the rehabilitation or removal of project infrastructure for the Balama Project as per the mining closure plan. The total amount of this bank guarantee will increase to \$6.2 million over time.

## Mining Agreement

Negotiations in relation to a Mining Agreement for the Balama Project were finalised during the year following its approval at the Council of Ministers weekly ordinary session meeting held on 29 August 2017 in Mozambique.

The Mining Agreement consolidates all prior project documents and approvals and provides the Company with clarity around the governing laws and contractualises the mining rights and other obligations for the Balama Project in Mozambique.

Subsequent to year end, the Company announced that the Mining Agreement was signed by the Minister of Mineral Resources and Energy, on behalf of Government of the Republic of Mozambique, and Syrah's wholly owned subsidiary, Twigg Exploration and Mining Limitada, on 6 March 2018.

In accordance with ordinary administrative procedures, the final step in the process is for the Mining Agreement to be presented to the Administrative Court in Mozambique for sanctioning after which it will be binding and enforceable.



# DIRECTORS' REPORT (CONT')

## Graphite Mineral Resources and Ore Reserves Estimate

A JORC Code (2012 edition) compliant Mineral Resource estimate using a 3% TGC cut-off has been determined by Snowden Mining Industry Consultants (Snowden) as shown in the following table as released by the Company on 29 May 2015.

**Table 1: Mineral Resource estimate at 3% TGC<sup>(1)</sup> cut-off grade**

CLASSIFICATION	TONNES (Mt)	TGC (%) <sup>(1)</sup>	CONTAINED GRAPHITE (Mt)
<b>Balama West</b>			
Measured	75.0	11.0	8.4
Indicated	110.0	8.1	9.1
Inferred	460.0	11.0	51.0
<b>Balama East</b>			
Indicated	76.0	14.0	11.0
Inferred	470.0	10.0	49.0
<b>Total</b>			
Measured	75.0	11.0	8.4
Indicated	186.0	11.0	20.1
Inferred	930.0	11.0	100.0

**Table 2: Ore Reserve estimate at 9% TGC<sup>(1)</sup> cut-off grade**

CLASSIFICATION	ORE (Mt)	TGC (%) <sup>(1)</sup>	CONTAINED GRAPHITE (Mt)
<b>Balama West</b>			
Proved	20.0	19.2	3.8
Probable	2.6	17.5	0.4
SUB TOTAL	22.5	19.0	4.3
<b>Balama East</b>			
Probable	58.8	15.1	8.9
SUB TOTAL	58.8	15.1	8.9
<b>TOTAL</b>			
Proved	20.0	19.2	3.8
Probable	61.4	15.2	9.3
	81.4	16.2	13.2

(1) TGC = Total graphitic carbon

## Competent Person's Statement

The information in this report as it relates to geology, QAQC and Mineral Resource estimation was compiled by Mr Mark Burnett, Pri. Sci. Nat., who is a Competent Person and a Principal Consultant at Snowden Mining Consultants Pty Ltd. Mr Burnett has more than 20 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 Burnett 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 Anthony Finch P Eng, MAusIMM (CP), RPEQ, a full time employee of Snowden Mining Industry Consultants Pty Ltd. Mr Finch 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 Finch consents to the inclusion of this information in the form and context in which it appears in this report.

# DIRECTORS' REPORT (CONT')

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) as released by the Company on 15 November 2016. 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 3), is displayed in Table 4.

**Table 3: Mualia, Balama West Mineral Resource estimate at 5% TGC<sup>(1)</sup> cut-off grade**

CLASSIFICATION	TONNES (Mt)	TGC (%) <sup>(1)</sup>	CONTAINED GRAPHITE (Mt)
Indicated	42.1	18.0	7.6
Inferred	87.5	17.1	14.9
TOTAL	129.6	17.4	22.5

**Table 4: Mualia, Balama West Ore Reserve estimate at 9% TGC<sup>(1)</sup> cut-off grade**

CLASSIFICATION	TONNES (Mt)	TGC (%) <sup>(1)</sup>	CONTAINED GRAPHITE (Mt)
Probable	33.1	17.5	5.4
TOTAL	33.1	17.5	5.4

(1) TGC = Total graphitic carbon

## Governance and Controls Statement

The Company engaged independent consultants to prepare the mineral resource and reserve estimates.

The consents by the Competent Persons remain in place for subsequent release by the Company of the same information in the same form and context, until the consent is withdrawn or replaced by a subsequent report and accompanying consent.

The Company has reviewed all material assumptions and technical parameters underpinning the estimates in the original ASX announcements and notes that during the 2017 year mining depletion was minimal, such that the material assumptions continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Persons' findings are presented have not been materially modified from the original ASX announcements.

## Mining

A 25 year Mining Concession (licence to mine) was granted in 2013 for the Balama Project, with a further extension of 25 years available.

During the year, the mining contractor achieved excellent operational performance with the completion of the initial mine development and pre-stripping activities. Stockpiling of mineralised ore onto the Run of Mine (ROM) stockpile commenced well in advance of the commencement of commissioning and production ramp-up activities.

By the end of the year, steady state ore mining was occurring and plant feed grades were averaging approximately 15% total graphitic carbon. A small section of hard rock cap will require drill and blast during the first half of 2018. Mining is expected to be free dig thereafter.

## Competent Person's Statement

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.

## Processing Plant

Significant progress on the process plant was achieved with construction and commissioning activities essentially complete by the end of the year. The Balama processing plant uses 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

Commissioning activities commenced in May 2017 as planned, however slower than planned completion of Structural, Mechanical and Piping (SMP), Electrical and Instrumentation (E&I) and minor fabrication delays combined with some design and installation issues requiring re-work caused delays to first production of coarse flake graphite from August 2017 to November

# DIRECTORS' REPORT (CONT')

2017. Despite these challenges, construction was essentially complete and the full ore circuit for coarse and fine flake was successfully commissioned by the end of the year.

First production of bagged saleable coarse flake product was achieved in November 2017 and fines flake in December 2017 with product grades in excess of 95% fixed carbon and particle size distribution within specification.

The construction and commissioning teams have been demobilised and handover of the site to the operations team occurred on 1 January 2018. The operations team is now focussed on optimising the process plant, including minor plant design enhancements to achieve planned recoveries and stabilise plant production.

The plant is operating according to a continuous 7 days a week, 24 hours per day roster, with planned maintenance and optimisation outage periods scheduled periodically.

Attrition cells have been added to the Balama process flow sheet to produce up to 98% fixed carbon. Higher selling prices can be achieved for higher graphite concentrate grades and will also reduce the downstream processing costs of spherical graphite production. The attrition cells are on site at Balama and civil works have been completed. Installation will commence in the first quarter 2018 and the cells become operational in second half 2018.

## Mine support infrastructure

All mining support infrastructure was completed in 2017, in advance of the commencement of commissioning and production ramp-up activities and include:

- > Power Station 15.4 MW
- > Fuel Storage Facility (700,000 litre capacity with a supply agreement with Total Mozambique)
- > Site Administration
- > Laboratory Services (five year contract with Bureau Veritas (Mozambique))
- > Reagents Store
- > Warehouse and Fixed Plant Workshop Buildings
- > Product Storage Building (capable of holding 10,000 tonnes of finished product)
- > Accommodation Village - 750 person capacity
- > Tailings Storage Facility - Cell 1A completed and Cell 1B well progressed and targeted for completion in Q2 2018
- > Process and Raw Water Ponds
- > Chipembe Dam pipeline and pump station

## Logistics - mine to port

During April 2017, the Company awarded the graphite distribution and logistics services supply contract for the Balama Project to Grindrod. Grindrod Limited, based in South Africa, is listed on the JSE Securities Exchange and has a long operational history in Mozambique in land transport coordination, agency services and port operations. The contract has an initial term of five years with the option for Syrah to extend for two further five-year periods.

The logistics and distribution contract is for the transportation of product from Balama to Nacala Port and includes long haul trucking, cross dock facility, short haul logistics, and customs clearing and forwarding.

## Sales and Marketing

Syrah's sales and marketing strategy is to be the baseload supply for major consumers, diversified across market segments and geography. Syrah will provide high quality, consistent, and reliable products, targeting the industrial and Battery Anode Material markets.

During 2017, the Company continued to develop its sales book in line with this strategy and the following sales agreements and updates were announced:

- > Binding sales agreement with Jixi BTR Graphite Industrial Co. Ltd., a wholly owned subsidiary of Shenzhen BTR New Energy Materials ("BTR"). Based in Shenzhen, China, BTR is the world's largest manufacturer and leader of technology development of battery anode materials for lithium-ion batteries. The agreement is for 30,000 tonnes of graphite from the Balama operation in the first year of production. Discussions with BTR continue and remain focussed on the development of arrangements in both sales from Balama and supply chain cooperation.
- > Binding sales agreement with Zhanjiang Juxin New Energy Materials Co. Ltd (Zhanjiang Juxin), based in Guangdong Province China. Zhanjiang Juxin specialises in the production of spherical graphite and anode material for lithium-ion batteries. The agreement is for 20,000 tonnes in 2018.
- > Signing of an initial three year agreement with Hiller Carbon, renewable annually thereafter. Located in North America, Hiller Carbon is a stocking processor of carbon for industrial and specialty applications engaged in value added carbon processing and supply chain management services.

The initial volume will be for a minimum of 10,000 tonnes in the first year and up to 50,000 tonnes in the following years. This agreement excludes the battery market.

- > Extension to the sales agreement term and increase in volume with Marubeni, a Japanese trading company. The contract increases the tenor from three to five years and increases the volume of Balama flake from 20,000 tonnes to 25,000 tonnes in each of the first two years and then 30,000 tonnes for years three to five.
- > Conclusion of the commercial terms of a five year Marketing and Distribution Agreement with a consortium of European graphite industry participants led by MINERALS GmbH, a member of the COFERMIN Group. The agreement includes the supply of graphite into Europe, for a minimum of 12,000 tonnes in the first year and up to 25,000 tonnes in the following years. The agreement relates to refractories, crucibles, ladles, lubricants and other industrial applications, but does not involve the battery or recarburiser markets.

Graphite sales commenced in early 2018 and a mix of sales and qualification product has been shipped to Europe, China, US, India and Brazil with ongoing regular shipments scheduled. The Company continues to focus on optimisation of its product placement strategy. As interaction with Syrah's global customer base evolves and product qualification and sales progress, price discovery will develop further.

Subsequent to year end, Syrah announced the following sales and marketing updates

- > Signing of a first spot sales agreement with Yichang Xincheng Graphite Co Ltd ("Yichang Xincheng"), a leading global producer of specialty expandable graphite, with the intention and understanding, that subject to a successful spot shipment, a long term contract will then be agreed.
- > Signing of a binding agreement with CS Additive GmbH & Co, a leading producer of specialty carbon products, for a minimum of 6,000 tonnes in 2018, with volume increasing over three years.
- > Confirmation of an agency appointment in India with Magus Marketing Pvt Ltd, where orders have already been received.
- > Syrah's decision to restrict activation of certain elements of Chalico offtake including the minimum tonnage supply requirement to allow flexibility to develop the sales book into the Chinese industrial market in a manner better aligned with the Company's strategic objectives.

# DIRECTORS' REPORT (CONT')

Negotiations for other sales contracts continue to progress positively and toll processing for spherical product opportunities continue to be explored.

## CORPORATE

### Financial summary

The corporate segment made a loss before income tax for the year ended 31 December 2017 of \$11.8 million (2016: \$14.6 million).

Total segment expenses for the year were \$12.6 million (2016: \$15.9 million) comprising employee benefits, legal and consulting costs, and general corporate administration costs. These costs include 'non-cash' costs of \$2.2 million (2016: \$3.9 million), mainly being share based payments and depreciation and amortisation of corporate assets.

Total segment assets, after consolidation adjustments, were \$118.9 million as at 31 December 2017 (2016: \$165.9 million), with the decrease mainly driven by the continued investment in the development and construction of the Balama Project, offset by the successful equity raising completed during the year.

The Corporate assets as at 31 December 2017 are principally made up of cash and cash equivalents ('cash reserves'). These cash reserves will be used to fund:

- > Balama working capital requirements during commissioning and production ramp up;
- > Progression of BAM project and downstream opportunities; and
- > General corporate and administrative cost requirements.

### Battery Anode Material (BAM)

#### Production facility

During the year, Syrah progressed detailed design, site selection, permitting, commercial supply negotiations for the BAM processing facility, and the procurement of long lead time equipment. Air and water permit applications were submitted to the Louisiana Department for Environmental Quality, who also review and monitor air and water discharges for compliance. Syrah's proposed facility will comply with all relevant environmental regulations. A preferred site had been selected at Port Manchac in South Tangipahoa Parish, Louisiana, and commercial site negotiations were largely complete. In January 2018, the Company announced the rejection of the intended development of the

Port Manchac site by the South Tangipahoa Parish Port Commission, who concluded that the site was not an appropriate location for further manufacturing facilities.

The Company is considering alternative sites in industrial manufacturing zones, with ready access to the necessary supply chain and logistics infrastructure as well as space for future BAM production capacity expansion for the integrated milling and purification operation. Commercial discussions for these alternative sites continue to advance and Syrah is proactively engaging with the Parish leadership and other local community stakeholders at each of the candidate sites.

### Research & Development

In July 2017, Syrah announced it had entered into an exclusive research and development agreement with Cadenza Innovation Inc. (Cadenza) to fuel advancements in graphite anode technology for use in lithium-ion-based energy storage. Cadenza is based in the United States and is a pioneering provider of energy storage solutions for license to lithium-ion battery pack manufacturers.

Testing and benchmarking of the electrochemical properties of battery anode materials using Balama material with focus on key variables of physical and chemical properties, composition, structure and performance has been completed. The benchmarking study will form the base for Syrah's BAM product roadmap evolution and the next phase of the development plan. The Syrah-Cadenza team continued to advance the qualification of potential technology providers to accelerate the introduction of high performance BAM products to the marketplace.

### Balama Vanadium Project

In addition to Balama's substantial graphite Ore Reserves, the deposit also hosts a significant Vanadium Inferred Resource of 1.15Bt at 0.23% V<sub>2</sub>O<sub>5</sub> (JORC code (2012)) (refer to ASX announcement titled "Maiden Balama Easter Resource" released on 27 May 2013). The company completed a Scoping Study on the Balama Vanadium Project which demonstrated the viability of the project (refer to ASX announcement titled "Vanadium Scoping Study Finalised" released on 30 June 2014).

Technical and processing requirements of Vanadium are more complex than graphite and the Company will revisit the scoping study as part of the Balama expansion and optimisation review in 2018.

## FUTURE OUTLOOK

The likely developments in Group operations for future financial years include:

- > Production ramp-up and optimisation of the Balama Project, targeting:
    - > Graphite concentrate production for 2018 of 160,000 to 180,000 tonnes<sup>1</sup> with production ramp-up skewed towards the second half of the year;
    - > Cash operating costs (FOB Port of Nacala) of less than US\$400 per tonne by the end of 2018; and
    - > Production in 2019 of between 250,000 to 300,000 tonnes<sup>1</sup> subject to global market demand;
  - > Installation of attrition cells at Balama to produce higher graphite concentrate grades of up to 98% fixed carbon
  - > Further sales contracts and supply arrangements with targeted customers and end-users of natural flake and spherical graphite products.
  - > Progression of the BAM strategy including ongoing research and development activities with Cadenza Innovation Inc. and construction of the first phase plant in Louisiana, USA.
  - > Completion of a Balama expansion and optimisation review in 2018.
- (1) Refer to ASX announcements titled "Syrah finalises Balama Graphite study and declares maiden ore reserve" released on 29 May 2015, "Syrah increases Balama Reserves and awards Laboratory Contract" released on 15 November 2016. All material assumptions underpinning the production target in these announcements continue to apply and have not materially changed.

## MATERIAL BUSINESS RISKS

The Group continues to assess and manage various business risks with the potential to have a material impact on the Group's operating and financial performance and its ability to successfully deliver corporate objectives. Set out below are the business risks that the Group has identified as having the potential to have a material impact on the Group.

The matters listed below are not listed in order of importance and are not intended to be an exhaustive list of all the risks and uncertainties affecting the business.



## 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.

At present, there is no transparent market for graphite and prices are negotiated based on a variety of factors including those set out above as well as the preferences and requirements of customers. Failure to negotiate favorable pricing terms (which may provide for fixed or floating market-based pricing) may materially affect financial performance and/or cash flows as well as the Group's ability to finance future activities or planned capital expenditure commitments.

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 and possibly impact or limit the Company's ability to fund planned activities in desired timeframes, including battery anode material opportunities. The effect of changes in assumptions about future prices may include, amongst other things, changes to Mineral Resources and Ore Reserves estimates and the assessment of the recoverable amount of Syrah's assets.

## 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. This in turn could impact the life of mine plan and therefore the value attributable to mineral inventory and/or the assessment of recoverable amount of Syrah's assets and/or depreciation expense.

## COMMISSIONING AND OPERATIONAL RISK

Construction of the Balama Project is essentially complete and commissioning and production ramp-up activities are progressing. The commissioning and production ramp-up of any resources project comes with inherent risks in relation to ore grades, the performance of the processing plant and associated infrastructure, the processing and separation of heavy mineral concentrate and other production related activities (including failures or deficiencies in processes, systems, plant and equipment). There is no guarantee that anticipated or forecast timeframes or the anticipated production profile of the Balama Project will be met. This may result in a requirement for additional funding, and could impact future operating performance and the assessment of the recoverable amount of Syrah's assets.

Syrah's mining and production operations are 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 and information technology systems, 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 qualification and specification requirements.

The Balama Project is in a relatively remote location. Logistics activities to transport product from mine to 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.

Operating costs are subject to variations for a variety of reasons including changing waste-to-ore ratios, ore grade metallurgy, plant recoveries, labour costs, cost of key consumables and the level of sustaining capital invested to maintain operations.

Higher than expected inflation rates generally, or specific to the mining industry, could increase operating cost and capital expenditure commitments and potentially reduce the value of future project developments. While, in some cases, such cost increases might be offset by increased selling prices, there is no assurance that this would be possible. To the extent that such offset is not possible, this could adversely impact Syrah's financial performance.

Any inability to resolve any unexpected problems relating to these operational risks or adjust costs profiles on commercial terms could adversely impact continuing operations, Mineral Resources and Ore Reserves estimates and the assessment of the recoverable amount of Syrah's assets.

## COUNTERPARTY RISK

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

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, and could adversely impact continuing operations, Mineral Resources and Ore Reserves estimates and the assessment of the recoverable amount of Syrah's assets.

Syrah is also in discussion with a number of parties in relation to sales agreements for product from Balama. While the discussions are well progressed and continuing, there is no guarantee that they will result in the execution of formal sales agreements.

## DIRECTORS' REPORT (CONT')

In addition, the sale of graphite by Syrah is in some cases subject to commercial verification and qualification processes to ensure any produced graphite (including BAM graphite products) meets the specifications for industrial supply required by customers (including in both the industrial and battery markets) under off-take and sales agreements. The qualification process may require approval from multiple parties in the supply chain and not just those parties with whom Syrah has contractual arrangements. Failure to have Syrah's graphite qualified, or any unanticipated delay in qualifying Syrah's graphite, may adversely impact Syrah's financial performance and position.

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, supply of diesel and other input materials, electricity generation, contract mining, product handling and logistics and insurance arrangements); and for the identification and development of downstream opportunities, including the Battery Anode Material project. Failure to enter into such agreements on acceptable terms, or at all, or under-performance of these counterparties may have a negative impact on the activities of the group, and in turn on the financial performance of Syrah.

### HEALTH, SAFETY, ENVIRONMENT AND COMMUNITY

Mining, construction, production and logistics are potentially hazardous activities. There are numerous occupational health risks associated with mining and production operations. 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 mining, production and/or logistics activities. In addition, given the location of the Balama Project means our employees could be affected by mosquito borne diseases such as malaria which could adversely impact operations.

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 include the occurrence of incidents such as uncontrolled tailings containment breaches, subsidence from mining activities, escape of polluting substances

and uncontrolled releases of hydrocarbons that may lead to material adverse impacts on our people, host communities, assets and/or our licence to operate. Environmental risks need to be managed in such a manner that meets all regulatory and licence requirements which requires ongoing expenditures. 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 and submission of original environmental permit activity. Syrah monitors its environmental regulatory obligations on an ongoing basis and conducts an independent external audit of compliance against environmental license conditions on an annual basis.

Syrah is also required to close its operations and rehabilitate the lands that it disturbs in accordance with environmental license conditions and applicable laws and regulations. A closure plan and estimate of closure and rehabilitation liabilities has been prepared for the Balama Project. These estimates of closure and rehabilitation liabilities are based on current knowledge and assumptions however actual costs at the time of closure and rehabilitation may vary. In accordance with license conditions Syrah is also progressively placing a guarantee in favour of the Ministry of Mineral Resources and Energy in Mozambique a bank guarantee in relation to the rehabilitation or removal of project infrastructure as per the mine closure plan for the Balama Project.

The impacts of climate change may affect our operations and the markets in which we sell our products through regulatory changes, technological advances and other market/economic responses. The use of fossil fuels for energy is a significant source of greenhouse gases contributing to climate change; resulting in increasing support for alternative energy and making fossil fuels susceptible to changes in regulations, and potentially usage taxes. While the growth of alternative energy supply and storage options presents an opportunity for Syrah's battery anode material strategy and products; the effects of climate change on our assets may also include changes in rainfall patterns, water shortages and the ultimate cost of fossil fuels used in our operations for transport and power generation.

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. In response to such risks, Syrah has signed a Community Development Agreement with local key stakeholders to establish ongoing engagement and management programs. 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 investment interests (including Australia, the United States of America and the United Arab Emirates). 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, bribery and corruption, reduced convertibility of the local currency and sovereign loan default or other changes impacting on the country's financial system.

These risks and uncertainties have the potential to have an adverse effect on the operations, profitability or value 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

## DIRECTORS' REPORT (CONT')

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.

Syrah's business activities are also subject to obtaining, and maintaining the necessary titles, authorisations, permits and licenses and associated land access agreements with the local community and various levels of Government which authorise those activities under relevant laws and regulations. There can be no guarantee that Syrah will be able to successfully obtain, maintain or renew relevant authorisations in a timely manner or on acceptable terms to support its ongoing activities. An inability to obtain and maintain the necessary titles, authorisations, permits and licenses 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.

To manage the impact of regulatory risk Syrah, through its wholly owned subsidiary, has entered into an agreement ('Mining Agreement') with the Mozambique Government, which will become binding and enforceable after sanctioning by the Administrative Court. The Mining Agreement consolidates all prior project documents and approvals. It also provides the Company with clarity around the governing laws and contractualises the mining rights and other obligations for the Balama Project in Mozambique. The key commercial terms of the Mining Agreement include:

- The Mining Agreement covers the mining of both graphite and vanadium and will be valid until 2038.
- The mining rights for the Balama Project will be grandfathered under the provisions of the Mining and Taxation Laws in force in 2013 when the Mining Concession was issued
- Fiscal Regime
  - > 3% production tax (i.e. sales royalty) payable quarterly based on the value of sales product (FOB Mozambique price less any impurity discount and transport and handling charges from the mine to the port of export)
  - > 32% corporate tax rate, assessed annually with three advance payments on account (based on 80% of the prior year corporate income tax liability) due in May, July and September of the respective tax year

- Application of the Mega Projects Law (Law No. 15/2012 of 10 August)
  - > 5% non-diluting free carried interest in Twigg Exploration and Mining Limitada (Twigg) to be made available to a Mozambique Government entity
  - > One off obligation to offer at market value up to 10% of the equity interest of Twigg to investors on the Mozambique stock exchange within 5 years from the commencement of commercial production
  - > Sharing of extraordinary direct benefits where the Balama Project generates annually, for three consecutive years, after-tax free cash flows exceeding 2.54 times the cumulative historic capital employed on the Balama Project with half of any benefit above the baseline return shared with the Mozambique Government and the other half retained by the Company for investment in Mozambique

### DOWNSTREAM (BATTERY ANODE MATERIAL) STRATEGY

Relative to the Balama Operation, Syrah's BAM strategy is at an earlier stage. Accordingly, it is subject to a range of risks and variables which may impact upon Syrah's ability to execute that strategy. These risks and variables include securing a site for the BAM plant, obtaining all necessary permits, authorisations and approvals, design and construction risks, commissioning and operational risks including failure to meet prospective customers' product qualification and specification requirements with the timeframes planned. If any of these risks or variables were to materialise, or if there is lower than expected demand for Syrah's BAM product, then Syrah's BAM related activities may take longer or cost more than anticipated and/or not generate the expected levels of revenue or profit.

### LIQUIDITY AND CAPITAL MANAGEMENT

The Group has commenced production of saleable graphite products from the Balama Project but is not yet cash flow positive, therefore the Company may require additional financing, in addition to the current cash reserves to meet its working capital requirements, general and administrative expenditure and studies relating to the battery anode material project.

The Directors of Syrah believe that the Company would have a number of alternatives to raise additional funding, if required, which may include both debt and equity sources of funding. There can however be no guarantee that, if required, Syrah will be able to raise sufficient funding on acceptable terms or at all. An inability to generate positive cash flows from operations or to obtain additional finance on acceptable terms or at all may have a significant impact on operations at the Balama Project, and/or the pursuit of future potential projects, including the battery anode material project, and Syrah's financial condition and ability to continue operating may be adversely affected.

## RISK MANAGEMENT

The Company has developed and implemented a Risk Management Framework, endorsed by the Board of Directors 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; and
- > 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 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.

## DIRECTORS' REPORT (CONT')

Other key management mechanisms for the Company include:

- > Health, safety and environmental management systems across the organisation;
- > Crisis and Emergency management and business continuity systems;
- > Anti-Bribery & Corruption Policy and processes and other processes to support business integrity and compliance;
- > Appropriate insurance programs to provide efficient and effective levels of risk transfer;

## 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 2017 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 2017, and the number of meetings attended by each Director was:

DIRECTOR	BOARD MEETINGS		AUDIT 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	2	2
S Verner	6	6	-	-	-	-	-	-
S Riggall	5	6	3	3	-	-	2	2
J Caldeira	5	6	-	-	-	-	-	-
C Lampe-Onnerud	6	6	-	-	2	2	2	2
S Giorgini <sup>(1)</sup>	1	1	-	-	-	-	-	-
R Brans	6	6	3	3	2	2	2	2

(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 2017.

(1) S Giorgini was appointed as a Non-Executive Director of the Company on 16 October 2017.

## 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:

DIRECTOR	FULLY PAID ORDINARY SHARES	UNLISTED SHARE OPTIONS	PERFORMANCE RIGHTS
J Askew	100,790	600,000 <sup>(1)</sup>	-
S Verner	6,284	1,000,000 <sup>(2)</sup>	121,733 <sup>(7)</sup>
S Riggall	9,627	400,000 <sup>(3)</sup>	-
J Caldeira	-	400,000 <sup>(4)</sup>	-
C Lampe-Onnerud	-	400,000 <sup>(5)</sup>	-
S Giorgini	10,000	400,000 <sup>(6)</sup>	-

(1) 600,000 unlisted options exercisable at \$4.68 and expiring 1 December 2018.

(2) 1,000,000 unlisted options exercisable at A\$4.30 expiring in 26 May 2020.

(3) 400,000 unlisted options exercisable at A\$4.68 and expiring 1 December 2018.

(4) 400,000 unlisted options exercisable at A\$6.23 and expiring 2 October 2019.

(5) 400,000 unlisted options exercisable at A\$5.04 and expiring 24 May 2019.

(6) 400,000 unlisted options exercisable at A\$3.85 and expiring 20 October 2020.

(7) 121,733 performance rights for the period from 1 January 2017 to 31 December 2019, as approved by shareholders on 19 May 2017.



## 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 2017.

The remuneration report is structured as follows:

- (A) Remuneration Governance
- (B) Director and Key Management Personnel Details
- (C) Key Remuneration Outcomes and Updates
- (D) Remuneration Strategy and Philosophy
- (E) Remuneration Components
- (F) Details of Remuneration Expenses
- (G) Executive Service Agreements
- (H) Terms and Conditions of Share-Based Payment Arrangements
- (I) Director and Key Management Personnel Equity Holdings
- (J) Other transactions with directors and key management personnel
- (K) Additional information

## (A) REMUNERATION GOVERNANCE

### REMUNERATION AND NOMINATION COMMITTEE

The Board has established a Remuneration and Nomination Committee consisting solely of Non-Executive Directors (with a majority being independent 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;
- > monitoring 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

During the year ended 31 December 2017 the Remuneration and Nomination Committee comprised of Rhett Brans (Committee Chair), James Askew, Sam Riggall and Christina Lampe-Onnerud. Effective from 1 January 2018 the Remuneration and Nomination Committee is comprised of Sam Riggall (Committee Chair); James Askew 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 2017 and up to the date of this report, unless otherwise stated:

EXECUTIVE AND NON-EXECUTIVE DIRECTORS	
NAME	POSITION
James Askew	Non-Executive Chairman <sup>(1)</sup>
Shaun Verner	Managing Director (appointed 3 February 2017)
Sam Riggall	Non-Executive Director <sup>(2)</sup>
José Caldeira	Non-Executive Director
Christina Lampe-Onnerud	Non-Executive Director
Stefano Georgini	Non-Executive Director (appointed 16 October 2017)
Rhett Brans	Non-Executive Director (ceased 31 December 2017)

(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 Resources Limited during the year ended 31 December 2017 and up to the date of this report, unless otherwise stated:

KEY MANAGEMENT PERSONNEL	
NAME	POSITION
Shaun Verner	Managing Director and Chief Executive Officer (appointed 3 February 2017) <sup>(1)</sup>
David Corr	Chief Financial Officer
Robert Schaefer	Chief Commercial Officer (commenced 1 March 2017)
Jennifer Currie	Chief Legal Officer and Company Secretary (commenced 2 October 2017)
Jordan Morrissey	Chief People Officer
Darrin Strange	Chief Operating Officer (ceased 30 November 2017)

(1) Prior to his appointment as Managing Director and Chief Executive Officer, S Verner was Executive General Manager – Sales and Marketing.

## (C) KEY REMUNERATION OUTCOMES AND UPDATES

### (i) What has changed in relation to remuneration during the year ended 31 December 2017

<b>Non-Executive Director Remuneration</b>	<ul style="list-style-type: none"> <li>Non-Executive Directors received no fee increases during the year ended 31 December 2017</li> </ul>
<b>Executive Remuneration</b>	<ul style="list-style-type: none"> <li>S Verner received an increase in Total Fixed Remuneration (TFR) following his appointment as Managing Director and Chief Executive Officer on 3 February 2017</li> <li>J Morrissey received an increase in TFR following his appointment as Chief People Officer effective from 1 January 2017</li> <li>The 'at risk' variable remuneration components (STI and LTI) were increased to 75% of TFR for the Managing Director and to 50% of TFR for Other Executives effective from 1 January 2017</li> </ul>
<b>STI Outcomes</b>	<ul style="list-style-type: none"> <li>The average STI outcome for the Managing Director and Key Management Personnel was 81% of the maximum opportunity for the year ended 31 December 2017 based on the assessment of corporate and personal performance metrics.</li> </ul>
<b>LTI Outcomes</b>	<ul style="list-style-type: none"> <li>7% of the Performance Rights awarded during the 2015 financial year and tested as at 31 December 2017 vested. This reflects the TSR performance of the Company during the three years to 31 December 2017 relative to the average TSR performance of the comparator group.</li> </ul>

### (ii) What changes are planned or approved for remuneration for the year commencing 1 January 2018

<b>LTI Performance Hurdles</b>	<ul style="list-style-type: none"> <li>The Board of Directors has resolved to adopt performance hurdles for the LTI plan based on 2 measures:                             <ul style="list-style-type: none"> <li>(a) 50% will be based on the TSR performance of the Company over the relevant vesting period relative to companies in the S&amp;P/ASX300 Index (^XKO) as at 1 January 2018, classified under the "Metals &amp; Mining" industry under the GICS classification system; and</li> <li>(b) 50% will be based on the absolute shareholder return performance of the Company over the relevant vesting period against threshold and maximum targets as set by the Board. For the year commencing 1 January 2018, the Board of Directors has determined threshold TSR performance to be 8.6% compound annualised growth rate (CAGR) and maximum TSR performance to be 18.8% CAGR</li> </ul> </li> </ul>
<b>Discretionary Grant</b>	<ul style="list-style-type: none"> <li>A discretionary grant of Performance Rights was issued to D Corr in March 2018 in lieu of options that were awarded to him in 2015 and which were unable to be exercised.</li> </ul>

## (D) REMUNERATION STRATEGY AND PHILOSOPHY

### NON-EXECUTIVE DIRECTOR REMUNERATION

The Board policy is to remunerate Non-Executive Directors at market rates commensurate with time, commitment and responsibilities. The level and structure of the fees paid to Non-Executive Directors is based upon the need to attract and retain Non-Executive Directors of suitable calibre, the demands of the role and prevailing market conditions. The Board determines payments to Non-Executive Directors taking into account comparable roles, comparative market data and if required the advice of independent remuneration consultants. There was no change to Non-Executive Director remuneration during the year ended 31 December 2017. Non-Executive Director remuneration was reviewed in Q1 2018 and no changes were made.

### 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:

- > attract and retain talented and high performing Executives;
- > provide appropriate levels of 'at risk' pay to encourage, recognise and reward high performance;
- > 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 benchmark the remuneration of Directors and Key Management Personnel, and to assist the Company in ensuring that its remuneration arrangements remain competitive. During the year ended 31 December 2017 the Company did not engage remuneration consultants (2016: \$23,820 for consultancy assistance provided by independent remuneration consultants, Mercer Australia). The Company did engage a specialist remuneration consultant during Q1 2018 for remuneration benchmarking purposes however this was not a remuneration recommendation for the purposes of the *Corporations Act*.

## (E) REMUNERATION COMPONENTS

### NON-EXECUTIVE DIRECTOR FEES

The fee structure for Non-Executive directors 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. There was no change to the fee pool during the year ended 31 December 2017 and the maximum currently stands at A\$1,000,000 per annum which 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 on its sub committees were as follows:

		2017		2016	
		ANNUAL FEES	ANNUAL FEES	ANNUAL FEES	ANNUAL FEES
		A\$	US\$ <sup>(1)</sup>	A\$	US\$ <sup>(1)</sup>
<b>Board Fees</b>	Chairperson	160,000	122,816	160,000	119,088
	Member	95,000	72,922	95,000	70,709
<b>Sub Committees</b>					
Audit Committee	Chairperson	20,000	15,352	20,000	14,886
	Members	10,000	7,676	10,000	7,443
Sustainability and Risk Committee	Chairperson	15,000	11,514	15,000	11,165
	Members	10,000	7,676	10,000	7,443
Remuneration and Nomination Committee	Chairperson	15,000	11,514	15,000	11,165
	Members	10,000	7,676	10,000	7,443

(1) Annual fees for Non-Executive Directors have been translated from Australian dollars to US dollars at the average exchange rate for the year ended 31 December 2017 of 0.7676 (2016:0.7443).

## (E) REMUNERATION COMPONENTS (CONT')

In addition to the above fees, Non-Executive Directors are entitled receive a travel stipend of \$3,838 (A\$5,000) for each international trip where the travel time is in excess of eight hours each way (2016: \$3,722 (A\$5,000)).

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 are not included in the calculation of Non-Executive Directors fees for the purposes of determining the aggregate Directors' fee pool amount.

## 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.

The Board approved a change to the remuneration structure for Executives for the year ended 31 December 2017 that shifted the remuneration mix to a larger variable component. The STI and LTI target levels for the Managing Director shifted from 35% to 75% of TFR and Other Executives shifted from 35% to 50% of TFR.

These components for the year ended 31 December 2017 are as summarised below:

ELEMENT	DELIVERY	PURPOSE	PERFORMANCE METRICS	POTENTIAL VALUE
<b>Total Fixed Remuneration (TFR)</b>	100% Cash	To attract high calibre executives by offering competitive market salary including superannuation and non-monetary benefits	Nil	Positioned between the 25th and 50th percentile of a comparative group of companies
<b>Short Term Incentive (STI)</b>	50% Cash	Reward for annual performance	Combination of corporate and personal performance measures weighted 50:50	<b>Managing Director</b> 75% of TFR
	50% Shares	50% awarded in shares to encourage executives to hold shares in the Company		<b>Other executives</b> 50% of TFR
<b>Long Term Incentive (LTI)</b>	100% Performance Rights or other equity instruments	Alignment to long-term shareholder value.	3 year TSR performance relative to a comparative group of companies	<b>Managing Director</b> 75% of TFR
		Award given in shares to encourage executives to hold shares in the Company		<b>Other executives</b> 50% of TFR



## DIRECTORS' REPORT (CONT')

### (E) REMUNERATION COMPONENTS (CONT')

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

NAME	TOTAL FIXED REMUNERATION		AT RISK REMUNERATION			
			STI		LTI	
	DEC-2017	DEC-2016	DEC-2017	DEC-2016	DEC-2017	DEC-2016
<b>Executive Directors</b>						
S Verner <sup>(1)</sup>	40%	100%	30%	-	30%	-
T Kumova <sup>(2)</sup>	-	56%	-	19%	-	25%
<b>Key Management Personnel</b>						
D Corr	50%	56%	25%	19%	25%	25%
R Schaefer <sup>(3)</sup>	50%	-	25%	-	25%	-
J Currie <sup>(4)</sup>	50%	-	25%	-	25%	-
J Morrissey	50%	77%	25%	8%	25%	15%
D Strange <sup>(5)</sup>	58%	61%	21%	19%	21%	25%

(1) S Verner was appointed Managing Director and Chief Executive Office of the Company on 3 February 2017. He was previously Executive General Manager – Sales and Marketing and was not eligible to participate in the STI and LTI plans for the year ended 31 December 2016.

(2) T Kumova resigned as Managing Director of the Company on 5 October 2016. T Kumova retains a pro-rata entitlement to performance rights (subject to the same vesting period and TSR performance hurdle) based on the proportion of the vesting period that he was an employee and/or consultant to the Company.

(3) R Schaefer commenced employment with the Company as Chief Commercial Officer on 1 March 2017 and was eligible to participate in the STI and LTI plans on a pro-rata basis for the year ended 31 December 2017.

(4) J Currie commenced employment with the Company on 2 October 2017 as Chief Legal Officer and Company Secretary (with appointment as Company Secretary on 16 October 2017) and was eligible to participate in the STI and LTI plans on a 50% pro-rata basis for the year ended 31 December 2017.

(5) D Strange ceased employment with the Company on 30 November 2017 and remained eligible to participate in the STI plan on a pro-rata basis for the year ended 31 December 2017 and forfeited his LTI entitlement to unvested performance rights.

### 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 between the 25th and 50th percentile of a comparative group of companies.

Total Fixed Remuneration for Key Management Personnel for financial year ended 31 December 2017 is set out in section (f).

## (E) REMUNERATION COMPONENTS (CONT')

### '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.

#### i. Short Term Incentive Plan – 31 December 2017

FEATURE	DESCRIPTION																														
Maximum Opportunity	<p>Managing Director – 75% of Total Fixed Remuneration (TFR) for target performance</p> <p>Other Executives – 50% of Total Fixed Remuneration (TFR) for target performance.</p> <p>The Board of Directors reserves the discretion to reward exceptional achievement for stretch performance on any particular performance measure.</p>																														
Group Performance Metrics & Award Outcome	<p>The STI metrics are made up of a combination of corporate (50%) and personal performance measures (50%).</p> <p>The table below summarises the corporate performance metrics and target weighting for the year ended 31 December 2017:</p> <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 annual strategic priorities and risk management accountabilities for the Group</td></tr><tr><td>Health, Safety &amp; Environment (HSE)</td><td>15%</td><td>Promoting a strong culture of safe practices in all activities</td></tr><tr><td>Budget &amp; Capital Management</td><td>10%</td><td>Discipline in managing Group budgets and liquidity</td></tr><tr><td>Schedule</td><td>10%</td><td>Delivery of the Balama Project according to the project schedule</td></tr><tr><td>Markets &amp; Growth</td><td>10%</td><td>Delivery of market growth and strategic projects</td></tr><tr><td>Sustainability &amp; Social Performance</td><td>5%</td><td>Focus on social licence to operate in all jurisdictions where the Group operates</td></tr><tr><td>Total corporate performance measures</td><td>50%</td><td></td></tr><tr><td>Personal performance metrics</td><td>50%</td><td>Targeted metrics relevant to individual roles</td></tr><tr><td>Total</td><td>100%</td><td></td></tr></table> <p>The Board assessed an overall attainment of 39% out of 50% for the corporate performance metrics for the year ended 31 December 2017, noting in particular: continued development and high performance in safety management, with a TRIFR of 0.8; increased community development program performance; the delayed delivery of the Balama Project in 2017 with a final budget of US\$215M; progression of sales, marketing and logistics contract execution; maintenance of the group’s balance sheet strength; and the progression of the battery anode material strategy including product testing and benchmarking, and development of the potential product roadmap.</p> <p>During the year the Company has continued with the development of the Balama Project and consequently the Company’s earnings have not been relevant to the assessment of STI performance, although budget and capital management have been key factors, as have the other factors outlined above which contribute to the Company’s share price performance and therefore shareholder value.</p>	METRIC	WEIGHTING	REASON FOR SELECTION	Corporate performance measures:		Corporate measures are aligned with the annual strategic priorities and risk management accountabilities for the Group	Health, Safety & Environment (HSE)	15%	Promoting a strong culture of safe practices in all activities	Budget & Capital Management	10%	Discipline in managing Group budgets and liquidity	Schedule	10%	Delivery of the Balama Project according to the project schedule	Markets & Growth	10%	Delivery of market growth and strategic projects	Sustainability & Social Performance	5%	Focus on social licence to operate in all jurisdictions where the Group operates	Total corporate performance measures	50%		Personal performance metrics	50%	Targeted metrics relevant to individual roles	Total	100%	
METRIC	WEIGHTING	REASON FOR SELECTION																													
Corporate performance measures:		Corporate measures are aligned with the annual strategic priorities and risk management accountabilities for the Group																													
Health, Safety & Environment (HSE)	15%	Promoting a strong culture of safe practices in all activities																													
Budget & Capital Management	10%	Discipline in managing Group budgets and liquidity																													
Schedule	10%	Delivery of the Balama Project according to the project schedule																													
Markets & Growth	10%	Delivery of market growth and strategic projects																													
Sustainability & Social Performance	5%	Focus on social licence to operate in all jurisdictions where the Group operates																													
Total corporate performance measures	50%																														
Personal performance metrics	50%	Targeted metrics relevant to individual roles																													
Total	100%																														
Determination of Outcomes	The STI outcomes were determined by the Remuneration and Nomination Committee, with oversight from the Board of Directors.																														
Delivery of STI	<p>50% of the STI award was paid in cash</p> <p>50% of the STI award was paid in shares</p>																														

## DIRECTORS' REPORT (CONT')

### (E) REMUNERATION COMPONENTS (CONT')

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 2017

NAME	MAXIMUM OPPORTUNITY		AMOUNT GRANTED	AMOUNT FORFEITED
	% OF TFR	AMOUNT'S <sup>(1)</sup>	%	%
<b>Executive Director</b>				
S Verner	75%	283,676	77%	23%
<b>Key Management Personnel</b>				
D Corr	50%	136,249	94%	6%
R Schaefer <sup>(2)</sup>	50%	105,065	89%	11%
J Currie <sup>(3)</sup>	50%	63,039	77%	23%
J Morrissey	50%	115,572	94%	6%
D Strange <sup>(4)</sup>	50%	142,486	64%	36%

(1) Amounts translated from Australian dollars to US dollars using an average exchange rate for the year ended 31 December 2017 of 0.7676.

(2) R Schaefer commenced employment with the Company as Chief Commercial Officer on 1 March 2017 and was eligible to participate in the STI plan on a pro-rata basis for the year ended 31 December 2017.

(3) J Currie commenced employment with the Company on 2 October 2017 as Chief Legal Officer and Company Secretary (with appointment as Company Secretary on 16 October 2017) and was eligible to participate in the STI plan on a 50% pro-rata basis for the year ended 31 December 2017.

(4) D Strange ceased employment with the Company on 30 November 2017 and remained eligible to participate in the STI plan on a pro-rata basis for the year ended 31 December 2017.

#### ii. Short Term Incentive Plan – 31 December 2018

FEATURE	DESCRIPTION																														
Maximum Opportunity	Managing Director – 75% of Total Fixed Remuneration (TFR) for target performance Other Executives – 50% of Total Fixed Remuneration (TFR) for target performance,  The Board of Directors reserves the discretion to reward exceptional achievement for stretch performance on any particular performance measure.																														
Group Performance Metrics & Award Outcome	<div>The STI metrics will be made up of a combination of corporate (50%) and personal performance measures (50%). The table below summarises the corporate performance metrics for the year ended 31 December 2018:</div> <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>Health, Safety, Compliance &amp; Governance</td><td>10%</td><td>Promoting a strong culture of safe practices and corporate governance in all activities</td></tr><tr><td>Cashflow &amp; Cost</td><td>15%</td><td>Delivery against operating cost and cashflow targets</td></tr><tr><td>Sales Volume &amp; Price</td><td>10%</td><td>Delivery against volume and weighted average basket price targets</td></tr><tr><td>Battery Anode Material Progress</td><td>10%</td><td>Progression of BAM growth strategies</td></tr><tr><td>Sustainability &amp; Social Performance</td><td>5%</td><td>Focus on being a good corporate citizen in all jurisdictions where the Group operates</td></tr><tr><td>Total corporate performance measures</td><td>50%</td><td></td></tr><tr><td>Personal performance metrics</td><td>50%</td><td>Targeted metrics relevant to individual roles</td></tr><tr><td>Total</td><td>100%</td><td></td></tr></table>	METRIC	WEIGHTING	REASON FOR SELECTION	Corporate performance measures:		Corporate measures are aligned with the strategic priorities for the Group	Health, Safety, Compliance & Governance	10%	Promoting a strong culture of safe practices and corporate governance in all activities	Cashflow & Cost	15%	Delivery against operating cost and cashflow targets	Sales Volume & Price	10%	Delivery against volume and weighted average basket price targets	Battery Anode Material Progress	10%	Progression of BAM growth strategies	Sustainability & Social Performance	5%	Focus on being a good corporate citizen in all jurisdictions where the Group operates	Total corporate performance measures	50%		Personal performance metrics	50%	Targeted metrics relevant to individual roles	Total	100%	
METRIC	WEIGHTING	REASON FOR SELECTION																													
Corporate performance measures:		Corporate measures are aligned with the strategic priorities for the Group																													
Health, Safety, Compliance & Governance	10%	Promoting a strong culture of safe practices and corporate governance in all activities																													
Cashflow & Cost	15%	Delivery against operating cost and cashflow targets																													
Sales Volume & Price	10%	Delivery against volume and weighted average basket price targets																													
Battery Anode Material Progress	10%	Progression of BAM growth strategies																													
Sustainability & Social Performance	5%	Focus on being a good corporate citizen in all jurisdictions where the Group operates																													
Total corporate performance measures	50%																														
Personal performance metrics	50%	Targeted metrics relevant to individual roles																													
Total	100%																														
Determination of Outcomes	The STI outcomes will be determined by the Remuneration and Nomination Committee, with oversight from the Board of Directors.																														
Delivery of STI	The delivery of the STI for the year ended 31 December 2018 will be determined by the Remuneration and Nomination Committee, with oversight from the Board of Directors.																														

## (E) REMUNERATION COMPONENTS (CONT')

### 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 and senior managers within the Group 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 potential maximum value of the annual grant of performance rights over a three year period represents between 20% and 75% of an eligible employees' total fixed remuneration. The actual number of performance rights granted is calculated based on the closing volume-weighted average price ("VWAP") of the Company's shares on ASX for the 60 trading days (2018) or 1 month (2017 and prior years) preceding the commencement and the end of the performance period.

### Performance Hurdles

The performance hurdles for 2017 and prior years involved an assessment of the Company's Total Shareholder Return ("TSR") relative to a comparative group of companies specified annually.

For the year ended 31 December 2018 the Board of Directors has resolved to adopt performance hurdles based on 2 measures:

- (c) 50% will be based on the TSR performance of the Company over the relevant vesting period relative to companies in the S&P/ASX300 Index (^XKO) as at 1 January 2018, classified under the "Metals & Mining" industry under the GICS classification system; and
- (d) 50% will be based on the absolute shareholder return performance of the Company over the relevant vesting period against threshold and maximum targets as set by the Board. For the year ended 31 December 2018, the Board of Directors has determined threshold TSR performance to be 8.6% compound annualised growth rate (CAGR) and maximum TSR performance to be 18.8% CAGR. These targets have been based upon the median performance of the S&P/ASX200 Index over a 20 year period.

### Vesting Conditions

Vesting of performance rights will be subject to the relevant 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 the relevant performance measure as at the date that is three years after the commencement of the performance period ("Performance Date"), relative to the relevant performance hurdle(s) (the "TSR Hurdle(s)").

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

PERFORMANCE AGAINST TSR COMPATOR GROUP (100% OF PERFORMANCE RIGHTS FOR 2015 TO 2017 AND 50% OF PERFORMANCE RIGHTS FROM 2018 ONWARDS)	PERFORMANCE AGAINST ABSOLUTE TSR MEASURE (50% OF PERFORMANCE RIGHTS FROM 2018 ONWARDS)	PERCENTAGE OF PERFORMANCE RIGHTS ELIGIBLE TO VEST
TSR performance is at or below the median performance of the comparator group	TSR performance is at or below threshold performance	0%
TSR performance of between the median and 75th percentile performance of the comparator group	TSR performance is between threshold and maximum performance	2015 Grant: Straight line pro-rata between 0% and 100%  2016 Grant and onwards: Straight line pro-rata between 50% and 100%
TSR performance is at or above the 75th percentile performance of the comparator group	TSR performance is above maximum performance	100%



## (E) REMUNERATION COMPONENTS (CONT')

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 Comparator Groups (2015 to 2017 Grants)

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

#### i. Year ended 31 December 2015 Grant

The TSR comparator 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	

#### Outcome for 31 December 2015 Grant

7% of the performance rights granted for the 2015 financial year and tested as at 31 December 2017 vested based on the TSR performance of Syrah of 51% in comparison to the average TSR performance of the comparator group of 43% over the performance period. 3,255 shares were issued to eligible employees on 14 March 2018.

#### ii. Year ended 31 December 2016 Grant

The TSR comparator 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	Metals X Limited	Tokai Carbon Co. Ltd
Imperial Metals Corp	OZ Minerals Limited	Vedanta Resources plc
Independence Group NL	Polymet Mining Corp	Western Areas Limited
Ivanhoe Mines Ltd	Nevsun Resources Ltd	

#### iii. Year ended 31 December 2017 Grant

The TSR comparator 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	OZ Minerals Limited	Vedanta Resources plc
Independence Group NL	Polymet Mining Corp	Western Areas Limited
Ivanhoe Mines Ltd	Nevsun Resources Ltd	

## DIRECTORS' REPORT (CONT')

### (E) REMUNERATION COMPONENTS (CONT')

The Board reserves the right to adjust the composition and number of the companies in the TSR Comparator Groups (2016 and 2017 Grants) 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.

#### TSR Comparator Group (2018 Grants)

The TSR compactor group as selected by the Board of Directors for performance rights for the year ending 31 December 2018 is the companies in the S&P/ASX300 Index (^XKO) as at 1 January 2018, classified under the "Metals & Mining" industry under the GICS classification system as follows:

Alacer Gold Corp.	Independence Group Limited	Regis Resources Limited
Alumina Limited	Lynas Corporation Limited	Resolute Mining Limited
Ausdrill Limited	MACA Limited	Rio Tinto Limited
Beadell Resources Limited	Magnis Resources Limited	Sandfire Resources NL
BHP Billiton Limited	Metals X Limited	Saracen Mineral Holdings Limited
Bluescope Steel Limited	Mineral Resources Limited	Silver Lake Resources Limited
Dacian Gold Limited	Newcrest Mining Limited	Sims Metal Management Limited
Evolution Mining Limited	Northern Star Resources Limited	South32 Limited
Fortescue Metals Limited	Oceana Gold Limited	St Barbara Limited
Galaxy Resources Limited	Orocobre Limited	Syrah Resources Limited
Gold Road Resources Limited	Oz Minerals Limited	Western Areas Limited
Iluka Resources Limited	Perseus Mining Limited	Westgold Resources Limited
Imdex Limited	Pilbara Minerals Limited	

If at any time during the Vesting Period a company in the Comparator Group suffers an insolvency event, undertakes material merger or acquisition activity or is delisted from the ASX it will cease to become part of the Comparator Group.

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

	2017	2016
	NUMBER	NUMBER
<b>Movement for the year ended 31 December 2017:</b>		
Balance at the beginning of the year	324,754	100,707
Granted during the year	600,543	232,296
Lapsed during the year	(65,945)	-
Forfeited during the year	(214,514)	(8,249)
Balance at the end of the year	644,838	324,754
<b>At 31 December 2017:</b>		
Vested	78,225	-
Unvested	566,613	324,754
	644,838	324,754

The Board of Directors has resolved to grant 93,974 performance rights to S Verner and 325,024 performance rights to other executives and senior managers for the year ending 31 December 2018. The performance rights granted to S Verner remain subject to shareholder approval. The performance rights granted to other executives and senior managers were issued on 14 March 2018 and are not included in the above table. The Board of Directors also resolved to grant 25,850 performance rights to other executives and senior managers for the year ended 31 December 2017 in accordance with the relevant employment contracts. These performance rights were issued on 14 March 2018 and are not included in the above table.

The Board of Directors in its discretion has also resolved to award additional performance rights to D Corr in lieu of options that were awarded to him in 2015 and which were unable to be exercised without trading in the shares, as he was privy to market sensitive information at the time that the share price exceeded the exercise price of the options and cashless exercise was not available under the relevant LTI plan. The Board considered this an appropriate action in view of the significant contribution he made to delivery of project development and construction activities for the Balama Graphite Project and associated fundraising activities over the past three years.

Accordingly, 118,663 performance rights were awarded to D Corr on 14 March 2018. These performance rights vest on the 1 January 2019. In the event of the cessation of employment during the vesting period, the treatment of the rights will depend on the circumstances. In general terms, and subject to the discretion of the Plan Committee, if the holder is a "bad leaver" during the vesting period, the rights will be immediately forfeited; whereas if the holder is not a "bad leaver", they will be entitled to retain a pro-rata amount of rights based on the proportion of the vesting period that the holder was an employee.

## (E) REMUNERATION COMPONENTS (CONT')

### Share Options

The Group has a current Long Term Incentive Plan ("LTIP") and a former Share Option Plan ("SOP") in existence. The SOP is now effectively dormant applying only to options granted prior to November 2015, with no new options issued under this plan.

#### Share Option Plan

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.

As at 31 December 2017, there were 2,450,000 options outstanding (31 December 2016: 5,675,000) under this plan. The table below summarises the number and movements in Options under this plan during the year:

	2017	2016
	NUMBER	NUMBER
<b>Movement for the year ended 31 December 2017:</b>		
Balance at the beginning of the year	5,675,000	5,947,000
Exercised during the year	(600,000)	(272,000)
Expired during the year	(2,625,000)	-
Balance at the end of the year	2,450,000 <sup>(1)</sup>	5,675,000
<b>At 31 December 2017:</b>		
Vested	2,450,000 <sup>(1)</sup>	5,675,000
Unvested	-	-
	2,450,000 <sup>(1)</sup>	5,675,000

(1) 600,000 of these options expired on 28 January 2018 and a further 400,000 of these options expired on 30 January 2018.

Unvested options issued under the SOP will be forfeited upon cessation of employment prior to the conclusion of the vesting period.

In the event of cessation of employment by reason of death, any vested options are exercisable within 3 months by a legal representative otherwise the options will lapse. All other vested options are exercisable within 30 days of cessation of employment otherwise the options will lapse.

## (E) REMUNERATION COMPONENTS (CONT')

### LONG TERM INCENTIVE PLAN

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.

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 2017, there were 4,300,000 options outstanding (31 December 2016: 3,000,000 options outstanding) under this plan. The table below summarises the number and movements in Options under this plan during the year:

	2017	2016
	NUMBER	NUMBER
<b>Movement for the year ended 31 December 2017:</b>		
Balance at the beginning of the year	3,000,000	1,000,000
Granted during the year	2,900,000	2,300,000
Forfeited during the year	(600,000)	(300,000)
Expired during the year`	(1,000,000)	-
Balance at the end of the year	4,300,000	3,000,000
<b>At 31 December 2017:</b>		
Vested	1,400,000	1,000,000
Unvested	2,900,000	2,000,000
	4,300,000	3,000,000

In the event that a participant in the LTI Plan ceases to be a director or employee of the Group, the treatment of any options 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 options 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 options (based on the proportion of the vesting period that the participant was a director/employee). The Plan Committee also has power to deem that options 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 options will vest.

In the event that vesting conditions attached to options 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 options will cease to be entitled to them and the Plan Committee may, among other things, cancel those options for no consideration.



# DIRECTORS' REPORT (CONT')

## (F) 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 2017**

	FIXED REMUNERATION				VARIABLE REMUNERATION				TOTAL
	SALARY & FEES	LEAVE <sup>(2)</sup>	SUPER-ANNUATION	OTHER	STI CASH <sup>(3)</sup>	STI SHARES <sup>(3)</sup>	LTI RIGHTS <sup>(4)</sup>	OPTIONS <sup>(4)</sup>	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
NON-EXECUTIVE DIRECTORS									
J Askew <sup>(5)</sup>	156,715	-	-	42,783 <sup>(6)</sup>	-	-	-	-	199,498
S Riggall	91,169	-	8,661	-	-	-	-	-	99,830
J Caldeira	81,875	-	-	-	-	-	-	-	81,875
C Lampe-Onnerud	99,146	-	-	-	-	-	-	217,217	316,363
S Giorgini <sup>(7)</sup>	16,832	-	1,599	-	-	-	-	84,433	102,864
R Brans <sup>(8)</sup>	94,966	-	9,022	-	-	-	-	-	103,988
Sub-total Non-Executive Directors	540,703	-	19,282	42,783	-	-	-	301,650	904,418
EXECUTIVE DIRECTOR									
S Verner <sup>(9)</sup>	339,475	13,825	27,373	2,112	109,213	109,213	89,568	213,902	904,681
Sub-total Executive Directors	339,475	13,825	27,373	2,112	109,213	109,213	89,568	213,902	904,681
KEY MANAGEMENT PERSONNEL									
D Corr	248,851	5,472	23,641	-	64,036	64,036	118,224	-	524,260
R Schaefer <sup>(10)</sup>	191,300	10,746	18,174	-	46,753	46,753	35,080	288,775	637,581
J Currie <sup>(11)</sup>	57,569	2,026	5,469	-	24,112	24,112	-	106,380	219,668
J Morrissey	211,087	7,429	20,053	-	54,317	54,317	49,689	-	396,892
D Strange <sup>(12)</sup>	440,391	-	-	322,384 <sup>(12)</sup>	45,594	45,594	(128,506)	-	725,457
Sub-total Key Management Personnel	1,149,198	25,673	67,337	322,384	234,812	234,812	74,487	395,155	2,503,858
TOTAL	2,029,376	39,498	113,992	367,279	344,025	344,025	164,055	910,707	4,312,957

(1) All amounts translated from Australian Dollars to United States dollars at an average exchange for the year ended 31 December 2017 of 0.7676.

(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 2017 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 2017 to 3 February 2017.

(6) Represents the current year portion of a payment of \$148,880 (A\$200,000) to J Askew for additional services provided to the Company as Executive Chairman from 5 October 2017 to 3 February 2017. This amount was paid in shares as approved at the Annual General Meeting held on 19 May 2017.

(7) S Giorgini commenced as a Non-Executive Director of the Company effective from 16 October 2017.

(8) R Brans ceased as a Non-Executive Director of the Company effective from 31 December 2017.

(9) S Verner was appointed Managing Director and Chief Executive Officer on 3 February 2017.

(10) R Schaefer commenced employment with the Company as Chief Commercial Officer on 1 March 2017.

(11) J Currie commenced employment with the Company on 2 October 2017 as Chief Legal Officer and Company Secretary (with appointment as Company Secretary on 16 October 2017)

(12) D Strange ceased employment with the Company effective from 30 November 2017. Prior to his resignation, D Strange was seconded to Twigg Exploration and Mining Limitada (Twigg). During this secondment, he was based in Mozambique and entitled to a net monthly salary of US\$25,000 from Twigg (gross annual equivalent of US\$461,538 inclusive of income taxes paid in Mozambique). During his secondment he remained eligible to participate in the Group's STI and LTI plans. D Strange received a net payment of US\$216,628 (gross equivalent of US\$322,384 inclusive of income taxes paid in Mozambique) upon ceasing employment with the Company. He remained eligible to participate on a pro-rata basis in the Group's STI plan for the year ended 31 December 2017 (subject to an assessment of performance during the period in which he was employed) and forfeited his entitlement to unvested performance rights as at the date of ceasing employment.

# DIRECTORS' REPORT (CONT')

## (F) DETAILS OF REMUNERATION EXPENSES (CONT')

Table 2: Remuneration for the financial year ended 31 December 2016

	FIXED REMUNERATION				VARIABLE REMUNERATION				TOTAL
	SALARY & FEES	LEAVE <sup>(2)</sup>	SUPER-ANNUATION	OTHER	STI CASH <sup>(3)</sup>	STI SHARES <sup>(3)</sup>	LTI RIGHTS <sup>(4)</sup>	OPTIONS <sup>(4)</sup>	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	
NON-EXECUTIVE DIRECTORS									
J Askew <sup>(5)</sup>	141,379	-	-	107,368 <sup>(6)</sup>	-	-	-	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 <sup>(7)</sup>	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 <sup>(8)</sup>	39,790	-	3,873	-	-	-	-	87,917	131,580
D Strange <sup>(9)</sup>	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 <sup>(10)</sup>	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 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 was be paid in shares as approved at the Annual General Meeting held on 19 May 2017.

(7) T Kumova resigned as Managing Director of the Company on 5 October 2016. T Kumova retains apro-rata entitlement to performance rights based on the proportion of the vesting period that he was an employee and/or consultant to the Company.

(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. 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. D Strange will not receive the TFR component of his Executive Service Agreement with Syrah but remains eligible to participate in the Group's STI and LTI plans.

(10) J Morrissey was considered key management personnel from 1 January 2016.

## DIRECTORS' REPORT (CONT')

### (G) 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	NOTICE PERIOD BY COMPANY	TERMINATION PAYMENT
S Verner	Managing Director and Chief Executive Officer	Ongoing	A\$492,750	75% of TFR	75% of TFR	3 months	3 months	12 months Total Fixed Remuneration
D Corr	Chief Financial Officer	Ongoing	A\$355,000	50% of TFR	50% of TFR	3 months	3 months	6 months Total Fixed Remuneration
R Schaefer	Chief Commercial Officer	Ongoing	A\$328,500	50% of TFR	50% of TFR	3 months	3 months	3 months Total Fixed Remuneration
J Currie	Chief Legal Officer and Company Secretary	Ongoing	A\$328,500	50% of TFR	50% of TFR	3 months	3 months	3 months Total Fixed Remuneration
J Morrissey	Chief People Officer	Ongoing	A\$301,125	50% of TFR	50% of TFR	3 months	3 months	3 months Total Fixed Remuneration

### (H) 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 DATE	EXERCISE PRICE	NUMBER OF RIGHTS	VALUE PER RIGHT AT GRANT DATE
17 May 2016	1 January 2019	-	58,543	A\$3.47
21 March 2017	1 January 2020	-	161,691	A\$2.88
26 May 2017	1 January 2020	-	121,773	A\$2.88
14 March 2018	1 January 2020	-	14,269	A\$2.88
14 March 2018	1 January 2021	-	166,954	A\$3.93
14 March 2018	1 January 2019	-	118,663	A\$3.37

The proportion of Performance Rights that vest is determined in accordance with the Vesting Conditions. Any Performance Rights that do not vest at the end of the Vesting Period will lapse. The Long Term Incentive Plan provides that vested Performance Rights that have not been exercised or automatically exercised (depending on the terms of the relevant offer letter) will expire two year from the First Exercise Date (as defined in the relevant offer letter).

## (H) TERMS AND CONDITIONS OF SHARE-BASED PAYMENT ARRANGEMENTS (CONT')

### 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 DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION	VALUE PER OPTION AT GRANT DATE
2 October 2014	2 October 2015	2 October 2019	A\$6.23 <sup>(1)</sup>	400,000 <sup>(2)</sup>	A\$1.88
9 June 2015	9 June 2016	9 June 2018	A\$4.96 <sup>(1)</sup>	300,000 <sup>(3)</sup>	A\$1.21
1 December 2015	1 December 2016	1 December 2018	A\$4.68 <sup>(1)</sup>	1,000,000 <sup>(4)</sup>	A\$0.96
24 May 2016	24 May 2017	24 May 2019	A\$5.04 <sup>(1)</sup>	400,000 <sup>(5)</sup>	A\$1.79
1 March 2017	1 March 2018	1 March 2020	A\$4.11 <sup>(1)</sup>	600,000 <sup>(6)</sup>	A\$0.75
26 May 2017	26 May 2018	26 May 2020	A\$4.30 <sup>(1)</sup>	1,000,000 <sup>(7)</sup>	A\$0.66
20 October 2017	20 October 2018	20 October 2020	A\$3.85	400,000 <sup>(8)</sup>	A\$1.39
20 October 2017	20 October 2018	20 October 2020	A\$4.67	600,000 <sup>(9)</sup>	A\$1.17

(1) Effective from 2 November 2017, the exercise price of these options was reduced by \$0.03 (3 cents) per option in accordance with the terms of the Long Term Incentive Plan dated 13 May 2015, ASX Listing Rules 3.11.2 and 6.22 as a result of the issuance of shares from a 1 for 10.5 accelerated non-renounceable entitlement offer.

(2) 400,000 unlisted options issued to J Caldeira, Non-Executive Director.

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

(7) 1,000,000 unlisted options issued to S Verner, Managing Director and Chief Executive Officer on 26 May 2017 in accordance with resolution passed at the Annual General Meeting on 19 May 2017.

(8) 400,000 unlisted options issued to S Giorgini, Non-Executive Director.

(9) 600,000 unlisted options issued to J Currie, Chief Legal Officer and Company Secretary.



# DIRECTORS' REPORT (CONT')

## (I) 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 2017	ORDINARY SHARES GRANTED	ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS	ON MARKET ACQUISITIONS/ (DISPOSALS)	OTHER	BALANCE 31 DECEMBER 2017
<b>DIRECTORS</b>						
J Askew	-	60,790 <sup>(1)</sup>	-	40,000	-	100,790
S Riggall	-	-	-	8,790	837 <sup>(2)</sup>	9,627
R Brans <sup>(3)</sup>	4,000	-	-	-	(4,000)	-
S Giorgini <sup>(4)</sup>	-	-	-	10,000	-	10,000
<b>EXECUTIVE DIRECTOR</b>						
S Verner	5,500	- <sup>(6)</sup>	-	-	784 <sup>(2)</sup>	6,284
<b>KEY MANAGEMENT PERSONNEL</b>						
D Corr	28,169	18,415 <sup>(5,6)</sup>	-	-	-	46,584
R Schaefer	-	- <sup>(6)</sup>	-	-	-	-
J Currie	-	- <sup>(6)</sup>	-	-	-	-
J Morrissey	11,268	3,246 <sup>(5,6)</sup>	-	-	-	14,514
D Strange <sup>(7)</sup>	36,056	21,008 <sup>(5,6)</sup>	-	-	(57,064)	-

(1) These shares were issued in recognition of assuming the role of interim Executive Chairman for the period from 5 October 2016 to 3 February 2017, as approved by shareholders at the Company's Annual General Meeting held on 19 May 2017.

(2) These shares were acquired through participation in the 1 for 10.5 pro-rata accelerated non-renounceable retail entitlement offer completed by the Company during the year ended 31 December 2017.

(3) R Brans ceased as a Non-Executive Director of the Company effective from 31 December 2017.

(4) S Giorgini commenced as a Non-Executive Director of the Company effective from 16 October 2017.

(5) Represents shares issued on 21 March 2017 pursuant to the STI plan for the year ended 31 December 2016.

(6) The Board of Directors resolved to issue 42,220 shares to S Verner and 90,775 shares to Key Management Personnel pursuant to the STI plan for the year ended 31 December 2017. The shares issued to S Verner remain subject to shareholder approval. The shares issued to Key Management Personnel were issued on 14 March 2018 and are not included in the above reconciliation.

(7) D Strange ceased employment with the Company effective from 30 November 2017.

## (I) DIRECTORS AND KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS (CONT')

### 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 2017	GRANTED DURING THE PERIOD <sup>(1)</sup>	FORFEITED DURING THE PERIOD	NET CHANGE OTHER	BALANCE 31 DECEMBER 2017	VESTED	UNVESTED
<b>DIRECTORS</b>								
S Verner	2017	-	121,773	-	-	121,773	-	121,773
	<b>Total</b>	-	<b>121,773</b>	-	-	<b>121,773</b>	-	<b>121,773</b>
<b>KEY MANAGEMENT PERSONNEL</b>								
D Corr <sup>(2)</sup>	2017	-	61,679	-	-	61,679	-	61,679
	2016	45,946	-	-	-	45,946	-	45,946
	2015	44,170	-	(40,945)	-	3,225	3,225 <sup>(3)</sup>	-
	<b>Total</b>	<b>90,116</b>	<b>61,679</b>	<b>(40,945)</b>	-	<b>110,850</b>	<b>3,225</b>	<b>107,625</b>
R Schaefer	2017	-	47,693	-	-	47,693	-	47,693
	<b>Total</b>	-	<b>47,693</b>	-	-	<b>47,693</b>	-	<b>47,693</b>
J Currie <sup>(4)</sup>	2017	-	-	-	-	-	-	-
	<b>Total</b>	-	-	-	-	-	-	-
J Morrissey	2017	-	52,319	-	-	52,319	-	52,319
	2016	12,597	-	-	-	12,597	-	12,597
	<b>Total</b>	-	<b>12,597</b>	-	-	<b>12,597</b>	-	<b>12,597</b>
D Strange <sup>(5)</sup>	2017	-	70,367	-	(70,367)	-	-	-
	2016	52,417	-	-	(52,417)	-	-	-
	2015	56,537	-	-	(56,537)	-	-	-
	<b>Total</b>	<b>108,954</b>	-	-	<b>(108,954)</b>	-	-	-

(1) The Board of Directors resolved to issue 93,974 performance rights to S Verner and 166,954 performance rights to Key Management Personnel pursuant to the LTI plan for the year ending 31 December 2018. The performance rights issued to S Verner remain subject to shareholder approval. The performance rights issued to Key Management Personnel were issued on 14 March 2018 and are not included in the above reconciliation.

(2) The Board of Directors resolved to issue D Corr with 118,663 performance rights in lieu of options awarded to him in 2015 that were unable to be exercised and given the significant contribution made to the delivery of the project development and construction activities for the Balama Graphite Project and associated fundraising activities over the past three years. These performance rights were issued on 14 March 2018 and are not included in the above reconciliation.

(3) 7% of the performance rights granted for the 2015 financial year and tested as at 31 December 2017 vested based on the TSR performance of Syrah of 51% in comparison to the average TSR of the comparator group of 43% over the performance period. 3,225 shares were issued on 14 March 2018.

(4) The Board of Directors resolved to issue J Currie on a pro-rata basis 14,269 performance rights pursuant to the LTI plan for the year 31 December 2017. The performed rights were issued on 14 March 2018 and are not included in the above reconciliation.

(5) D Strange ceased employment with the Company effective from 30 November 2017 and forfeited his entitlement to unvested performance rights as at the date of ceasing employment.

Details of the Performance Rights Plan and vesting conditions are provided on page 26 of this report.

## (I) DIRECTORS AND KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS (CONT')

### 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 2017	VESTED	UNVESTED
<b>DIRECTORS</b>							
J Askew	600,000	-	-	-	600,000	600,000	-
S Riggall	400,000	-	-	-	400,000	400,000	-
J Caldeira	400,000	-	-	-	400,000	400,000	-
C Lampe-Onnerud	400,000	-	-	-	400,000	400,000	-
S Giorgini	-	400,000	-	-	400,000	-	400,000
R Brans <sup>(1)</sup>	400,000	-	-	(400,000) <sup>(1)</sup>	-	-	-
<b>EXECUTIVE DIRECTOR</b>							
S Verner <sup>(2)</sup>	600,000	1,000,000	-	(600,000)	1,000,000	-	1,000,000
<b>KEY MANAGEMENT PERSONNEL</b>							
D Corr	600,000	-	-	-	600,000 <sup>(3)</sup>	600,000	-
R Schaefer	-	600,000	-	-	600,000	-	600,000
J Currie	-	600,000	-	-	600,000	-	600,000
J Morrissey	300,000	-	-	-	300,000	300,000	-
D Strange <sup>(4)</sup>	600,000	-	-	(600,000)	-	-	-

(1) R Brans ceased as a Non-Executive Director of the Company effective from 31 December 2017. These options were granted in 2014 and expired on 30 January 2018 as a result of his cessation as a Non-Executive Director.

(2) 600,000 options were 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 this appointment the 600,000 options were cancelled and replaced with 1,000,000 unlisted options exercisable at A\$4.30 and expiring in three years from the date of grant. The issuance of these options was approved by the shareholders at the Annual General Meeting held on 19 May 2017 and issued on 26 May 2017.

(3) These options were granted in 2015 and expired on 28 January 2018.

(4) D Strange ceased employment with the Company effective from 30 November 2017 and exercised these options on 21 December 2017. The weighted average share price at the date of exercise of the options was A\$4.45.

## DIRECTORS' REPORT (CONT')

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

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

	2017	2016
	US\$	US\$
<b>Provision of services</b>		
Legal services provided by Sal & Caldeira Advogados, Lda <sup>(1)</sup>	384,045	338,931
Consultancy services provided by Proman Consulting Engineers Pty Ltd <sup>(2)</sup>	26,866	66,987
Consultancy services provided by Christina Lampe-Onnerud	-	130,000
Product technology development services provided Cadenza Innovation Inc. <sup>(3)</sup>	1,501,800	-
	<b>1,912,711</b>	<b>535,918</b>

(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 project development consultancy services provided to the Company by R Brans who is a Non-Executive Director of the Company.

(3) C Lampe-Onnerud who is a Non-Executive Director of the Company is also Founder and Chief Executive Officer of Cadenza Innovation Inc. During the year, the Company entered into an exclusive research and development agreement with Cadenza Innovation Inc. to fuel advancements in graphite anode technology for use in lithium-ion-based energy storage by establishing an "Office of the Chief Technology Officer", to lead knowledge exchange, deep technical partner and customer engagement and support the BAM processing plant in Louisiana.

These services are provided on arm's length commercial terms and conditions. Where any director has a conflict of interest they do not participate in any decision of the Board or management in relation to that matter.

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

	2017	2016
	US\$	US\$
Trade and other payables	26,275	108,770

### (K) 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 2017	31 DECEMBER 2016	31 DECEMBER 2015	30 JUNE 2015	30 JUNE 2014
Market capitalisation (US\$'000)	1,045,520	582,107	658,231	465,476	633,733
Closing share price (US\$)	3.52	2.21	2.85	2.81	3.90
Loss after income tax for the period (US\$'000)	(12,307)	(14,491)	(2,356)	(9,751)	(6,201)
Basic earnings per share (US cents)	(4.51)	(5.84)	(1.09)	(5.86)	(3.94)

**(K) ADDITIONAL INFORMATION (CONT')****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
<b>Share Options</b>					
<b>Share Option Plan</b>					
19 May 2014	19 May 2015	19 May 2019	A\$5.38 <sup>(1)</sup>	500,000	A\$2.24
2 October 2014	2 October 2015	2 October 2019	A\$6.23 <sup>(1)</sup>	400,000	A\$1.88
9 June 2015	9 June 2016	9 June 2018	A\$4.96 <sup>(1)</sup>	300,000	A\$1.22
26 October 2015	26 October 2016	26 October 2020	A\$4.35 <sup>(1)</sup>	250,000	A\$1.18
<b>Long Term Incentive Plan</b>					
1 December 2015	1 December 2016	1 December 2018	A\$4.68 <sup>(1)</sup>	1,000,000	A\$0.96
24 May 2016	24 May 2017	24 May 2019	A\$5.04 <sup>(1)</sup>	400,000	A\$1.79
1 March 2017	1 March 2018	1 March 2020	A\$4.11 <sup>(1)</sup>	600,000	A\$0.75
26 May 2017	26 May 2018	26 May 2020	A\$4.30 <sup>(1)</sup>	1,000,000	A\$0.66
20 October 2017	20 October 2018	20 October 2020	A\$3.85	400,000	A\$1.39
20 October 2017	20 October 2018	20 October 2020	A\$4.13	300,000	A\$1.31
20 October 2017	20 October 2018	20 October 2020	A\$4.67	600,000	A\$1.17
<b>Total Options</b>				<b>5,750,000</b>	
<b>Performance Rights</b>					
17 May 2016	1 January 2019		-	58,543	A\$3.47
9 June 2016	1 January 2019		-	77,894	A\$3.47
21 March 2017	1 January 2020		-	301,301	A\$2.88
26 May 2017	1 January 2020		-	121,773	A\$2.88
14 March 2018	1 January 2020		-	25,850	A\$2.88
14 March 2018	1 January 2021		-	325,024	A\$3.93
14 March 2018	1 January 2019		-	118,663	A\$3.37
<b>Total Performance Rights</b>				<b>1,029,048</b>	

(1) Effective from 2 November 2017, the exercise price of options were reduced by \$0.03 (3 cents) per option in accordance with the terms of the options, ASX Listing Rule 3.11.2 and 6.22 as a result of the issuance of shares from a 1 for 10.5 accelerated renounceable entitlement offer.

The proportion of Performance Rights that vest is determined in accordance with the Vesting Conditions. Any Performance Rights that do not vest at the end of the Vesting Period will lapse. The Long Term Incentive Plan provides that vested Performance Rights that have not been exercised or automatically exercised (depending on the terms of the relevant offer letter) will expire two year from the First Exercise Date (as defined in the relevant offer letter).

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

**(ii) Shares issued on exercise of options**

Ordinary shares of Syrah Resources Limited issued during the year ended 31 December 2017 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
28 January 2015	21 December 2017	A\$4.05	600,000



## 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 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 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 financial year 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.

	2017	2016
	US\$'000	US\$'000
<i>Assurance services:</i>		
PwC Australian firm	150	98
Network firms of PwC Australian firm	94	60
Total remuneration for audit services	244	158
<i>Non-assurance services</i>		
Tax compliance services	29	53
Tax consulting services	66	140
Other consulting services	22	-
Total remuneration for non-assurance services	117	193
<b>Total remuneration paid to PricewaterhouseCoopers</b>	<b>361</b>	<b>351</b>

The Group's policy allows the engagement of 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 Committee to approve all individual assignments performed by PricewaterhouseCoopers with total fees of greater than \$20,000.

## DIRECTORS' REPORT (CONT')

### 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 42.

### ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded off to the nearest US\$'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.

A handwritten signature in black ink, consisting of a stylized 'S' followed by a horizontal line and a small loop.

**Shaun Verner**

*Managing Director*

Melbourne, Australia

26 March 2018

# AUDITOR'S INDEPENDENCE DECLARATION



## Auditor's Independence Declaration

As lead auditor for the audit of Syrah Resources Limited for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) 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.

A handwritten signature in black ink, appearing to read 'JO' or similar, positioned above the printed name.

John O'Donoghue  
Partner  
PricewaterhouseCoopers

Melbourne  
26 March 2018

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
2 Riverside Quay, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001  
T: 61 3 8603 1000, F: 61 3 8603 1999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

# FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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  
Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 6 to 41, which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 26 March 2018. 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](http://www.syrahresources.com.au)

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# FINANCIAL STATEMENTS (CONT')

For the financial year ended 31 December 2017

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

		2017	2016
	NOTES	US\$'000	US\$'000
<b>Revenue from continuing operations</b>	3	1,310	1,284
Other income	4	2,640	61
		<b>3,950</b>	<b>1,345</b>
<b>Expenses</b>			
Employee benefits expense	5	(7,552)	(7,320)
Legal and consulting expenses	5	(3,718)	(2,773)
Depreciation and amortisation expense	8b	(299)	(277)
Impairment of assets	5	-	(34)
Foreign exchange loss – net		-	(3,171)
Other expenses		(3,273)	(2,261)
		<b>(10,892)</b>	<b>(14,491)</b>
<b>Loss before income tax expense from continuing operations</b>		<b>(10,892)</b>	<b>(14,491)</b>
Income tax expense	6	(1,415)	-
		<b>(12,307)</b>	<b>(14,491)</b>
<b>Loss after income tax expense for the year attributable to the owners of Syrah Resources Limited</b>		<b>(12,307)</b>	<b>(14,491)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to the profit or loss</i>			
Exchange differences on translation of foreign subsidiaries	9b	6,641	(3,897)
		<b>6,641</b>	<b>(3,897)</b>
<b>Other comprehensive income / (loss) for the year, net of tax</b>		<b>6,641</b>	<b>(3,897)</b>
		<b>(5,666)</b>	<b>(18,388)</b>
<b>Total comprehensive loss for the year attributable to the owners of Syrah Resources Limited</b>		<b>(5,666)</b>	<b>(18,388)</b>
<b>Loss per share attributable to the owners of Syrah Resources Limited</b>		<b>Cents</b>	<b>Cents</b>
Basic loss per share	17	(4.51)	(5.84)
Diluted loss per share	17	(4.51)	(5.84)

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



# FINANCIAL STATEMENTS (CONT')

For the financial year ended 31 December 2017

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		2017	2016
	NOTES	US\$'000	US\$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7a	111,912	163,275
Trade and other receivables	7b	4,057	3,795
Available-for-sale financial assets		91	85
<b>Total current assets</b>		<b>116,060</b>	<b>167,155</b>
<b>Non-current assets</b>			
Trade and other receivables	7b	19,600	5,768
Property, plant and equipment	8b	9,013	1,736
Mining assets	8a	273,540	155,312
Intangibles		250	61
<b>Total non-current assets</b>		<b>302,403</b>	<b>162,877</b>
<b>Total assets</b>		<b>418,463</b>	<b>330,032</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7c	13,923	14,502
Finance leases	7d	276	-
Provisions	8c	895	250
<b>Total current liabilities</b>		<b>15,094</b>	<b>14,752</b>
<b>Non-current liabilities</b>			
Finance leases	7d	1,000	-
Provisions	8c	8,318	4,531
Deferred tax liability	6	1,415	-
<b>Total non-current liabilities</b>		<b>10,733</b>	<b>4,531</b>
<b>Total liabilities</b>		<b>25,827</b>	<b>19,283</b>
<b>Net assets</b>		<b>392,636</b>	<b>310,749</b>
<b>Equity</b>			
Issued capital	9a	452,601	366,427
Reserves	9b	(9,642)	(11,861)
Accumulated losses		(50,323)	(43,817)
<b>Total equity</b>		<b>392,636</b>	<b>310,749</b>

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

# FINANCIAL STATEMENTS (CONT')

For the financial year ended 31 December 2017

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	CONTRIBUTED EQUITY	ACCUMULATED LOSSES	RESERVES	TOTAL EQUITY
	US\$'000	US\$'000	US\$'000	US\$'000
<b>Balance at 1 January 2017</b>	<b>366,427</b>	<b>(43,817)</b>	<b>(11,861)</b>	<b>310,749</b>
Loss after income tax expense for the year	-	(12,307)	-	(12,307)
Other comprehensive income for the year, net of tax	-	-	6,641	6,641
Total comprehensive income for the year	-	(12,307)	6,641	(5,666)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	85,278	-	-	85,278
Share-based payments (note 15)	-	-	2,275	2,275
Transfers from share based payments reserve:				
- Issuance of shares	298	-	(298)	-
- Exercise of options	598	-	(598)	-
- Expired/ lapsed options	-	5,801	(5,801)	-
	86,174	5,801	(4,422)	87,553
<b>Balance at 31 December 2017</b>	<b>452,601</b>	<b>(50,323)</b>	<b>(9,642)</b>	<b>392,636</b>
<b>Balance at 1 January 2016</b>	<b>225,008</b>	<b>(29,326)</b>	<b>(10,714)</b>	<b>184,968</b>
Loss after income tax expense for the year	-	(14,491)	-	(14,491)
Other comprehensive income for the year, net of tax	-	-	(3,897)	(3,897)
Total comprehensive income for the year	-	(14,491)	(3,897)	(18,388)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	140,478	-	-	140,478
Share-based payments (note 15)	-	-	3,691	3,691
Transfers from share based payments reserve:				
- Issuance of shares	718	-	(718)	-
- Exercise of options	223	-	(223)	-
	141,419	-	2,750	144,169
<b>Balance at 31 December 2016</b>	<b>366,427</b>	<b>(43,817)</b>	<b>(11,861)</b>	<b>310,749</b>

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

# FINANCIAL STATEMENTS (CONT')

For the financial year ended 31 December 2017

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

		2017	2016
	NOTES	US\$'000	US\$'000
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of goods and services tax)		(11,907)	(8,405)
Interest received		1,181	1,262
<b>Net cash outflow from operating activities</b>	10	<b>(10,726)</b>	<b>(7,143)</b>
<b>Cash flows from investing activities</b>			
Payments for mining assets		(118,386)	(109,572)
Payments for intangibles		(224)	-
Payments for security deposits		(2,694)	-
Payments for property, plant and equipment		(5,679)	(306)
<b>Net cash outflow from investing activities</b>		<b>(126,983)</b>	<b>(109,878)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		88,461	144,671
Share issue transaction costs		(3,183)	(4,195)
Payment of finance lease liabilities		(157)	-
<b>Net cash inflow from financing activities</b>		<b>85,121</b>	<b>140,476</b>
<b>Net increase in cash and cash equivalents</b>		<b>(52,588)</b>	<b>23,455</b>
Cash and cash equivalents at beginning of the financial year		163,275	139,978
Effects of exchange rate changes on cash and cash equivalents		1,225	(158)
<b>Cash and cash equivalents at end of the financial year</b>	7a	<b>111,912</b>	<b>163,275</b>

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.

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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

#### Functional and presentation currency

The presentation currency of the Group is US dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

#### Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. The subsequent payment or receipt of funds related to a transaction is translated at the rate applicable on the date of payment or receipt. Monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. All exchange differences in the consolidated financial statements are taken to the Income Statement with the exception of exchange differences on certain US dollar denominated receivables (held by the parent entity which has a functional currency of Australian dollars) where the foreign currency components are deemed to be hedges of a net investment in a foreign operation. These are recognised in other comprehensive income and accumulated in a reserve until the amounts are settled or the foreign operation is disposed (for net investment hedges), at which time they are recognised in the Income Statement.

#### Translation

The assets and liabilities of entities within the group with functional currency other than US Dollars (being the presentation currency of the Group) are translated into US Dollars at the exchange rate at reporting date (0.7800) (2016: 0.7236) and the Statement of Profit or loss is translated at the average exchange rate for the financial year (0.7676) (2016: 0.7443). On consolidation, exchange differences arising from the translation of these subsidiaries are recognized in Other Comprehensive Income and accumulated in the foreign currency translation reserve.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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, which currently includes assessment and development of downstream opportunities for graphite, including the BAM project.

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

	BALAMA US\$'000	CORPORATE US\$'000	CONSOLIDATED US\$'000
<b>Year ended 31 December 2017</b>			
<b>Revenues</b>			
Interest income	-	1,310	1,310
Foreign exchange gain/(loss) - net	1,963	(484)	1,479
Other income	1,158	3	1,161
<b>Total revenues</b>	<b>3,121</b>	<b>829</b>	<b>3,950</b>
Profit/(Loss) after income tax expense	873	(11,765)	(10,892)
<i>Included within segment results:</i>			
Share-based payments expense	-	(2,018)	(2,018)
Other employee benefits expense	(834)	(4,700)	(5,534)
Legal and consulting expenses	(522)	(3,196)	(3,718)
Depreciation and amortisation expense	(150)	(149)	(299)
Other expenses	(743)	(2,530)	(3,273)
<b>Additions to non-current non-financial assets</b>	<b>113,992</b>	<b>6,557</b>	<b>120,549</b>
<b>As at 31 December 2017</b>			
<b>Assets</b>			
Segment assets	299,572	118,891	418,463
<b>Total assets</b>	<b>299,572</b>	<b>118,891</b>	<b>418,463</b>
<b>Liabilities</b>			
Segment liabilities	(22,872)	(2,955)	(25,827)
<b>Total liabilities</b>	<b>(22,872)</b>	<b>(2,955)</b>	<b>(25,827)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 2. SEGMENT INFORMATION (CONT')

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

	BALAMA US\$'000	CORPORATE US\$'000	CONSOLIDATED US\$'000
<b>Year ended 31 December 2016</b>			
<b>Revenues</b>			
Interest income	-	1,284	1,284
Other income	48	13	61
<b>Total revenues</b>	<b>48</b>	<b>1,297</b>	<b>1,345</b>
Profit/(Loss) after income tax expense	101	(14,592)	(14,491)
<i>Included within segment results:</i>			
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)
<b>Additions to non-current non-financial assets</b>	<b>120,761</b>	<b>306</b>	<b>121,067</b>
<b>As at 31 December 2016</b>			
<b>Assets</b>			
Segment assets	164,083	165,949	330,032
<b>Total assets</b>	<b>164,083</b>	<b>165,949</b>	<b>330,032</b>
<b>Liabilities</b>			
Segment liabilities	18,222	1,061	19,283
<b>Total liabilities</b>	<b>18,222</b>	<b>1,061</b>	<b>19,283</b>

## NOTE 3. REVENUE

	2017	2016
	US\$'000	US\$'000
Interest income	1,310	1,284
	1,310	1,284

The group earns interest income from cash reserves that are placed on Money Market Deposits. Refer to Note 7(a) for more details on these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 4. OTHER INCOME

	2017	2016
	US\$'000	US\$'000
Net foreign exchange gain	1,479	-
Profit on disposal of assets	1,161	61
	2,640	61

## NOTE 5. EXPENSES

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

	2017	2016
	US\$'000	US\$'000
<i>Employee benefits expense</i>		
Salaries and wages	4,836	3,249
Share-based payments	2,018	3,691
Employee entitlements	394	210
Defined contribution superannuation expense	304	170
Total employee benefits expense	7,552	7,320
<i>Legal and consulting expenses</i>		
Legal expenses	1,366	944
Consulting expenses	2,352	1,829
Total legal and consulting expenses	3,718	2,773
<i>Impairment of assets</i>		
Available-for-sale financial assets	-	34
Total impairment charges	-	34

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 6. INCOME TAX

### A) TAX EXPENSE

Income tax expense for the year is comprised of the following:

	2017	2016
	US\$'000	US\$'000
Current tax	-	-
Deferred tax	1,415	-
Total tax expense	1,415	-

Numerical reconciliation of income tax expense to prima facie tax payable:

	2017	2016
	US\$'000	US\$'000
Net loss/(profit) before tax	(10,892)	(14,491)
Tax at the Australian tax rate of 30%	(3,268)	(4,347)
- Share-based payments	605	1,129
- Other non-deductible expenses	1,437	1,488
- Differences in overseas tax rates	281	(30)
- Movement in unrecognised temporary differences	(726)	(602)
- (Over)/under provision in the prior year	(301)	(156)
- Current year taxation losses not recognised as deferred tax assets	3,387	2,518
Income tax expense for the year	1,415	-

### B) DEFERRED TAX BALANCES

Recognised deferred tax balances

	2017	2016
	US\$'000	US\$'000
<b>Deferred tax liabilities:</b>		
- Financial liabilities <sup>(1)</sup>	1,415	-
Total tax expense	1,415	-

(1) Relates to unrealised foreign exchange gains on the revaluation of financial liabilities held by Twigg Exploration and Mining Limitada.

Movement in deferred tax balances during the year:

	BALANCE AT 1 JANUARY 2017	RECOGNISED IN PROFIT AND LOSS	BALANCE AT 31 DECEMBER 2017
	US\$'000	US\$'000	US\$'000
<b>Deferred tax liabilities:</b>			
- Financial liabilities	-	1,415	1,415
Total tax expense	-	1,415	1,415

## NOTE 6. INCOME TAX (CONT')

### C) TAXATION LOSSES AND TEMPORARY DIFFERENCES NOT RECOGNISED:

	2017	2016
	US\$'000	US\$'000
Unused taxation losses for which no deferred tax asset has been recognised	31,634	18,899
Potential taxation benefit at 30%	9,490	5,670
Tax asset from temporary differences not brought to account	558	510

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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 7. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### (A) CASH AND CASH EQUIVALENTS

	2017	2016
	US\$'000	US\$'000
Cash at bank and in hand	15,721	13,803
Deposits at call	96,191	149,472
	111,912	163,275

Total cash is held in current accounts or Money market 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 2017 the weighted average interest rate on current accounts and term deposits was 1.21% (2016: 0.98%).

#### (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

	2017	2016
	US\$'000	US\$'000
<b>Current</b>		
Other receivables	1,031	381
Prepayments	2,874	3,223
Input tax credits	152	94
Security deposits <sup>(1)</sup>	-	97
Total current trade and other receivables	4,057	3,795
<b>Non-current</b>		
Input tax credits	16,374	5,768
Security deposits <sup>(1)</sup>	2,889	-
Other receivables	337	-
Total non-current trade and other receivables	19,600	5,768

(1) Security deposits are 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 2017, 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 (CONT')

### SIGNIFICANT ESTIMATES AND JUDGEMENTS

Certain input tax credits (VAT receivable) in overseas subsidiaries amounting to \$16.4 million (31 December 2016: \$5.8 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) TRADE AND OTHER PAYABLES

	2017	2016
	US\$'000	US\$'000
Trade payables and accruals	12,441	12,312
Other payables	1,482	2,190
	<u>13,923</u>	<u>14,502</u>

#### (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.

### (D) FINANCE LEASES

	2017	2016
	US\$'000	US\$'000
<b>Current</b>	276	-
Finance leases	<u>276</u>	<u>-</u>
<b>Non-current</b>	1,000	-
Finance leases	<u>1,000</u>	<u>-</u>

Finance leases relate to equipment that is included in Property, Plant and Equipment. The finance lease liability is secured against this equipment which reverts to the lessor in the event of default.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

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

### (A) MINING ASSETS

	2017	2016
	US\$'000	US\$'000
Exploration and evaluation	988	890
Mine properties and development	33,297	31,094
Mines under construction	239,255	123,328
Total mining assets	273,540	155,312

Movements in mine properties and development are set out below:

	EXPLORATION AND EVALUATION	MINE PROPERTIES AND DEVELOPMENT	MINES UNDER CONSTRUCTION	TOTAL
	US\$'000	US\$'000	US\$'000	US\$'000
<b>For the financial year ended 31 December 2017</b>				
Balance at beginning of the year	890	31,094	123,328	155,312
Current year expenditure capitalised	39	-	108,824	108,863
Change in decommissioning and restoration provision	-	-	3,742	3,742
Exchange differences	59	2,203	3,361	5,623
Balance at end of the year	988	33,297	239,255	273,540
<b>For the financial year ended 31 December 2016</b>				
Balance at beginning of the year	890	31,395	13,668	45,953
Current year expenditure capitalised	2	-	116,277	116,279
Change in decommissioning and restoration provision	-	-	4,484	4,484
Exchange differences	(2)	(301)	(11,101)	(11,404)
Balance at end of the year	890	31,094	123,328	155,312

### Exploration and evaluation

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 interests at an amount at least equal to book value.

### Mines properties and development and Mines under construction

Mines properties and development and Mines under construction mainly relate to the development of the Balama Graphite Project in Mozambique.

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

### (B) PROPERTY, PLANT AND EQUIPMENT

	LAND AND BUILDINGS	PLANT AND EQUIPMENT	COMPUTER EQUIPMENT	ASSETS UNDER CONSTRUCTION	TOTAL
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>At 1 January 2017</b>					
Cost	797	2,465	184	-	<b>3,446</b>
Accumulated depreciation and impairment	(67)	(1,572)	(71)	-	<b>(1,710)</b>
Net book amount	730	893	113	-	<b>1,736</b>
<b>For the financial year ended 31 December 2016</b>					
Balance at beginning of the year	730	893	113	-	<b>1,736</b>
Additions	-	1,396	22	6,525	<b>7,943</b>
Disposals (at net book value)	-	(100)	-	-	<b>(100)</b>
Depreciation charge	(45)	(749)	(48)	-	<b>(842)</b>
Exchange differences	-	242	6	28	<b>276</b>
Balance at end of the year	685	1,682	93	6,553	<b>9,013</b>
<b>At 31 December 2017</b>					
Cost	797	3,056	214	6,553	<b>10,620</b>
Accumulated depreciation and impairment	(112)	(1,374)	(121)	-	<b>(1,607)</b>
Net book amount	685	1,682	93	6,553	<b>9,013</b>
<b>At 1 January 2016</b>					
Cost	1,250	2,699	209	-	<b>4,158</b>
Accumulated depreciation and impairment	(43)	(1,590)	(27)	-	<b>(1,660)</b>
Net book amount	1,207	1,109	182	-	<b>2,498</b>
<b>For the financial year ended 31 December 2016</b>					
Balance at beginning of the year	1,207	1,109	182	-	<b>2,498</b>
Additions	-	286	20	-	<b>306</b>
Disposals (at net book value)	-	(8)	-	-	<b>(8)</b>
Depreciation charge	(47)	(364)	(53)	-	<b>(464)</b>
Exchange differences	(430)	(130)	(36)	-	<b>(596)</b>
Balance at end of the year	730	893	113	-	<b>1,736</b>
<b>At 31 December 2016</b>					
Cost	797	2,465	184	-	<b>3,446</b>
Accumulated depreciation and impairment	(67)	(1,572)	(71)	-	<b>(1,710)</b>
Net book amount	730	893	113	-	<b>1,736</b>

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

### (B) PROPERTY, PLANT AND EQUIPMENT (CONT')

#### Assets under construction

Assets Under Construction at 31 December 2017 consists of capitalised project development costs for the downstream Battery Anode Material (BAM) project. Capitalised costs in relation to construction of the Balama Graphite Project are included in mines under construction (Refer to Note 8(a)).

#### Depreciation charge

Of the total depreciation charge for the financial year ended 31 December 2017, \$0.3 million was charged to profit or loss (2016: \$0.2 million), and \$0.6 million was capitalised to mine properties and development (2016: \$0.2 million).

#### Leased assets

Property, plant and equipment includes equipment of \$1.3 million (2016: Nil) that is held through a finance lease arrangement. The leased equipment is also encumbered as security for the corresponding lease liability of \$1.3 million (2016: Nil).

#### 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 internal sources 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 2017.

##### *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 reserves 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.

##### *Declaration of commercial production*

The Balama Graphite Project achieved first production of saleable Flake graphite in November 2017 and saleable Fines graphite in December 2017. As at 31 December 2017, the Balama Project remains in the commissioning and production ramp-up phase and has not achieved commercial production. All commissioning and production ramp-up costs incurred at Balama, net of any revenue derived from the sale of graphite, prior to the declaration of commercial production are capitalised against project development costs. Once commercial production is declared, the capitalisation of operating costs, net of any revenue derived, will cease and revenues will be recognised as income in the period in which they are earned and operating costs will either be attributed to inventory or expensed in the period in which they are incurred. It is also at this point that the depreciation and amortisation of previously capitalised project development costs will commence. Costs that meet the criteria for recognition as assets will continue to be capitalised in accordance with group accounting policies.

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

The Group will continue to assess the progress of commissioning and production ramp-up activities to determine when the project moves into the commercial production stage. The major criteria to be considered in terms of declaring commercial production include, but may not be limited to, the following:

1. All major capital expenditures to allow the mine to operate at up to name-plate capacity have been completed.
2. The process plant, and other key areas of infrastructure have been transferred to the control of the Operations team from the Commissioning team.
3. The plant is capable of continuously operating at or near planned throughput levels.
4. Ore head grades and process plant recoveries are consistently at or near expected levels for a continuous period.
5. Production consistently achieves grades and quality specifications at expected levels for a continuous period and has satisfied commercial scale verification tests by key customers and end-users.
6. Operating costs are under control and within expectations.

### ***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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

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

### (C) PROVISIONS

	2017	2016
	US\$'000	US\$'000
<b>Current</b>		
Employee benefits	696	250
Other provisions	199	-
	<u>895</u>	<u>250</u>
<b>Non-current</b>		
Employee benefits	33	27
Decommissioning and restoration	8,285	4,504
	<u>8,318</u>	<u>4,531</u>

### Movements in decommissioning and restoration provision

	2017	2016
	US\$'000	US\$'000
Balance at beginning of the year	4,504	1,031
Additional provisions:		
- Capitalised to Mines under construction (Note 8a)	3,742	4,484
- Unwind of discount	39	11
- Exchange differences	-	(1,022)
Balance at end of the year	<u>8,285</u>	<u>4,504</u>

### 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 normal for the mining industry, and the majority of this expenditure will be 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), the estimated future level of inflation, and time value of money.

#### 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 industry 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. 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 9. EQUITY

### (A) ISSUED CAPITAL

	2017	2016	2017	2016
	SHARES	SHARES	US\$'000	US\$'000
Issued and fully paid ordinary shares	297,022,766	263,757,392	452,601	366,427
	297,022,766	263,757,392	452,601	366,427

### (i) Movements in ordinary share capital

	NUMBER OF SHARES	WEIGHTED AVERAGE ISSUE PRICE (A\$)	TOTAL US\$'000
<b>31 December 2017</b>			
Balance at beginning of the year	263,757,392		366,427
Issue of new shares:			
- Entitlement offer	10,812,001	A\$3.38	29,148
- Institutional placement	21,729,775	A\$3.38	57,450
- Exercise of options	600,000	A\$4.05	1,863
- Equity-settled remuneration	123,598	-(1)	-
Transfers from share based payment reserve on exercise of options and issuance of shares as remuneration	-		896
Capital raising costs	-		(3,183)
<b>Balance at end of the year</b>	<b>297,022,766</b>		<b>452,601</b>
<b>31 December 2016</b>			
Balance at beginning of the year	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 issuance of shares as remuneration	-		943
Capital raising costs	-		(4,195)
<b>Balance at end of the year</b>	<b>263,757,392</b>		<b>366,427</b>

(1) The cost associated with issuance of these shares is included in the 'Transfer from share-based payment reserve on exercise of options and issuance of shares as remuneration 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 year and options outstanding at the end of the financial year 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 9. EQUITY (CONT')

### (A) ISSUED CAPITAL (CONT')

#### (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.

#### (vi) Non-controlling interests

A future non-controlling non-diluting interest in Twigg Exploration and Mining Limitada to be made available to a Mozambique Government entity is further explained in Note 19, Subsidiaries

### (B) RESERVES

	2017	2016
	US\$'000	US\$'000
Foreign currency translation reserve	(15,864)	(22,505)
Share-based payments reserve	6,222	10,644
	(9,642)	(11,861)

#### (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
<b>31 December 2017</b>			
Balance at beginning of the year	(22,505)	10,644	(11,861)
Foreign currency translation	6,641	-	6,641
Share-based payments	-	2,275	2,275
Issuance of shares	-	(298)	(298)
Exercise of options	-	(598)	(598)
Transfer of expired/ lapsed options	-	(5,801)	(5,801)
Balance at end of the year	(15,864)	6,222	(9,642)
<b>31 December 2016</b>			
Balance at beginning of the year	(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 the year	(22,505)	10,644	(11,861)

## NOTE 9. EQUITY (CONT')

### (B) RESERVES (CONT')

#### (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.

The Group assesses the functional currency of each entity in the consolidated group when there are changes in circumstances that could result in a change in the currency that predominantly influences the economic results of each respective entity. With effect from 1 January 2017, the functional currency of Twigg Exploration and Mining Limitada was changed from Mozambique Meticals (MZN) to the United States Dollar (USD) on the basis that the USD is the currency that predominately influences the revenues, expenditures and financing activities of this entity going forward.

##### 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 LOSS AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2017	2016
	US\$'000	US\$'000
Loss after income tax expense for the year	(12,307)	(14,491)
<i>Adjustments for:</i>		
Depreciation and amortisation expense	299	286
Share-based payments	2,018	3,691
Unwind of discount on provisions	48	11
Bonus provision	548	-
Impairment of assets	-	34
Gain on fixed assets disposal	(1,161)	-
Other sundry income	-	(61)
Net foreign exchange (gain)/ loss	(1,831)	3,171
<i>Changes in operating assets and liabilities:</i>		
(Increase)/Decrease in trade and other receivables	(412)	413
Increase/ (Decrease) in trade and other payables	107	(322)
Increase in provisions	550	134
Increase in deferred tax liability	1,415	-
Net cash outflow from operating activities	(10,726)	(7,143)

# 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	66

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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 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 derivative financial instruments and non-derivative financial instruments and investment of surplus cash reserves. The Group holds the following financial instruments:

	2017	2016
	US\$'000	US\$'000
<b>Financial Assets</b>		
Cash and cash equivalents	111,912	163,275
Trade and other receivables	23,657	9,563
Available-for-sale financial assets	91	85
	135,660	172,923
<b>Financial Liabilities</b>		
Trade and other payables	13,923	14,502
Finance lease liability	1,276	-
	15,199	14,502

### (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) and Mozambican Meticals (MZN).

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:

	2017	2016
	US\$'000	US\$'000
<b>Assets</b>		
- US Dollars <sup>(1)</sup>	2,414	1,367
- Mozambique Meticals	19,965	-
	22,379	1,367
<b>Liabilities</b>		
- US Dollars	2,194	8,739
- Mozambique Meticals	3,116	-
- South African Rand	495	150
- Australian Dollars	29	32
	5,834	8,921
Net surplus/(deficit) position	16,545	(7,554)

(1) Relates to US Dollar denominated financial assets and liabilities held by the parent entity, Syrah Resources Limited, which has an Australian dollar functional currency.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 11. FINANCIAL RISK MANAGEMENT (CONT')

### (A) MARKET RISK (CONT')

#### (i) Foreign exchange risk (CONT')

##### Group sensitivity

Based on the financial instruments held at 31 December 2017 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 year would have changed as follow:

	IMPACT ON LOSS AFTER TAX (HIGHER)/LOWER		IMPACT ON EQUITY HIGHER/(LOWER)	
	2017	2016	2017	2016
	USD'000	USD'000	USD'000	USD'000
USD +5%	(789)	(364)	(17,569)	(8,313)
USD -5%	872	393	19,418	8,476

#### (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's cash reserves are also spread amongst financial institutions to reduce concentration of credit risk. The Group has no receivables past due as at 31 December 2017 (2016: 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 consolidated entity has commenced production of saleable graphite products from the Balama Graphite Project but is not yet cashflow positive, therefore the Company may require additional financing, in addition to current cash reserves to meet its working capital requirements, general and administrative expenditure and the progression of BAM activities. If required, the Company considers that it would have 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 11. FINANCIAL RISK MANAGEMENT (CONT')

### (C) LIQUIDITY RISK (CONT')

AS AT 31 DECEMBER 2017	LESS THAN 6 MONTHS	BETWEEN 6- 12 MONTHS	BETWEEN 1- 2 YEARS	BETWEEN 2- 5 YEARS	TOTAL CONTRACTUAL CASH FLOWS	CARRYING AMOUNT LIABILITIES
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
<b>Non derivatives</b>						
<i>Non-interest bearing</i>						
- Trade and other payables	13,724	-	-	-	13,724	13,724
<i>Interest bearing</i>						
- Finance lease liability	138	138	276	1,002	1,554	1,276
<b>Total non derivative liabilities</b>	13,862	138	276	1,002	15,278	15,000

AS AT 31 DECEMBER 2016	LESS THAN 6 MONTHS	BETWEEN 6- 12 MONTHS	BETWEEN 1- 2 YEARS	BETWEEN 2- 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
<b>Non derivatives</b>							
<i>Non-interest bearing</i>							
Trade and other payables	14,502	-	-	-	-	14,502	14,502
<b>Total non-derivatives</b>	14,502	-	-	-	-	14,502	14,502

### (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	70
13	EVENTS OCCURRING AFTER THE REPORTING PERIOD	70

## 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:

	2017	2016
	US\$'000	US\$'000
Mine properties and development	3,903	30,506
Property, plant and equipment	5,320	-
Total capital commitments	9,223	30,506

The above capital expenditure commitments are in relation to the development and construction of the Balama Graphite Project in Mozambique and the development of the downstream Battery Anode Material (BAM) project.

### (B) OPERATING LEASE EXPENDITURE COMMITMENTS

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

	2017	2016
	US\$'000	US\$'000
Within one year	316	469
After one year but not more than five years	532	659
Minimum lease payments	848	1,128

### (C) CONTINGENCIES

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

### (D) GUARANTEES

Bank guarantees have been provided by Twigg Exploration and Mining Limitada, which unconditionally and irrevocably guarantee in favor of the Ministry of Mineral Resources and Energy (MIREME) in Mozambique, the due and punctual payment of amounts up to a maximum amount of MZN162 million (US\$2.7 million) as at 31 December 2017 (2016: NIL) in relation to the rehabilitation or removal of project infrastructure as per the mine closure plan for the Balama Project.

A parent company guarantee is required to be provided by Syrah Resources Limited in favour of the Government of Mozambique, which unconditionally and irrevocably guarantees amounts up to a maximum of US\$22.5 million to cover any loss or damage or other costs arising out of, or associated with, a breach of the Mining Concession held by Twigg Exploration and Mining Limitada. This guarantee is required to remain in place for a period of two years after the signing of the Mining Agreement.

## NOTE 13. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No event has occurred subsequent to 31 December 2017 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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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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

	2017	2016
	US\$	US\$
Short-term employee benefits	2,412,899	1,714,463
Post-employment benefits	113,992	97,091
Other benefits	367,279	-
Share-based payments	1,418,787	2,318,079
	<u>4,312,957</u>	<u>4,129,633</u>

Detailed remuneration disclosures are provided in the Remuneration Report on page 19 to 40 of the Annual Report.

### (D) TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties are set out below:

	2017	2016
	US\$	US\$
<i>Purchases of goods and services</i>		
Legal services provided by Sal & Caldeira Advogados, Lda <sup>(1)</sup>	384,045	338,931
Consultancy services provided by Proman Consulting Engineers Pty Ltd <sup>(2)</sup>	26,866	66,987
Consultancy services provided by Christina Lampe-Onnerud	-	130,000
Technology and Product Development services provided by Cadenza	1,501,800	-
	<u>1,912,711</u>	<u>535,918</u>

(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 was a Non-Executive Director of the Company.

(3) C Lampe-Onnerud who is a Non-Executive Director of the Company is also Founder and Chief Executive Officer of Cadenza Innovation Inc. During the year, the Company entered into an exclusive research and development agreement with Cadenza Innovation Inc. to fuel advancements in graphite anode technology for use in lithium-ion-based energy storage by establishing an "Office of the Chief Technology Officer", to lead knowledge exchange, deep technical partner and customer engagement and support the BAM processing plant in Louisiana.

These services are provided on normal commercial terms and conditions.

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

	2017	2016
	US\$	US\$
<b>Trade and other payables</b>		
Related parties	26,275	108,770
	<u>26,275</u>	<u>108,770</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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 align 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 on issue during the financial year:

	2017		2016	
	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 year	A\$5.16	8,675,000	A\$5.17	6,947,000
Granted during the year	A\$4.26	2,900,000	A\$5.18	2,300,000
Exercised during the year <sup>(1)</sup>	A\$4.05	(600,000)	A\$2.76	(272,000)
Expired during the year	A\$5.40	(4,225,000)	A\$7.48	(300,000)
Balance at end of the year	A\$4.70	6,750,000	A\$5.16	8,675,000
Vested and exercisable at end of year	A\$5.03	3,850,000	A\$5.36	6,550,000

(1) The weighted average share price at the date of exercise of options during the year ended 31 December 2017 was A\$4.39 (2016: A\$6.18).

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 2017 is represented by:

	2017		2016	
	NUMBER OF OPTIONS	EXERCISE PRICE RANGE	NUMBER OF OPTIONS	EXERCISE PRICE RANGE
Options issued as part of the SOP	2,450,000	A\$4.05 to A\$6.23	5,675,000	A\$nil to A\$6.26
Options issued as part of the LTIP	4,300,000	A\$3.85 to A\$5.09	3,000,000	A\$4.71 to A\$5.09

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 15. SHARE-BASED PAYMENTS (CONT')

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

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

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	2017	2016
			NUMBER	NUMBER
19-May-14	19-May-19	A\$5.38	500,000	500,000
02-Oct-14	02-Oct-19	A\$6.23	800,000	2,800,000
28-Jan-15	28-Jan-18	A\$4.05	600,000	1,200,000
27-Apr-15	27-Apr-17	_(1)	-	125,000
07-May-15	07-May-18	A\$5.40	-	500,000
09-Jun-15	09-Jun-18	A\$4.96	300,000	300,000
26-Oct-15	26-Oct-20	A\$4.35	250,000	250,000
01-Dec-15	01-Dec-18	A\$4.68	1,000,000	1,000,000
24-May-16	24-May-19	A\$5.04	400,000	400,000
09-Jun-16	09-Jun-19	A\$4.58	-	1,000,000
24-Oct-16	24-Oct-19	A\$5.09	-	600,000 <sup>(2)</sup>
01-Mar-17	01-Mar-20	A\$4.11	600,000	-
26-May-17	26-May-20	A\$4.30	1,000,000	-
20-Oct-17	20-Oct-20	A\$4.13	300,000	-
20-Oct-17	20-Oct-20	A\$4.67	600,000	-
20-Oct-17	20-Oct-20	A\$3.85	400,000	-
<b>TOTAL Options</b>			6,750,000	8,675,000
Weighted average remaining contractual life of options outstanding at the end of the year			1.75 years	2.22 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.

### Fair value of options granted

For the options granted during the current financial year, 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 <sup>(1)</sup>	DIVIDEND YIELD	RISK-FREE INTEREST RATE	FAIR VALUE AT GRANT DATE
1-Mar-17	1-Mar-20	A\$2.80	A\$4.11	55.30%	-	2.01%	A\$0.75
26-May-17	26-May-20	A\$2.60	A\$4.30	58.40%	-	1.73%	A\$0.66
20-Oct-17	20-Oct-20	A\$3.71	A\$4.13	55.19%	-	2.12%	A\$1.31
20-Oct-17	20-Oct-20	A\$3.71	A\$4.67	55.19%	-	2.12%	A\$ 1.17
20-Oct-17	20-Oct-20	A\$3.71	A\$3.85	55.20%	-	2.12%	A\$1.39

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 15. SHARE-BASED PAYMENTS (CONT')

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

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

	2017	2016
	NUMBER	NUMBER
Balance at the beginning of the year	324,754	100,707
Granted during the year	600,543	232,296
Lapsed during the year	(65,945)	-
Forfeited during the year	(214,514)	(8,249)
Balance at the end of the year	644,838	324,754
At 31 December 2017:		
- Vested	78,225	-
- Unvested	566,613	324,754
	644,828	324,754
<b>Performance testing dates for unvested Performance Rights above are as follows:</b>		
- 31 December 2017	-	100,707
- 31 December 2018	136,437	224,047
- 31 December 2019	430,176	-
Balance at end of the year	566,613	324,754

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 year as part of employee benefit expense were as follows:

	2017	2016
	US\$'000	US\$'000
Recognised in profit and loss		
- Options issued under the LTIP and SOP	1,665	2,998
- Performance rights issued under the LTIP	310	264
- Shares issued as remuneration <sup>(1)</sup>	43	429 <sup>(1)(2)</sup>
	2,018	3,691
Capitalised as mining asset	257	-
	2,275	3,691

(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 shareholder 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 16. REMUNERATION OF AUDITORS

During the financial year 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.

	2017	2016
	US\$'000	US\$'000
<i>Assurance services:</i>		
PwC Australian firm	150	98
Network firms of PwC Australian firm	94	60
Total remuneration for audit services	244	158
<i>Non-assurance services</i>		
Tax compliance services	29	53
Tax consulting services	66	140
Other consulting services	22	-
Total remuneration for non-assurance services	117	193
<b>Total remuneration paid to PricewaterhouseCoopers</b>	<b>361</b>	<b>351</b>

## NOTE 17. EARNINGS PER SHARE

	2017	2016
	US CENTS	US CENTS
<b>Earnings/ (losses) per share</b>		
Basic loss per share	(4.51)	(5.84)
Diluted loss per share	(4.51)	(5.84)

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

	2017	2016
	US\$'000	US\$'000
<b>Basic loss</b>		
Total profit/(loss) attributable to the ordinary equity holders of the Company used in calculating basic loss per share	(12,307)	(14,491)
<b>Diluted loss</b>		
Total profit/(loss) attributable to the ordinary equity holders of the Company used in calculating diluted loss per share	(12,307)	(14,491)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 17. EARNINGS PER SHARE (CONT')

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

	2017	2016
	NUMBER	NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	273,133,506	248,338,800
Weighted average number of ordinary shares used as the denominator in calculating diluted loss per share	273,133,506	248,338,800

### 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:

	2017	2016
	US\$'000	US\$'000
<b>Balance sheet</b>		
Current assets	22,625	25,785
<b>Total assets</b>	<b>421,394</b>	<b>323,877</b>
Current liabilities	3,947	5,796
<b>Total liabilities</b>	<b>3,980</b>	<b>5,809</b>
<b>Shareholders' equity</b>		
Issued capital	452,601	366,427
Reserves	12,454	(6,987)
Accumulated losses	(47,641)	(41,372)
<b>Total equity</b>	<b>417,414</b>	<b>318,068</b>
<b>Loss after income tax for the year</b>	<b>(12,072)</b>	<b>(15,122)</b>
Other comprehensive income	23,864	(5,094)
<b>Total comprehensive income for the year</b>	<b>11,792</b>	<b>(20,216)</b>

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

The parent entity has no contingent liabilities as at 31 December 2017 and 31 December 2016.

### (C) GUARANTEES OF THE PARENT ENTITY

A parent company guarantee is required to be provided by Syrah Resources Limited in favour of the Government of Mozambique, which unconditionally and irrevocably guarantees amounts up to a maximum of US\$22.5 million to cover any loss or damage or other costs arising out of, or associated with, a breach of the Mining Concession held by Twigg Exploration and Mining Limitada. This guarantee is required to remain in place for a period of two years after the signing of the Mining Agreement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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.

NAME	PRINCIPAL PLACE OF BUSINESS / COUNTRY OF INCORPORATION	PERCENTAGE OF EQUITY INTEREST HELD BY THE GROUP	
		2017 (%)	2016 (%)
Jacana Resources Limited	Australia	100	100
Syrah Resources (KSA) Pty Ltd	Australia	100	100
Twigg Exploration and Mining, Limitada	Mozambique	100 <sup>(1)</sup>	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 Global DMCC <sup>(2)</sup>	United Arab Emirates	100	100
Syrah US Holdings Pty Ltd <sup>(3)</sup>	Australia	100	-
Syrah Technologies LLC <sup>(4)</sup>	United States of America	100	-

(1) During the year ended 31 December 2017, Twigg Exploration and Mining Limitada (Twigg) finalised negotiations with the Ministry of Mineral Resources and Energy of the Republic of Mozambique in relation to a Mining Agreement. The terms of the Mining Agreement provide for a 5% non-controlling non-diluting interest in Twigg to be made available to a Mozambique Government entity. As at 31 December 2017, the Mining Agreement was not yet signed. This agreement will become binding and enforceable when the key terms are gazetted, the Agreement is signed by Twigg and the Minister of Mineral Resources and Energy (on behalf of the Government of the Republic of Mozambique) and finally sanctioned by the Administrative Court in Mozambique. A non-controlling interest in Twigg will be recognised after the issuance of shares to the Mozambique Government entity.

(2) Syrah Global DMCC was formerly known as Syrah Resources and Trading Operation DMCC.

(3) Syrah US Holdings Pty Ltd was incorporated on 15 February 2017.

(4) Syrah Technologies LLC was incorporated on 23 February 2017.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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 year for the 'Closed Group'.

	2017	2016
	US\$'000	US\$'000
<i>Consolidated statement of comprehensive income</i>		
Revenue from continuing operations	289	683
Other income	3	13
<b>Expenses</b>		
Employee benefits expense	(6,495)	(6,831)
Legal and consulting expense	(2,937)	(2,247)
Depreciation and amortisation expense	(147)	(86)
Impairment of available-for-sale financial assets	-	(34)
Foreign exchange loss - net	(463)	(4,908)
Other expenses	(2,322)	(1,712)
<b>Loss for the year before income tax expense</b>	<b>(12,072)</b>	<b>(15,122)</b>
Income tax expense	-	-
<b>Loss after income tax expense for the year</b>	<b>(12,072)</b>	<b>(15,122)</b>
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign subsidiaries	23,203	(2,972)
<b>Total comprehensive income for the year</b>	<b>11,131</b>	<b>(18,094)</b>
<i>Summary of movements in consolidated accumulated losses</i>		
Balance at beginning of the year	(42,388)	(27,266)
Loss after income tax expense for the year	(12,072)	(15,122)
Transfer from Share-based payment reserve	5,801	-
<b>Balance at end of the year</b>	<b>(48,659)</b>	<b>(42,388)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 20. DEED OF CROSS GUARANTEE (CONT')

### (B) 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 year for the 'Closed Group'.

	2017	2016
	US\$'000	US\$'000
<b>Current assets</b>		
Cash and cash equivalents	13,218	16,679
Trade and other receivables	263	705
Available-for-sale financial assets	91	84
<b>Total current assets</b>	<b>13,572</b>	<b>17,468</b>
<b>Non-current assets</b>		
Mine properties and development	17,331	96,635
Exploration and evaluation	-	890
Property, plant and equipment	2,029	873
Investments in subsidiaries	389,825	210,013
Intangibles	39	60
<b>Total non-current assets</b>	<b>409,224</b>	<b>308,471</b>
<b>Total assets</b>	<b>422,796</b>	<b>325,939</b>
<b>Current liabilities</b>		
Trade and other payables	3,459	5,329
Provisions	488	454
<b>Total current liabilities</b>	<b>3,947</b>	<b>5,783</b>
<b>Non-current liabilities</b>		
Provisions	33	27
<b>Total non-current liabilities</b>	<b>33</b>	<b>27</b>
<b>Total liabilities</b>	<b>3,980</b>	<b>5,810</b>
<b>Net assets</b>	<b>418,816</b>	<b>320,129</b>
<b>Equity</b>		
Issued capital	452,601	366,427
Reserves	14,874	(3,910)
Accumulated losses	(48,659)	(42,388)
<b>Total equity</b>	<b>418,816</b>	<b>320,129</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## 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 (CONT')

### (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:

#### SALES OF GRAPHITE

The Group recognises revenue related to the sale of graphite when control of the goods passes to customers and the amount of revenue can be measured reliably. The majority of the Group's sales arrangements specify that control passes when the product is transferred to the vessel on which the product will be shipped. Revenues are generally recognised on the bill of lading date. Revenue is recognised and measured at the fair value of the consideration received or receivable, net of agency commissions. Sales arrangements allow for an adjustment to the sales price based on a survey of the goods by the customer (an assay for mineral content and particle size distribution). If necessary, adjustments to sales revenues arising from a survey of the goods by the customer are accounted for in the period in which the Group agrees to such adjustments.

The Group sells a significant proportion of its products on CFR and CIF Incoterms. This means that the Group is responsible for providing shipping services after the date at which control of the goods passes to the customer at the loading port. The Group treats freight, where applicable, as a separate performance obligation and therefore recognises the revenue and associated costs over time.

Revenue related to the sale of graphite during the commissioning and production ramp-up phase, prior to the declaration of commercial production (refer note 8), is treated as pre-production income and recognised as a credit against capitalised project development costs (refer to note 8).

#### 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 substantively 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.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (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.

### (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 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) INVENTORIES

Inventories are valued at the lower of weighted average cost and estimated net realizable value. Cost is determined primarily on the basis of weighted average costs and comprises of the purchase price of direct materials and the costs of production which include:

- > labour costs, materials and contractor expenses which are directly attributable to the extraction and processing of ore;
- > depreciation of mining assets, property, plant and equipment used in the extraction and processing of ore; and
- > production overheads directly attributable to the extraction and processing of ore.

Stockpiles represent ore that has been extracted and is available for further processing and work-in progress includes partly processed material. If there is significant uncertainty as to when the stockpiled ore will be processed it is expensed as mined. If the ore will not be processed within 12 months after the balance sheet date it is included within non-current assets. Quantities of stockpiled ore are assessed primarily through surveys and assays.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale, including royalties.

The cost of inventories (ore stocks, consumable stores and finished products) during the commissioning and production ramp-up phase, prior to the declaration of commercial production is included in mining assets (refer note 8).

### (K) 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

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (K) PROPERTY, PLANT AND EQUIPMENT (CONT')

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.

### (L) 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.

### (M) 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 ore reserves and other mineral resources are accounted for prospectively.

### (M) MINE PROPERTIES AND DEVELOPMENT (CONT')

#### 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.

### (N) 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; and
- > 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 of 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).

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (O) 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.

### (P) 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.

### (Q) 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 assesses 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.



## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (R) 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.

### (S) 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.

### (T) 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.

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (T) EMPLOYEE ENTITLEMENTS (CONT')

#### Share-based payments (CONT')

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.

### (U) 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.

### (V) 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.

### (W) 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.

### (X) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

## NOTE 21. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT')

### (Y) COMPARATIVE FIGURES

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

### (Z) 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.

### (AA) 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). Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. This standard is applicable to the Company from 1 January 2018.

The Company did not earn revenue from customers during the financial year ended 31 December 2017 and in prior periods. Following the commencement of production at Balama in November 2017 the Company has adopted an accounting policy for revenue that is in accordance with AASB15. Consequently, there is no impact on the results presented in prior periods.

**(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



**SYRAH** RESOURCES

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 43 to 88 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 2017 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 20 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.

**Shaun Verner**  
*Managing Director*

Melbourne, Australia

26 March 2018

# INDEPENDENT AUDITOR'S REPORT



## *Independent auditor's report*

To the members of Syrah Resources Limited

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

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#### *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 2017 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 financial report comprises:

- the consolidated statement of financial position as at 31 December 2017
- 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.

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#### *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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# INDEPENDENT AUDITOR'S REPORT (CONT')



## *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 Balama Graphite Project located in Mozambique, as well as the downstream strategy to produce spherical graphite (Battery Anode Material Project).



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of US\$4,185,000 million, which represents approximately 1% of the Group's total assets.</li> <li>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.</li> <li>Given the stage of development of the Balama Project and that production has only recently 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.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>The Australian engagement team directed the involvement of the Mozambique component audit team, which performed an audit of the financial information of TWIGG Exploration &amp; Mining Limitada given its financial significance to the Group. Their procedures included a visit to the Balama site.</li> <li>We, the Australian engagement team, determined and undertook an appropriate level of involvement in the work performed by the Mozambique component audit team, in order for us to be satisfied that sufficient audit evidence had been obtained to support our</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> <li>Liquidity and capital management</li> <li>Capitalisation of development costs</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT (CONT')



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

Refer to note 11 (C)

The Group has commenced production and sales from the Balama Graphite Project, however the project has not reached commercial production and is not currently cash flow positive. Although there are cash conservation measures available to the Group if necessary, it is possible that the Group may require additional funding for working capital, other corporate activities and the Battery Anode Materials (BAM) project. There are risks associated with cash flow conservation and the ability to obtain a debt facility or alternative sources of financing. 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.

To support its basis of preparation of the financial statements, the Group has prepared a forecast of its cash flows, which includes a number of assumptions such as timing of commissioning and production ramp-up activities, expected revenues from production, and operating and capital costs.

We assessed the main assumptions in the Group's cash flow forecast for at least 12 months from the date of signing the auditor's report, by performing the following procedures, amongst others:

- We assessed the reasonableness of the commodity prices and foreign exchange rates used in the forecast against available information.
- We compared a sample of significant operational cash outflows in the forecast to the relevant contracts.
- 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.
- 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 a sample of the

# INDEPENDENT AUDITOR'S REPORT (CONT')



Key audit matter	How our audit addressed the key audit matter
	<p>contracts currently in place with customers.</p> <p>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 potential opportunities for cash conservation as well as various options for raising additional funds.</p> <p>We also considered the appropriateness of the liquidity risk disclosures included within the financial statements.</p>
<p><b>Capitalisation of development costs</b> <i>Refer to note 8(a)</i></p> <p>Syrah's Balama Graphite Project in Mozambique is in the development phase. During the year ended 31 December 2017, the Group capitalised costs of \$108.9 million which increased the carrying value of the project at 31 December 2017 to \$272.6 million. Given the financial significance of the amounts capitalised this has been identified as a key audit matter.</p> <p>The capitalisation of costs gives rise to financial reporting risks, as follows:</p> <ul style="list-style-type: none"> <li>• Capitalisation of costs not directly attributable to the Project or project costs incorrectly expensed (risk of incorrect classification of costs).</li> <li>• Capitalisation of operating costs and offsetting revenue while in the commissioning phase not in accordance with the accounting standard.</li> <li>• Inaccurate recording of costs due to factors such as exchange rate conversions.</li> <li>• Any indicators that the carrying value of the Project may be in excess of its recoverable amount.</li> </ul>	<p>We developed an understanding of and evaluated the Group's controls in relation to the capitalisation of costs to mine, properties and development.</p> <p>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.</p> <p>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.</p> <p>We performed testing over the capitalisation of operating costs and the offsetting of revenue received during the commissioning phase.</p> <p>We recalculated a sample of the conversion of foreign currency costs into the functional currency of the entity incurring the costs.</p> <p>We considered the Group's assessment of indicators of impairment, including the completeness of the list of indicators.</p>



## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, including Company Profile, 2017 Highlights, Chairman's Letter, Managing Director and CEO's Letter, Directors Report and Additional ASX Information 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.

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.

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## *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 *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.

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## *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\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

# INDEPENDENT AUDITOR'S REPORT (CONT')



## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 19 to 39 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Syrah Resources Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A stylized, handwritten signature of PricewaterhouseCoopers in a dark grey or black ink.

PricewaterhouseCoopers

A stylized, handwritten signature of John O'Donoghue in a dark grey or black ink.

John O'Donoghue  
Partner

Melbourne  
26 March 2018

# 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 21 March 2018 except where otherwise indicated.

## EQUITY SECURITY HOLDERS

### TOP 20 LARGEST QUOTED SECURITY HOLDERS AS AT 21 MARCH 2018

The names of the twenty largest security holders of quoted equity securities are listed below:

RANK	NAME	UNITS	% OF UNITS
1.	J P MORGAN NOMINEES AUSTRALIA LIMITED	67,926,003	22.84
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	65,132,953	21.90
3.	CITICORP NOMINEES PTY LIMITED	35,589,502	11.97
4.	NATIONAL NOMINEES LIMITED	10,511,062	3.53
5.	COPPER STRIKE LIMITED	10,247,624	3.45
6.	UBS NOMINEES PTY LTD	9,923,790	3.34
7.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING COLLATERAL>	4,737,350	1.59
8.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <NT-COMNWLTH SUPER CORP A/C>	2,961,660	1.00
9.	GONDWANA INVESTMENT GROUP PTY LTD <KUMOVA FAMILY SUPER FUND A/C>	2,777,778	0.93
10.	MR GIOVANNI SANTALUCIA	2,640,000	0.89
11.	CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>	2,467,568	0.83
12.	BNP PARIBAS NOMS (NZ) LTD <DRP>	2,253,359	0.76
13.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,082,464	0.70
14.	BNP PARIBAS NOMS PTY LTD <DRP>	1,825,072	0.61
15.	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	1,467,498	0.49
16.	BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,196,689	0.40
17.	VICTORIA FAIRBANK PROPRIETARY LIMITED	1,096,500	0.37
18.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,074,686	0.36
19.	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	1,053,554	0.35
20.	HAWTHORN GROVE INVESTMENTS PTY LTD	1,000,000	0.34
<b>Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (TOTAL)</b>		<b>227,965,112</b>	<b>76.65</b>
<b>Total Remaining Holders Balance</b>		<b>69,426,883</b>	<b>23.35</b>



## UNQUOTED EQUITY SECURITIES AS AT 21 MARCH 2018

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Options over ordinary shares	5,750,000	12
Performance rights over ordinary shares	1,029,048	20

## SUBSTANTIAL SHAREHOLDERS

An extract of the Company's Register of Substantial Shareholders as at 21 March 2018 is set out below:

RANK	NAME	UNITS	% OF UNITS
1.	AustralianSuper Pty Ltd	27,126,964	9.39%
2.	Regal Funds Management Pty Limited	21,942,787	7.39%
3.	UBS Group AG	21,940,604	7.39%
4.	Credit Suisse Holdings (Australia) Limited	18,935,930	6.38%
5.	Aberdeen Asset Management Asia Limited	16,227,891	6.15%
6.	JCP Investment Partners	13,717,258	5.20%

## DISTRIBUTION OF EQUITABLE SECURITIES

Analysis of number of equitable security holders by size of holding:

RANGE	TOTAL HOLDERS	UNITS	% OF ISSUED CAPITAL
1 - 100	256	3,172	0.00
101 - 1,000	1,966	1,085,834	0.37
1,001 - 10,000	3,557	13,717,735	4.62
10,001 - 100,000	1,079	29,115,514	9.80
100,001 - 1,000,000	103	28,852,516	9.71
1,000,001 - 10,000,000	14	46,238,252	15.57
10,000,001 - 100,000,000	4	178,009,743	59.93
<b>Rounding</b>			<b>0.00</b>
<b>Total</b>	<b>6,979</b>	<b>297,022,766</b>	<b>100.00</b>

The number of shareholders holding less than a marketable parcel of Ordinary Shares at 21 March 2018 was 369.

## 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 21 MARCH 2018

PROJECT	LICENSE NUMBER	LICENSE TYPE	COUNTRY	INTEREST OWNED
Balama	6432C	Mining Concession	Mozambique	100%
Balama <sup>(1)</sup>	5684L	Exploration	Mozambique	100%
Balama <sup>(1)</sup>	6174L	Exploration	Mozambique	100%

(1) Syrah has entered into a Tenement Sale Agreement (TSA) for the acquisition of a tenement (Tenement) in Balama currently held on trust by 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. Due to an administrative decision to use district boundaries to define mineral titles, Exploration Licence 5684L was split into two, with one half retaining the original licence number and the other half being designated Exploration Licence 6174L. There was no change to the total value of the contingent consideration because of this administrative decision.



**SYRAH** RESOURCES



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