

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2015**

SAYONA MINING LIMITED
ABN 26 091 951 978

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (group) consisting of Sayona Mining Limited and its controlled entities for the financial year to 30 June 2015. The information in the following operating and financial review and the remuneration report forms part of this directors' report for the financial year ended on 30 June 2015 and is to be read in conjunction with the following information.

DIRECTORS

The Directors of the Company during or since the end of the financial year are listed below. During the year there were 4 meetings of the full Board of Directors. The meetings attended by each Director were

| DIRECTOR | ELIGIBLE TO ATTEND | ATTENDED |
|---|---------------------------|-----------------|
| D.C. O'Neill | 4 | 4 |
| P.A. Crawford | 4 | 3 |
| A. C. Buckler | 4 | 4 |
| J. S. Brown | 4 | 4 |
| P. van Riet-Lowe (Resigned 7 July 2014) | - | - |
| W. Osterberg (Resigned 7 July 2014) | - | - |

The Company does not have an Audit Committee. The role of the Audit Committee has been assumed by the full Board. The size and nature of the Company's activities does not justify the establishment of a committee at this time.

INFORMATION ON DIRECTORS AND COMPANY SECRETARY

The names and qualifications of current Directors are summarised as follows

Dennis C O'Neill Director (Executive)

Qualifications Bachelor of Science - Geology

Experience Board member since 2000. Over 40 years experience in exploration project and corporate management. He has held positions with a number of Australian and multinational exploration companies and has managed exploration programs in a diverse range of commodities and locations.

Interest in Shares 69,255,241 ordinary shares, 2,000,000 options

Directorships in Other Listed Companies Altura Mining Limited

Former directorships in last 3 years Nil

Paul A Crawford Director (Executive) & Company Secretary

Qualifications Bachelor of Business – Accountancy; CPA; Master of Financial Management; Graduate Diploma in Business Law; Graduate Diploma in Company Secretarial Practice.

Experience Board member since 2000. 35 years of commercial experience, including various technical and management roles within the minerals, coal and petroleum industries. Principal of his own corporate consultancy firm, providing accounting, corporate governance, business advisory and commercial management services.

Interest in Securities 75,930,974 ordinary shares, 2,750,000 options.

Directorships in Other Listed Companies Nil

Former directorships in last 3 years ActivEX Limited

DIRECTORS' REPORT

Allan C Buckler

Director (Non-Executive)

| | |
|---|---|
| Qualifications | Certificate in Mine Surveying and Mining, First Class Mine Managers Certificate and a Mine Surveyor Certificate issued by the Queensland Government's Department of Mines |
| Experience | Appointed to the Board on 5 August 2013. Over 35 years experience in the mining industry and has taken lead roles in the establishment of several leading mining and port operations in both Australia and Indonesia. Significant operations such as PT Adaro Indonesia, PT Indonesia Bulk Terminal and New Hope Coal Australia have been developed under his leadership. |
| Interest in Securities | 83,081,394 ordinary shares, 2,000,000 options |
| Directorships in Other Listed Companies | Altura Mining Limited, Interra Resources Limited |
| Former directorships in last 3 years | Nil |

James S Brown

Director (Non-Executive)

| | |
|---|--|
| Qualifications | Graduate Diploma in Mining from University of Ballarat |
| Experience | Appointed to the Board on 12 August 2013. Over 25 years experience in the coal mining industry in Australia and Indonesia, including 22 years at New Hope Corporation. He was appointed as Managing Director of Altura in September 2010. His coal development and operations experience includes the New Acland and Jeebropilly mines in South East Queensland, the Adaro and Multi Harapan Utama operations in Indonesia and Blair Athol in the Bowen Basin in Central Queensland. |
| Interest in Securities | 1,648,295 ordinary shares, 400,000 options |
| Directorships in Other Listed Companies | Altura Mining Limited |
| Former directorships in last 3 years | Nil |

DIVIDENDS

No dividends were declared or paid during the financial year.

SHARE OPTIONS

At the date of this report the unissued ordinary shares of Sayona Mining Limited under option are as follows:

| Grant Date | Expiry Date | Exercise Price | No. under Option |
|-------------------|--------------------|-----------------------|-------------------------|
| 8 July 2015 | 30 June 2016 | 0.5 cents | 6,000,000 |
| 8 July 2015 | 31 December 2016 | 1.0 cents | 6,000,000 |
| 8 July 2015 | 30 June 2017 | 1.5 cents | 6,000,000 |
| 14 August 2015 | 30 December 2016 | 3.0 cents | 72,320,000 |
| 4 September 2015 | 30 December 2016 | 3.0 cents | 30,563,700 |
| 7 September 2015 | 30 December 2016 | 3.0 cents | 8,032,781 |

Options holders do not have any rights to participate in any issue of shares or other interests of the Company or any other entity.

SAYONA MINING LIMITED
ABN 26 091 951 978

DIRECTORS' REPORT

There have been no options granted over unissued shares or interests of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to directors and executives as remuneration, refer to the remuneration report.

No options have been exercised during the financial year or since year end to the date of this report.

INDEMNIFICATION OF DIRECTORS AND AUDITORS

The consolidated group has paid insurance premiums to indemnify each of the Directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company. The contracts include a prohibition on disclosure of the premium paid and nature of the liabilities covered under the policy.

The Company has not given an indemnity or entered into any agreement to indemnify, or paid or agreed to pay insurance premiums in respect of any person who is or has been an auditor of the Company or a related body corporate during the year and up to the date of this report.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

AUDITOR INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

Non-Audit Services

There were no non-audit services provided by the Company's auditors in the current or previous financial year.

OPERATING AND FINANCIAL REVIEW

PRINCIPAL ACTIVITY

The consolidated group's principal activity during the financial year has been the identification, assessment and acquisition of suitable mineral exploration assets. During the period the Company undertook exploration activity on a number of projects.

There were no significant changes in these activities during the financial year.

BUSINESS MODEL AND OBJECTIVES

During the last few financial years, the Company's objective has been focused on implementing its restructuring plan with a view to restoring value to shareholders.

This has entailed recapitalising the Company and assessing projects on a worldwide basis with a view to acquiring an advanced exploration/development project to add to its portfolio of assets. At the date of this report these objectives have been achieved.

The objective now is to implement the Company's business model of evaluating and developing its portfolio of exploration assets.

Operating Results

The entity's consolidated operating loss for the financial year after applicable income tax was \$566,530 (2014: \$114,148 profit). Exploration and evaluation expenditure during the year totalled \$310,394 (2014: \$126,620).

Review of Operations

During the year, the Company continued working through its restructuring plan with a view to restoring value to shareholders.

The Company has been actively assessing projects on a worldwide basis with a view to acquiring an advanced exploration/development project to add to its portfolio of assets. During the year, Directors assessed the acquisition of a number of projects both in Australia and elsewhere.

During the first half of the year the, the Company entered into a heads of agreement with Freedom Minerals Pty Ltd, Great Sandy Pty Ltd and Kalamazoo Resources Pty Ltd ("Talga"). The parties entered into this agreement to record the basis on which they may enter into an Option Agreement in relation to iron ore rights within some of the tenements under the control of Talga. At the completion of due diligence procedures the Company paid to Talga a signing fee of \$50,000 and \$45,455 for the reimbursement of costs for a Native Title Heritage Survey. The company has therefore exercised its right under this heads of agreement and as a result entered into an option agreement with Talga.

Under the terms of the option agreement the company had been granted the option to acquire a 70% interest in the iron ore rights of the tenements controlled by Freedom Minerals Pty Ltd and Great Sandy Pty Ltd. The Company could only exercise its option under this agreement by performing the following:

- Complete a minimum ten (10) hole drilling programme of at least 1,000 meters anywhere within the tenements 45/3679, E45/3857, 45/4136 and 45/4137;
- Pay to Talga the sum of \$599,000;
- Grant to Talga 25,000,000 ordinary share options which the holder may exercise at any time within three (3) years from grant date at an issue price of \$0.025 per share.

Field work comprising drilling, sampling and analysis was completed late December. The aim of the programme was to define a high grade (60% Fe) DSO iron ore resource. The drilling confirmed the existence of a stratigraphically conformable northerly dipping Lode style of iron ore mineralisation down to a vertical depth of 139 metres and downhole widths up to 17 metres. Analytical results received were disappointing and a review of the project resulted in the Company withdrawing from the agreement.

Subsequent to the end of the year, the Company announced a strategic entry into the large flake graphite market by securing a large ground position in the East Kimberley region of Western Australia. The Kimberley region is a proven province for high purity, large flake graphite.

OPERATING AND FINANCIAL REVIEW

The market for large and jumbo flake graphite is highly concentrated and potential synthetic graphite substitutes are comparatively very expensive to produce. Both the US and EU Governments have classified graphite as a “critical material” for industrial and national security purposes.

The East Kimberley project offers an attractive entry into the graphite market:

- Proven district for high carbon purity, large flake graphite;
- The significant scale (up to 20 kilometres strike extent) of the Corkwood graphite target identified from geological and geophysical anomalies;
- Situated in a well-established mining district, 240 kilometres south of an export port at Wyndham;
- The region has excellent infrastructure including roads, airports, and labour;
- First world country with stable tax and royalties, and mining law; and
- Low cost entry via tenement applications and option-to-purchase agreements.

The project area is located within the East Kimberley region of Western Australia, 240 kilometres south of Wyndham Port and 220 kilometres south-south-west of the regional centre, Kununurra.

The project includes one granted tenement and three separate tenement applications, subject to two option-to-purchase agreements. The project covers 278 km² and comprises two areas, Keller and Corkwood (See Figure 1). These areas have never been previously explored for their graphite potential

Terms of the two option-to-purchase agreements, include:

- Attgold Pty Ltd (“Attgold”) – SYA paid Attgold \$5,000 on signing and is required to make payments of \$30,000 within 6 months and \$170,000 within 18 months of signing of the agreement, respectively, to acquire a 100% interest in the tenements E80/4915, E80/4948 and E80/4949; and
- Western Iron Pty Ltd (“Western Iron”) – SYA paid Western Iron \$5,000 on signing and is required to pay \$200,000 on or before the six month agreement anniversary to exercise its option to acquire 100% of the graphite interests in tenement E80/4511. Western Iron will also receive a 1% gross production royalty. Western Iron retains a Back-in Right to the nickel, copper and iron mineralisation by the payment of \$100,000 within 12 months.

Corporate

In December 2013 Sayona initiated legal proceedings in the High Court in London against Mantle Diamonds Plc for the recovery of USD \$500,000 retained by Mantle as part of warranties and indemnities provisions of the Sale and Purchase agreement for their purchase of the Lerala Diamond mine.

On 24 September 2014 the Company settled its legal proceedings against Mantle Diamonds Limited. Agreement with Mantle and Kimberley Diamonds Limited provided a mutual release of claims by the parties and payment to Sayona of cash and scrip in Kimberley totalling US\$340,000.

FINANCIAL POSITION

At 30 June 2015, the Company's Statement of Financial Position shows total assets of \$876,127, of which \$737,545 was cash, total liabilities of \$53,626 and net assets of \$822,501. Committed exploration & evaluation expenditure in the next 12 months totals \$72,116. We refer to significant events after balance date in this report and and note 23 in the financial report for non-binding commitments

In August 2015, the Company announced its intention to undertake a partially underwritten, accelerated non-renounceable rights issue to raise up to \$2.57 million. The rights issue was fully underwritten and completed on 4 September 2015.

The Directors believe that the group is in a stable financial position.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes during the year include:

- On 24 September 2014 the Company settled its legal proceedings against Mantle Diamonds Limited. Agreement with Mantle and Kimberley Diamonds Limited provided a mutual release of claims by the

OPERATING AND FINANCIAL REVIEW

parties and payment to Sayona of cash and scrip in Kimberley totalling US\$340,000. Settlement occurred on 1 October 2014.

- On 24 December 2014 the Company issued 6,000,000 shares at \$0.005 each to settle director fees outstanding from prior years.
- On 6 February 2015 the Company entered into a Heads of Agreement with Attagold Pty Ltd to acquire a 100% in a number of graphite tenements in Western Australia.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Key events since balance date have been:

- On 3 July 2015 the Company appointed Mr Corey Nolan as Chief Executive Office.
- On 7 July 2015, the Sayona East Kimberley Pty Ltd entered into an Option and Sale Agreement with Western Iron Ore Pty Ltd ("Western") to acquire 100% of the graphite interest in tenement E80/4511.

The option is exercisable within 6 months but can be abandoned by Sayona at any stage of the exercise period. The agreement provides for a back-in option for Western under certain conditions for minerals other than graphite. The contingent commitments for the Group are:

- option fee of \$5,000 on signing the agreement;
 - an exercise price of \$200,000 payable one business day after giving an option exercise notice;
 - to meet minimum statutory expenditure obligations relating to the tenement, up to a limit of \$63,000; and
 - to pay statutory fees such as rates and rent up to a limit of \$17,000.
- On 8 July 2015, the Company granted 18,000,000 options with various exercise conditions to Mr Nolan. Refer to the Directors' Report for details of these options.
 - On 4 August 2015, the Company entered into a four-month, exclusive binding term sheet to acquire the Itabela graphite project.

It is solely at Sayona Group's discretion whether to proceed to a binding sale and purchase agreement. The contingent commitments for the Group are:

- an exclusivity payment of US\$60,000 payable in 4 equal instalments after execution of the binding term sheet; and
 - a purchase price of US\$3.5 million after signing the binding sale and purchase agreement.
- On 5 August 2015, the Company announced its intention to undertake an accelerated non-renounceable rights issue to raise up to \$2.57 million. The rights issue entailed a 1 for 4 entitlement offer at an issue price of \$0.025 per share, together with 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new share applied for.
 - On 14 August 2015, the Company completed the accelerated component of the rights issue, issuing 72,320,000 new shares and listed options to raise \$1,080,000.
 - On 4 September 2015, the Company completed the underwritten retail component of the rights issue raising \$764,092.
 - On 9 September 2015, the Company issued 1,224,116 shares and listed options as a placement in respect of underwriting oversubscriptions.
 - On 9 September 2015, the Company issued 1,603,522 shares and 6,808,666 listed options in part settlement of raising management and underwriting fees.

Other than as set out in this report and the attached financial statements no matters or circumstances have arisen since 30 June 2015, which significantly affect or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

OPERATING AND FINANCIAL REVIEW

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

During the year, the Company has assessed the acquisition of a number of projects in various jurisdictions. A decision to make a strategic entry into the large flake graphite market has seen the Company assemble a portfolio of exploration assets to achieve this outcome.

The Company's strategic focus is on the exploration, evaluation and potential for development of these assets. The assets range from early stage exploration to advanced projects with potential for advancement to production.

To achieve these outcomes the Company is likely to require additional capital. The form of this funding is currently undetermined and likelihood of success unknown. Consequently it is not possible at this stage to predict future results of the activities.

Business Risks

The following exposures to business risks may affect the Group's ability to achieve prospects above are:

- exploration and evaluation success on individual projects;
- the ability to raise additional funds in the future; and
- the Group's ability to identify and acquire an interest in additional projects, if required.

ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulation under the law of the Commonwealth and the States of Western Australia.

The Directors monitor the Company's compliance with environmental regulation under law, in relation to its exploration activities. The Directors are not aware of any compliance breach arising during the year and up to the date of this report.

REMUNERATION REPORT

REMUNERATION POLICY

The financial position of the Company over the recent years resulted in the suspension of a number of remuneration arrangements.

The Company's remuneration policy ordinarily seeks to align Director and executive objectives with those of shareholders and the business, while at the same time recognising the development stage of the Company and the criticality of funds being utilised to achieve development objectives. The Board believes that the current policy has been appropriate and effective in achieving a balance of objectives.

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

- The remuneration policy is to be developed and approved by the Board.
- KMP may receive a base salary, superannuation, fringe benefits, options and performance incentives.
- The remuneration structure for KMP is based on a number of factors including length of service, particular experience of the individual concerned and overall performance of the group.
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders.
- The Board reviews KMP packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each party and is based predominantly on the forecast growth of the consolidated group, project milestones and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any change must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives possible and reward them for performance results leading to long-term growth in shareholder wealth.

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

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

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholders' interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is measured using a binomial lattice pricing model which incorporates all market vesting conditions.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In addition, the Board's remuneration policy prohibits directors and KMP from using the Company's shares as collateral in any financial transaction, including margin loan arrangements.

ENGAGEMENT OF REMUNERATION CONSULTANTS

The Company does not engage remuneration consultants.

PERFORMANCE BASED REMUNERATION

KPIs are set annually, in consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and shareholder value, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and relevant industry standards.

SAYONA MINING LIMITED
ABN 26 091 951 978

REMUNERATION REPORT

RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. The Company has been working on the restructuring plan approved by shareholders at a general meeting held in March 2011. This plan focused on recapitalising the Company and acquiring an advanced exploration/development project, with a view to restoring value to shareholders.

The relative inactivity during this period makes any analysis of the Company's performance over this period meaningless. Consequently no summary of performance has been included in this report.

EMPLOYMENT DETAILS OF MEMBERS OF KEY MANAGEMENT PERSONNEL

The following table provides employment details of persons who were, during the financial year, members of KMP of the consolidated group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options.

| Key Management Personnel | Position held at 30 June 2015 & change during period | Contract Details | Proportion of Remuneration: | | Total |
|--------------------------|--|--|-----------------------------|----------------------------|-------|
| | | | Related to performance | Not related to performance | |
| | | | Options | Salary & Fees | |
| D O'Neill | Executive Director | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |
| P Crawford | Executive Director Company Secretary | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |
| A Buckler | Non-executive Director from 5 August 2013 | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |
| J Brown | Non-executive Director from 12 August 2013 | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |
| P van Riet-Lowe | Non-executive Chairman resigned 7 July 2014 | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |
| W Osterberg | Non-executive Director resigned 7 July 2014 | No fixed term, termination as provided by Corporations Act | - | 100% | 100% |

There are no formalised contracts of employment with any member of KMP

CHANGES IN EXECUTIVES SUBSEQUENT TO YEAR-END

On 3 July 2015 the Company appointed Mr Corey Nolan as Chief Executive Office.

REMUNERATION EXPENSE DETAILS

There was no remuneration benefit or payment made to any member of KMP of the consolidated group during the current year or comparative year.

REMUNERATION REPORT

SECURITIES RECEIVED THAT ARE NOT PERFORMANCE-RELATED

Members of KMP may receive securities that are not performance-based as part of their remuneration package.

OPTIONS AND RIGHTS GRANTED AS REMUNERATION

No options or shares were granted as remuneration in the current year or the 2014 year.

The following options were granted as remuneration subsequent to year end.

| KMP | Granted No. | Vested No. | Grant Date | Date Exercisable | Exercise price | Value per Option at Grant Date | Total Value |
|---------|-------------|------------|------------|-----------------------|----------------|--------------------------------|-------------|
| C Nolan | 6,000,000 | 6,000,000 | 8.07.2015 | From vest to 30.06.16 | 0.5 cents | 0.02941 cents | \$1,765 |
| C Nolan | 6,000,000 | 6,000,000 | 8.07.2015 | From vest to 31.12.16 | 1.0 cents | 0.02221 cents | \$1,333 |
| C Nolan | 6,000,000 | 6,000,000 | 8.07.2015 | From vest to 30.06.17 | 1.5 cents | 0.02326 cents | \$1,396 |

The options entitle the holder to one ordinary share in the Company for each option held. Option values at grant date were determined using the binomial valuation method and has been determined in accordance with applicable Australian Accounting Standards.

KMP SHAREHOLDINGS

The number of ordinary shares held by each KMP of the Group during the financial year is as follows:

| Key Management Personnel (i) | Balance 1 July 2014 | Remuneration | Other Changes | Balance 30 June 2015 |
|------------------------------|---------------------|--------------|---------------|----------------------|
| Dennis O'Neill | 29,772,482 | - | 37,482,759 | 67,255,241 |
| Paul Crawford | 19,208,691 | - | 53,972,283 | 73,180,974 |
| Allan Buckler | 81,081,394 | - | - | 81,081,394 |
| James Brown | 1,248,295 | - | - | 1,248,295 |
| Peter van Riet-Lowe | 26,698 | - | (26,698) | - |
| Wayne Osterberg | 13,953 | - | (13,953) | - |
| Total | 131,351,513 | - | 91,414,391 | 222,765,904 |

OTHER TRANSACTIONS WITH KMP AND/OR THEIR RELATED PARTIES

There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

There are no amounts owed to or from any member of KMP as at 30 June 2015.

The Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Dennis O'Neill
Director



Paul Crawford
Director

Signed: 28 September 2015
Brisbane, Queensland



Hayes Knight
Accountants, Advisors & Auditors

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**Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001**

To the Directors of Sayona Mining Limited

As lead auditor for the audit of Sayona Mining Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sayona Mining Limited and the entities it controlled during the year.

Hayes Knight Audit (Qld) Pty.Ltd.

Hayes Knight Audit (Qld) Pty Ltd

Hayes Knight Audit (Qld) Pty.Ltd.

A M Robertson
Director

Date: 28 September 2015

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**STATEMENT OF PROFIT AND LOSS AND COMPREHENSIVE INCOME
for the year ended 30 June 2015**

| | | Consolidated Group | |
|---|-------------|---------------------------|----------------|
| | Note | 2015 | 2014 |
| | | \$ | \$ |
| Revenue and other income | 2 | 55,219 | 39,427 |
| Administrative expenses | | (230,484) | (310,070) |
| Restructure costs written back | | - | 190,738 |
| Occupancy costs | | (39,201) | (34,493) |
| Write-off of receivable for deferred sale consideration | | - | (37,179) |
| Exploration expenditure expensed during year | 3 | (310,394) | (126,620) |
| Net loss on financial asset at fair value through profit and loss | 3 | (41,670) | - |
| Foreign exchange losses | | - | (5,998) |
| Write-back (Impairment) of receivable for deferred sale consideration | | - | 398,343 |
| Profit or (Loss) before income tax | 3 | (566,530) | 114,148 |
| Tax expense | 4 | - | - |
| Profit or (Loss) for the year | | (566,530) | 114,148 |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | | |
| Exchange differences on translation of foreign controlled entities | 4(c) | - | 22,563 |
| Other comprehensive income for the year | | - | 22,563 |
| Total comprehensive income or (loss) attributable to members | | (566,530) | 136,711 |
| Earnings per Share: | | | |
| Basic earnings per share (cents per share) | 6 | (0.14) | 0.03 |
| Diluted earnings per share (cents per share) | 6 | (0.14) | 0.03 |
| Dividends per share (cents per share) | | - | - |

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**STATEMENT OF FINANCIAL POSITION
As at 30 June 2015**

| | Note | Consolidated Group 2015 \$ | 2014 \$ |
|----------------------------------|------|----------------------------------|--------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 737,545 | 1,201,357 |
| Trade and other receivables | 9 | 13,059 | 367,625 |
| Other financial assets | 10 | 117,693 | - |
| Other assets | 11 | 6,296 | 5,164 |
| Total Current Assets | | 874,593 | 1,574,146 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 1,534 | 4,031 |
| Total Non-Current Assets | | 1,534 | 4,031 |
| TOTAL ASSETS | | 876,127 | 1,578,177 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 13 | 53,626 | 103,896 |
| Borrowings | 14 | - | 115,250 |
| Total Current Liabilities | | 53,626 | 219,146 |
| TOTAL LIABILITIES | | 53,626 | 219,146 |
| NET ASSETS | | 822,501 | 1,359,031 |
| EQUITY | | | |
| Issued capital | 15 | 50,069,511 | 50,039,511 |
| Reserves | 16 | (4,527,230) | (4,527,230) |
| Accumulated losses | | (44,719,780) | (44,153,250) |
| TOTAL EQUITY | | 822,501 | 1,359,031 |

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
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ABN 26 091 951 978

STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

| | Note | Share Capital | Accumulated Losses | Foreign Currency Translation Reserve | Option Reserve | Total |
|--|------|------------------|-----------------------|---|-------------------|-----------|
| | | \$ | \$ | \$ | \$ | \$ |
| Consolidated Group | | | | | | |
| Balance at 1 July 2013 | | 48,358,511 | (44,528,397) | (4,549,793) | 260,999 | (458,680) |
| Profit attributable to members of the entity | | - | 114,148 | - | - | 114,148 |
| Other comprehensive income for the year | | - | - | 22,563 | - | 22,563 |
| Total comprehensive income for the year | | - | 114,148 | 22,563 | - | 136,711 |
| Reserve transferred to accumulated losses | | - | 260,999 | - | (260,999) | - |
| Shares issued during the year | 15 | 1,718,500 | - | - | - | 1,718,500 |
| Transaction costs | | (37,500) | - | - | - | (37,500) |
| Balance at 30 June 2014 | | 50,039,511 | (44,153,250) | (4,527,230) | - | 1,359,031 |
| Loss attributable to members of the entity | | - | (566,530) | - | - | (566,530) |
| Other comprehensive income for the year | | - | - | - | - | - |
| Total comprehensive income for the year | | - | (566,530) | - | - | (566,530) |
| Shares issued during the year | 15 | 30,000 | - | - | - | 30,000 |
| Transaction costs | | - | - | - | - | - |
| Balance at 30 June 2015 | | 50,069,511 | (44,719,780) | (4,527,230) | - | 822,501 |

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**STATEMENT OF CASH FLOWS
for the year ended 30 June 2015**

| | Note | Consolidated Group 2015 \$ | 2014 \$ |
|---|------|----------------------------------|------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | (571,486) | (622,088) |
| Interest received | | 21,123 | 39,427 |
| Net cash provided by (used in) operating activities | 17 | (550,363) | (582,661) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | - | (5,172) |
| Proceeds from settlement of deferred sale consideration | | 227,660 | - |
| Net cash provided by (used in) investing activities | | 227,660 | (5,172) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | (127,652) | (78,500) |
| Net cash provided by (used in) financing activities | | (127,652) | (78,500) |
| Net increase (decrease) in cash held | | (450,355) | (666,333) |
| Cash at beginning of financial year | | 1,201,357 | 1,867,893 |
| Effect of exchange rates on cash holdings in foreign currencies | | (13,457) | (203) |
| Cash at end of financial year | 8 | 737,545 | 1,201,357 |

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements and notes represent those of Sayona Mining Limited and Controlled Entities (the "consolidated group" or "group").

The separate financial statements of the parent entity, Sayona Mining Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

Financial information for Sayona Mining Limited as an individual entity is included in Note 25.

Basis of Preparation

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

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

Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Sayona Mining Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 26.

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

Income Tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

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

Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (continued)

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

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

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

Property, Plant & Equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for plant and equipment are in the range between 20% and 40%.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise.

Exploration and Development Expenditure

Exploration, evaluation and development expenditures incurred are capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and Development Expenditure (continued)

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

The term "Joint Operation" has been used to describe "farm-in" and "farm-out" arrangements.

Where the company has entered into joint operation agreements on its areas of interest, the earn-in contribution by the joint operation partner is offset against expenditure incurred. Earn-in contributions paid, or expenditure commitments incurred by the company to acquire a joint venture interest are expensed when incurred up to the time an interest is acquired.

Restoration Costs

Costs of site restoration are provided for over the life of the project from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with local laws and regulations and clauses of the permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

The company currently has no obligation for any restoration costs in relation to discontinued operations, nor is it currently liable for any future restoration costs in relation to current areas of interest. Consequently, no provision for restoration has been deemed necessary.

Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include consideration of external and internal sources of information. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is recognised immediately in profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

The only joint operations the Group has entered into are "farm-in" and "farm-out" arrangements as discussed in note 1 under Exploration and Development Assets.

Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis after initial recognition, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Assets and Liabilities (continued)

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. This is equivalent to the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transactions costs, except where the instrument is classified "at fair value through profit or loss" in which case transactions are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Classification and Subsequent Measurement (continued)

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

i. Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount being included in profit or loss.

ii. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

iii. Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

vi. Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

A financial asset (or group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income otherwise the exchange difference is recognised in the profit or loss.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

Employee Benefits

Short-term employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Group's obligations for short-term employee benefits such as wages, salaries and sick leave are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Equity Settled Compensation

The Group operates an employee share and option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the binomial lattice pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Issued Capital

Ordinary shares are classified as equity. Transaction costs (net of tax, where the deduction can be utilised) arising on the issue of ordinary shares are recognised in equity as a reduction of the share proceeds received.

Where share application monies have been received, but the shares have not been allotted, these monies are shown as a payable in the statement of financial position.

Share options are classified as equity and issue proceeds are taken up in the option reserve. Transaction costs (net of tax where the deduction can be utilised) arising on the issue of options are recognised in equity as a reduction of the option proceeds received. When these options are exercised, the relevant balance in the reserve is transferred to issued capital.

Revenue and Other Income

Interest revenue is recognised using the effective interest method. All revenue is stated net of the amount of goods and services tax.

Borrowing Costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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

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

Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with amounts normally paid within 30 days of recognition of the liability.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Earnings per Share (EPS)

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the parent entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for any bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per ordinary 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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Adjusting Events

The weighted average number of shares outstanding during the period and for all periods presented is adjusted for events, other than the conversion of potential ordinary shares that have changed the number of ordinary shares outstanding without a corresponding change in resources.

The consolidation of shares in November 2013 was an adjusting event.

Critical Accounting Estimates and Judgements

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

Key Judgments:

Exploration and evaluation expenditure

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage that permits a reasonable assessment of the existence of reserves. During the year exploration and evaluation expenditure totalled \$310,394. This was written-off during the year and no expenditure was capitalised.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

AASB 9: Financial Instruments and associated Amending Standards (applicable to annual reporting periods commencing on or after 1 January 2018).

The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.

The directors do not anticipate that the adoption of AASB 9 will have an impact on the Group's financial instruments, including hedging activity.

NOTE 2: REVENUE AND OTHER INCOME

| | 2015 \$ | 2014 \$ |
|--|---------------|---------------|
| Interest received from unrelated parties | 21,123 | 39,427 |
| Foreign exchange gains | 34,096 | - |
| | - | - |
| Total revenue and other income | 55,219 | 39,427 |

NOTE 3: PROFIT/(LOSS) FOR THE YEAR

Profit before income tax include the following specific expenses:

(i) Expenses:

Included in expenses are the following items:

| | | |
|---|---------|---------|
| Net loss on financial asset at fair value through profit and loss | 41,670 | - |
| Foreign exchange losses | - | 5,998 |
| Exploration expenditure expensed during year | 310,394 | 126,620 |
| Write-off of receivable for deferred sale consideration | - | 37,179 |
| Rental expense on operating lease | 35,427 | 31,238 |
| Depreciation | 2,497 | 1,141 |

(ii) Significant Revenue and Expenses

The following significant revenue and (expense) items are relevant in explaining the financial performance:

| | | |
|--|-----------|-----------|
| Exploration & evaluation expenditure expensed during the year | (310,394) | (126,620) |
| Write-back (Impairment) of recoverable for deferred sale consideration (a) | - | 398,343 |
| Restructure costs written back/(expensed) | - | 190,738 |

- (a) On 24 September 2014, the Company entered into an Agreement with Mantle Diamonds Limited and Kimberley Diamonds Limited to settle the legal proceedings. The Agreement provided for a mutual release of claims by the parties and payments to the Company totalling US\$340,000. Settlement occurred on 1 October 2014.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 4: INCOME TAX EXPENSE

| | 2015 | 2014 |
|---|------------|------------|
| | \$ | \$ |
| (a) The prima facie tax on profit/(loss) from ordinary activities is reconciled to the income tax as follows: | | |
| Prima facie tax payable/(benefit) on profit/(loss) from ordinary activities before income tax at 30% (2014: 30%). (Australia domestic rate) | (169,959) | 34,244 |
| Adjust for tax effect of: | | |
| Tax losses and temporary differences not brought to account | 172,905 | (3,675) |
| Non-allowable items | (2,946) | (24,851) |
| Effects of different tax rates on foreign tax losses / (gains) | - | (5,718) |
| Income tax expense attributable to entity | - | - |
| Weighted average effective tax rate | 0.00% | 0.00% |
| (b) Deferred tax assets and liabilities not brought to account, the net benefit of which will only be realised if the conditions for deductibility set out in Note 1 occur: | | |
| Temporary differences | 8,288 | 4,459 |
| Tax losses - Revenue | 5,494,181 | 5,253,585 |
| Tax losses - Capital | 6,736,405 | 6,736,405 |
| Net unbooked deferred tax asset | 12,238,874 | 11,994,449 |

The Company has unconfirmed, Australian carry forward losses for revenue of \$18,286,308 (2014: \$17,753,304) and for capital of \$22,454,683 (2014: \$22,454,683). In addition, the economic entity has USA carry forward losses which are quarantined under Australian tax legislation and are only available to be offset against future taxable income derived in the USA.

The tax benefits will only be obtained if the conditions in note 1 are satisfied; the economic 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 and if the economic entity continues to comply with the conditions for deductibility imposed by the relevant tax legislation.

| | 2015 | | |
|---|------------|-------------|------------|
| | Before Tax | Tax Expense | Net of Tax |
| | \$ | \$ | \$ |
| (c) Tax effects relating to each component of other comprehensive income: | | | |
| Exchange differences on translating foreign controlled entities | - | - | - |
| | 2014 | | |
| | Before Tax | Tax Expense | Net of Tax |
| | \$ | \$ | \$ |
| Exchange differences on translating foreign controlled entities | 22,563 | - | 22,563 |

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 5: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) and other information for the year ended 30 June 2015.

- (a) The names of key management personnel of the Group who have held office during the financial year are:

| Key Management Personnel | Position |
|---------------------------------|---|
| Dennis O'Neill | Managing Director |
| Paul Crawford | Director - Executive |
| Allan Buckler | Director - Non-executive |
| James Brown | Director - Non-executive |
| Peter van Riet-Lowe | Director - Non-executive (Resigned 7 July 2014) |
| Wayne Osterberg | Director - Non-executive (Resigned 7 July 2014) |

- (b) The totals of remuneration paid to KMP of the Company and Group during the year are as follows:

| | 2015 | 2014 |
|------------------------------|-------------|-------------|
| | \$ | \$ |
| Short-term employee benefits | - | - |
| Post-employment benefits | - | - |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| Total KMP compensation | - | - |

Short-term employee benefits

These amounts include fees and benefits paid to the directors.

Post-employment benefits

These amounts are the superannuation contributions made during the year.

Other long-term benefits

These amounts represent long service benefits accruing during the year.

Share-based payments

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

NOTE 6: EARNINGS PER SHARE

| | 2015 | 2014 |
|---|-------------|-------------|
| | No. | No. |
| The earnings figures used in the calculation of both the basic EPS and the dilutive EPS are the same as the profit or (loss) in the statement of profit or loss and other comprehensive income. | | |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS | 408,625,220 | 392,846,770 |
| Weighted average number of dilutive securities outstanding. | - | - |
| Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in the calculation of diluted EPS | 408,625,220 | 392,846,770 |

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 6: EARNINGS PER SHARE (continued)

The Company completed a share consolidation in November 2013. In accordance with Australian Accounting Standards, the weighted average number of shares issued during the prior year was adjusted to calculate the EPS for the corresponding period.

At balance date there are no securities considered as potential ordinary shares in determination of diluted EPS.

NOTE 7: AUDITORS' REMUNERATION

| | 2015 \$ | 2014 \$ |
|---|------------|------------|
| Remuneration of the auditor of the parent entity for: | | |
| - auditing or reviewing the financial reports | 28,400 | 39,500 |
| - other assurance services | - | 4,500 |
| | 28,400 | 44,000 |

Other assurance services in the prior year relate to the review of the Company's proforma financial report submitted to the ASX in 2013.

NOTE 8: CASH AND CASH EQUIVALENTS

| | | |
|--------------------------|---------|-----------|
| Cash at bank and on hand | 127,195 | 87,634 |
| Short-term bank deposits | 610,350 | 1,113,723 |
| | 737,545 | 1,201,357 |

The effective interest rate on short-term bank deposits was 2.25% (2014: 3.3%). These deposits have an average maturity of 60 days. A short-term deposit of \$10,000 is secured against a bank guarantee for \$10,000 (Refer note 19).

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flow is reconciled to items in the statement of financial position as follows:

| | | |
|---------------------------|---------|-----------|
| Cash and cash equivalents | 737,545 | 1,201,357 |
|---------------------------|---------|-----------|

NOTE 9: TRADE AND OTHER RECEIVABLES

Current (unsecured):

| | | |
|---------------------------------|--------|---------|
| Deferred sale consideration (a) | - | 361,164 |
| Other Debtors | 13,059 | 6,461 |
| | 13,059 | 367,625 |

The Group has no significant concentration of credit risk exposure to any party.

- (a) On 1 October 2014 the Company received settlement of the deferred sale consideration from the sale of its former Lerala diamond mine. The settlement consideration comprised US\$200,000 cash and shares in Kimberley Diamonds Limited valued at US\$140,000.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 10: OTHER FINANCIAL ASSETS

| | 2015 | 2014 |
|--|---------|------|
| | \$ | \$ |
| Current: | | |
| Financial assets at fair value through profit and loss (a) | 117,693 | - |

- (a) These assets comprise ASX listed shares in Kimberley Diamonds Limited, received as part of settlement of the Company's deferred sale consideration for its former Lerala diamond mine.

Shares are held for trading for the purposes of short-term profit taking. Changes in fair value are included in profit or loss.

NOTE 11: OTHER ASSETS

| | 2015 | 2014 |
|-----------------|-------|-------|
| | \$ | \$ |
| Current: | | |
| Prepayments | 6,296 | 5,164 |

NOTE 12: PLANT & EQUIPMENT

Plant and equipment

| | | |
|---------------------------|---------|---------|
| At cost | 5,172 | 5,172 |
| Accumulated depreciation | (3,638) | (1,141) |
| Total plant and equipment | 1,534 | 4,031 |

Reconciliation of the carrying amounts for property, plant and equipment:

| | | |
|------------------------------------|---------|---------|
| Balance at the beginning of year | 4,031 | - |
| Additions | - | 5,172 |
| Depreciation expense | (2,497) | (1,141) |
| Carrying amount at the end of year | 1,534 | 4,031 |

NOTE 13: TRADE AND OTHER PAYABLES

Current:

| | | |
|--|--------|---------|
| Trade creditors | 38,126 | 25,896 |
| Sundry creditors and accrued expenses | 15,500 | 15,000 |
| Related parties | - | 63,000 |
| Total trade & other payables (unsecured) | 53,626 | 103,896 |

Financial liabilities at amortised cost classified as trade and other payables:

| | | |
|--|--------|---------|
| Financial liabilities as trade and other liabilities (refer Note 20) | 53,626 | 103,896 |
|--|--------|---------|

NOTE 14: BORROWINGS

Current:

| | | |
|---|---|---------|
| Unsecured loan Flamenco (Pty) Ltd - expense funding | - | 30,270 |
| Secured loan Flamenco (Pty) Ltd - working capital (a) | - | 84,980 |
| | - | 115,250 |

- (a) Under a Deed of Loan and Security between Sayona Mining Limited (formerly DiamonEx Limited) and Flamenco (Pty) Ltd, Flamenco provided a working capital loan of US\$80,000, secured against all monies owing to Sayona from Mantle Diamonds Plc. Loans were repaid in October 2014 following settlement of the deferred sale proceeds with Mantle Diamonds.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 15: ISSUED CAPITAL

| | 2015 | 2014 |
|--|-------------|-----------------|
| | \$ | \$ |
| 411,534,809 (2014: 405,534,809) fully paid ordinary shares | 50,069,511 | 50,039,511 |
| Ordinary shares | | |
| Balance at the beginning of the reporting period | 50,039,511 | 48,358,511 |
| Shares issued during the year: | | 1,718,500 |
| 24 December 2014 - 6,000,000 ordinary shares at \$0.005 each | 30,000 | - |
| (a) | | |
| Transaction costs relating to share issues | - | (37,500) |
| Balance at reporting date | 50,069,511 | 50,039,511 |
| | No. | No. |
| Balance at the beginning of the reporting period | 405,534,809 | 884,450,924 |
| Shares issued during the year: | | 859,250,000 |
| 24 December 2014 | 6,000,000 | - |
| Share consolidation undertaken during the previous year: | | |
| 5 November 2013 (b) | - | (1,338,166,115) |
| Balance at reporting date | 411,534,809 | 405,534,809 |

- (a) Issued 24 December 2014 at \$0.005 each to settle director fees outstanding from prior years.
- (b) In November 2013, the Company completed a share consolidation. The consolidation involved the conversion of every 4.3 fully paid ordinary shares into one fully paid ordinary share. The consolidation was approved by a resolution of shareholders at the Company's Annual General Meeting held on 23 October 2013.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

The company does not have authorised capital or par value in respect of its issued shares.

Capital management policy

Exploration companies such as Sayona Mining are funded by share capital during exploration and a combination of share capital and borrowings as they move into the development and operating phases of their business life.

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

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market.

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

NOTE 16: RESERVES

Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Options reserve

The options reserve records amounts recognised as expenses on valuation of employee share options, equity based payments for services and the net proceeds from the issue of entitlement options to all shareholders.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 17: CASH FLOW INFORMATION

| | 2015 | 2014 |
|---|-----------|-----------|
| | \$ | \$ |
| (a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax: | | |
| Profit/(Loss) from ordinary activities after income tax | (566,530) | 114,148 |
| Non-cash flows in profit from ordinary activities: | | |
| Depreciation | 2,497 | 1,141 |
| Restructure costs written back | - | (190,738) |
| Impairment of receivables writeback | - | (398,343) |
| Write-off of deferred sale consideration receivable | - | 37,179 |
| Loss on financial asset at fair value through profit and loss | 41,670 | - |
| Unrealised foreign exchange (gain)/loss | - | 5,998 |
| Changes in operating assets and liabilities: | | |
| (Increase)/Decrease in receivables | (6,598) | 3,833 |
| (Increase)/Decrease in prepayments | (1,132) | (4,389) |
| (Decrease)/Increase in creditors and accruals | (20,270) | (151,490) |
| Cash flows from operations | (550,363) | (582,661) |

(b) Non-cash Financing and Investing Activities

- (i) During the year, 6,000,000 shares were issued at \$0.005 each to settle director fees outstanding from prior years.
- (ii) During the year, the Company received shares in Mantle Diamonds Limited to the value of \$159,363 as partial settlement of the claim against Mantle Diamonds Limited and Kimberley. The value of these shares was written down to market value of \$117,693 at 30 June 2015.
- (iii) During the 2014 year, 18,750,000 shares were issued at \$0.002 per share in settlement of underwriting fees, pursuant to underwriting agreements entered into in relation to a placement.

NOTE 18: RELATED PARTY TRANSACTIONS

(a) The Group's main related parties are as follows:

Key Management Personnel:

Any persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or non-executive) of the Group, are considered key management personnel.

(b) Transactions with related parties:

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

During the current year, the parent entity engaged Cambridge Business & Corporate Services, an entity controlled by Mr Paul Crawford, a director of the company to provide accounting, company secretarial, financial management and other services. No fees were incurred during the current year (2014: nil). No amount was owed by the company at 30 June (2014: nil).

During the current year, 3,000,000 shares were issued at \$0.005 each (\$15,000) to each of Messrs O'Neill and Crawford to settle director fees outstanding from prior years. No amount was owed to either party at 30 June 2015.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 19: COMMITMENTS

| | 2015 | 2014 |
|---|--------|--------|
| | \$ | \$ |
| (a) Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not recognised in the financial statements: | | |
| Not later than 1 year | 37,116 | 35,690 |
| Between 1 year and 5 years | 9,369 | 46,485 |
| Total commitment | 46,485 | 82,175 |

The property lease is a non-cancellable lease with a 3 year term, with rent payable monthly in advance. The lease agreement provides for lease payments to be increased by the lower of the change in the consumer price index (CPI) or 4% per annum.

The lease is supported by a bank guarantee for \$10,000. The bank guarantee is in turn supported by a charge over a term deposit of \$10,000, refer Note 8.

(b) Exploration commitments

The entity must meet minimum expenditure commitments on granted exploration tenements to maintain those tenements in good standing. If the relevant mineral tenement is relinquished the expenditure commitment also ceases.

| | 2015 | 2014 |
|---|---------|------|
| | \$ | \$ |
| The following commitments exist at balance date but have not been brought to account. | | |
| Not later than 1 year | 30,000 | - |
| Between 1 year and 5 years | 170,000 | - |
| Total commitment | 200,000 | - |

This commitment arises from a Heads of Agreement dated 6 February 2015 with Attagold Pty Ltd to enter into an option agreement to acquire mining tenements. The option agreement is currently being drafted. Sayona has paid \$30,000 since 30 June 2015 as provided in the Heads of Agreement. Both parties intend to execute the option agreement.

Refer to note 23(ii) in relation to an Option and Sale Agreement with Western Iron Ore Pty Ltd.

NOTE 20: FINANCIAL RISK MANAGEMENT

The totals for each category of financial instruments, measured in accordance with AASB 139: Financial Instruments: Recognition and Measurement as detailed in the accounting policies to these financial statements are detailed in the table outlining financial instruments composition and maturity analysis in part (b) of Note 20.

Financial Risk Management Policies

The Group's financial instruments mainly comprise cash balances, listed investments, receivables, payables and borrowings. The main purpose of these financial instruments is to provide finance for group operations.

The Board of the company meets on a regular basis to analyse exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

The Board has overall responsibility for the establishment and oversight of the company's risk management framework. Management is responsible for developing and monitoring the risk management policies.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 20: FINANCIAL RISK MANAGEMENT (continued)

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk, consisting of interest rate risk, foreign exchange risk and equity price risk. These risks are managed through monitoring of forecast cashflows, interest rates, economic conditions and ensuring adequate funds are available.

(a) Credit Risk

Credit risk arises from exposures to deposits with financial institutions and sundry receivables.

Credit risk is managed and reviewed regularly by the Board. It arises from exposures to joint venture partner receivables and through deposits with financial institutions. The Board monitors credit risk by actively assessing the rating quality and liquidity of counter parties:

- only banks and financial institutions with an 'A' rating are utilised; and
- all joint venture partners are rated for credit worthiness taking into account their size, market position and financial standing.

The carrying amount of cash and cash equivalents recorded in the financial statements represent the Company's maximum exposure to credit risk. Refer Note 8.

(b) Liquidity Risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. This risk is managed by ensuring, to the extent possible, that there is sufficient liquidity to meet liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

The Board manages liquidity risk by sourcing long-term funding, primarily from equity sources, rather than from borrowing.

Financial liability and financial asset maturity analysis

The table below reflects an undiscounted contractual maturity analysis for financial assets and financial liabilities and reflects management's expectations as to the timing of termination and realisation of financial assets and liabilities.

| Consolidated Group | 1 year or less | 1 to 2 years | More than 2 years | Total |
|--|----------------|--------------|-------------------|---------|
| | \$ | \$ | \$ | \$ |
| 2015 | | | | |
| Financial assets | | | | |
| Cash & cash equivalents (i) | 737,545 | - | - | 737,545 |
| Receivables (ii) | 13,059 | - | - | 13,059 |
| Held for trading instruments | 117,693 | - | - | 117,693 |
| | 868,297 | - | - | 868,297 |
| Financial liabilities | | | | |
| Payables (ii) | 53,626 | - | - | 53,626 |
| Borrowings (ii) | - | - | - | - |
| | 53,626 | - | - | 53,626 |
| Net cash inflow on financial instruments | 814,671 | - | - | 814,671 |

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 20: FINANCIAL RISK MANAGEMENT (continued)

| 2014 | 1 year or less | 1 to 2 years | More than 2 years | Total |
|--|----------------|--------------|-------------------|-----------|
| | \$ | \$ | \$ | \$ |
| Financial assets | | | | |
| Cash & cash equivalents (i) | 1,201,357 | - | - | 1,201,357 |
| Receivables (ii) | 367,625 | - | - | 367,625 |
| | 1,568,982 | - | - | 1,568,982 |
| Financial liabilities | | | | |
| Payables (ii) | 103,896 | - | - | 103,896 |
| Borrowings (ii) | 115,250 | - | - | 115,250 |
| | 219,146 | - | - | 219,146 |
| Net cash inflow on financial instruments | 1,349,836 | - | - | 1,349,836 |

(i) Floating interest with a weighted average effective interest rate of 2.25% (2014: 3.3%)

(ii) Non-interest bearing

(c) Market Risks

(i) Interest Rate Risk

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, arises in relation to the company's bank balances.

This risk is managed through the use of variable rate bank accounts.

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency movements, primarily in respect of the US Dollar and in prior years, the Botswana Pula. No derivative financial instruments are employed to mitigate the exposed risks. This is the Group's current policy and it is reviewed regularly, including forecast movements in these currencies by the senior executive team and the Board.

These foreign exchange risks arose from

- Previous Group activity and expense funding in Botswana which were denominated in Botswana Pula,
- Previous Group activity in USA which were denominated in US dollars,
- Amount receivable on the deferred sale settlement, denominated in US dollars,
- Loan funds in US dollars.
- Cash held in US dollars.

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

| | USD | BWP |
|---------------------------|----------|-----------|
| | 2015 | 2015 |
| Cash and cash equivalents | 88,741 | - |
| Receivables | - | - |
| Borrowings | - | - |
| Net exposure | 88,741 | - |
| | USD | BWP |
| | 2014 | 2014 |
| Cash and cash equivalents | - | - |
| Receivables | 340,000 | - |
| Borrowings | (80,000) | (247,018) |
| Net exposure | 260,000 | (247,018) |

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 20: FINANCIAL RISK MANAGEMENT (continued)

(iii) Other price risk

Other price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk) of securities held.

The risk is concentrated in one company in the mining industry. These represent shares received as part of the Mantle deferred sale settlement (refer note 9).

(d) Sensitivity analysis

If the spot Australian Dollar rate weakened / strengthened by 5 percent against the US Dollar, with all other variables held constant, the Group's post-tax result for the year would have been \$5,773 higher / lower (2014: \$13,809).

At balance date, the Group had no exposure to the Botswana Pula. If the spot Australian Dollar rate weakened / strengthened by 5 percent against the Botswana Pula, with all other variables held constant, the Group's post-tax result for the prior year would have been lower/higher \$5,190.

The Group has performed sensitivity analysis relating to its exposure to interest rate risk. At year end, the effect on profit and equity as a result of a 1% change in the interest rate, with all other variables remaining constant would be +/- \$7,375 (2014: \$11,164).

At year end, if the equity price of the held for trading investments weakened / strengthened by 10 percent, the effect on profit and equity would have been +/- \$11,769.

(e) Fair Values

The aggregate fair values and carrying amounts of financial assets and liabilities are disclosed in the statement of financial position and notes to the financial statements. Fair values are materially in line with carrying values, due to the short term nature of all these items. Refer to note 27 for detailed disclosures regarding the fair value measurement of the Group's financial assets and financial liabilities.

NOTE 21: CONTINGENT LIABILITIES

There were no material contingent liabilities at the end of the reporting period.

NOTE 22: SHARE BASED PAYMENTS

On 24 December 2014, 3,000,000 shares were issued at \$0.005 each (\$15,000) to each of Messrs O'Neill and Crawford to settle director fees outstanding from prior years.

The weighted average fair value of those equity instruments determined by reference to market price was \$0.0028. These shares were issued to related parties and are detailed in Note 18.

During the previous financial year, the Company issued 18,750,000 shares to related parties in settlement of underwriting fees associated with a placement of shares. The issue of shares was approved by shareholders in a General Meeting.

The weighted average fair value of those equity instruments determined by reference to market price was \$0.002. These shares were issued to related parties.

No options are currently granted are over ordinary shares in the Company.

NOTE 23: EVENTS AFTER BALANCE SHEET DATE

Key events since the end of the financial year have been:

- (i) On 3 July 2015 the Company appointed Mr Corey Nolan as Chief Executive Office.
- (ii) On 7 July 2015, the Sayona East Kimberley Pty Ltd entered into an Option and Sale Agreement with Western Iron Ore Pty Ltd ("Western") to acquire 100% of the graphite interest in tenement E80/4511.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 23: EVENTS AFTER BALANCE SHEET DATE (continued)

The option is exercisable within 6 months but can be abandoned by Sayona at any stage of the exercise period. The agreement provides for a back-in option for Western under certain conditions for minerals other than graphite. The contingent commitments for the Group are:

- option fee of \$5,000 on signing the agreement;
- an exercise price of \$200,000 payable one business day after giving an option exercise notice;
- to meet minimum statutory expenditure obligations relating to the tenement, up to a limit of \$63,000; and
- to pay statutory fees such as rates and rent up to a limit of \$17,000.

(iii) On 8 July 2015, the Company granted 18,000,000 options with various exercise conditions to Mr Nolan. Refer to the Directors' Report for details of these options.

(iv) On 4 August 2015, the Company entered into a four-month, exclusive binding term sheet to acquire the Itabela graphite project.

It is solely at Sayona Group's discretion whether to proceed to a binding sale and purchase agreement. The contingent commitments for the Group are:

- an exclusivity payment of US\$60,000 payable in 4 equal instalments after execution of the binding term sheet; and
- a purchase price of US\$3.5 million after signing the binding sale and purchase agreement.

(v) On 5 August 2015, the Company announced its intention to undertake an accelerated non-renounceable rights issue to raise up to \$2.57 million. The rights issue entailed a 1 for 4 entitlement offer at an issue price of \$0.025 per share, together with 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new share applied for.

(vi) On 14 August 2015, the Company completed the accelerated component of the rights issue, issuing 72,320,000 new shares and listed options to raise \$1,080,000.

(vii) On 4 September 2015, the Company completed the underwritten retail component of the rights issue raising \$764,092.

(viii) On 9 September 2015, the Company issued 1,224,116 shares and listed options as a placement in respect of underwriting oversubscriptions.

(ix) On 9 September 2015, the Company issued 1,603,522 shares and 6,808,666 listed options in part settlement of raising management and underwriting fees.

This financial report was authorised for issue on 28 September 2015 by the Board of Directors.

NOTE 24: JOINT ARRANGEMENTS

Talga Iron Ore Project:

During the year the Company entered into a Heads of Agreement with the Talga Syndicate (comprising Freedom Minerals Pty Ltd, Kalamazoo Resources Limited and Great Sandy Pty Ltd) to acquire a 70% interest in the iron ore rights within tenements in the East Pilbara district of Western Australia.

During the year, \$244,733 was expended and subsequently expensed on the joint operation. The Company withdrew from the arrangement in June 2015.

East Kimberley Graphite Project:

In February 2015 the Company entered into a Heads of Agreement with Attagold Limited to acquire a 100% in tenements E80/4915, E80/4948 and E80/4849. Under the agreement, the Company is required to make pay \$30,000 in August 2015 and a further \$170,000 in February 2016. The August 2015 payment was made subsequent to year end. Refer to note 19.

During the year, \$62,912 was expended and subsequently expensed on the joint operation.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 25: PARENT ENTITY INFORMATION

The following information relates to the parent entity, Sayona Mining Limited. This information has been prepared using consistent accounting policies as presented in note 1.

| | 2015 | 2014 |
|--|--------------|--------------|
| | \$ | \$ |
| Current assets | 875,153 | 1,574,706 |
| Non-current assets | 1,534 | 4,031 |
| Total assets | 876,687 | 1,578,737 |
| Current liabilities | 53,626 | 219,146 |
| Non-current liabilities | - | - |
| Total liabilities | 53,626 | 219,146 |
| Contributed equity | 50,069,511 | 50,039,511 |
| Accumulated losses | (49,246,450) | (48,679,920) |
| Total equity | 823,061 | 1,359,591 |
| Statement of Profit or Loss and Other Comprehensive Income | | |
| Total loss for the year | (566,530) | (208) |
| Total other comprehensive income | - | - |
| Total comprehensive loss for the year | (566,530) | (208) |

Guarantee

In October 2013, the parent company entered into an operating lease in relation to office space. The lease is supported by a bank guarantee for \$10,000. The bank guarantee is in turn supported by a charge over a term deposit of \$10,000, refer note 8.

Contingent Liabilities

There are no material contingent liabilities at the end of the reporting period.

NOTE 26: INTERESTS IN SUBSIDIARIES

Information about principal subsidiaries

- Lake Exploration Pty Ltd, incorporated in Australia. The parent entity holds 100% (2014: 100%) of the ordinary shares of the entity, carried at nil recoverable amount. The company has been dormant.
- DiamonEx (USA) Limited, incorporated in Wyoming, USA. The parent entity holds 100% (2014: 100%) of the ordinary shares of the entity, carried at nil recoverable amount. The company has been dormant for over 4 years and will be liquidated.
- Sayona East Kimberley Pty Ltd, incorporated in Australia on 18 June 2015. The parent entity holds 100% of the ordinary shares of the entity, carried at recoverable amount of \$1. The company holds options on graphite tenements in Western Australia, which occurred after 30 June 2015.

These subsidiaries have share capital consisting solely of ordinary shares which are held directly by the Group.

There are no significant restrictions over the Group's ability to access or use assets and settle liabilities of the Group.

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 27: FAIR VALUE MEASUREMENT

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis after initial recognition:

- financial assets held for trading.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

Fair Value Hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

| Level 1 | Level 2 | Level 3 |
|--|--|---|
| Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. | Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. | Measurements based on unobservable inputs for the asset or liability. |

The Group does not measure any assets or liabilities at fair value using Level 2 or Level 3 inputs.

Valuation Techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. As the Group only has one financial asset measured at fair value using Level 1 inputs, it adopts a Market approach valuation that uses prices and other relevant information generated by market transactions for identical or similar assets.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

| | 30 June 2015 | | |
|--|--------------|-----------|-----------|
| | (Level 1) | (Level 2) | (Level 3) |
| | \$ | \$ | \$ |
| Recurring fair value measurements | | | |
| Held for trading financial assets | 117,693 | - | - |

There were no held for trading financial assets at 30 June 2014.

NOTE 28: SEGMENT REPORTING

The Group operates internationally, in the mineral exploration industry. Segment reporting is based on the whole of entity. Geographical segment information is as follows:

Primary Reporting: Geographical Segments

| | Australia | | USA | | Consolidated Group | |
|--|-----------|--------|------|------|--------------------|--------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| REVENUE | | | | | | |
| Revenue | 55,219 | 39,427 | - | - | 55,219 | 39,427 |
| Total revenue from ordinary activities | 55,219 | 39,427 | - | - | 55,219 | 39,427 |

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES
ABN 26 091 951 978**

**Notes to the Financial Statements
for the financial year ended 30 June 2015**

NOTE 28: SEGMENT REPORTING (continued)

| | Australia | | USA | | Consolidated Group | |
|--|-----------|-----------|------|---------|--------------------|-----------|
| | 2015 | 2014 | 2015 | 2015 | 2014 | 2015 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| RESULT | | | | | | |
| Profit/(loss) from ordinary activities before income tax expense | (566,530) | (208) | - | 114,356 | (566,530) | 114,148 |
| Income tax expense | - | - | - | - | - | - |
| Profit/(loss) from ordinary activities after income tax expense | (566,530) | (208) | - | 114,356 | (566,530) | 114,148 |
| ASSETS | | | | | | |
| Segment assets | 876,127 | 1,578,177 | - | - | 876,127 | 1,578,177 |
| LIABILITIES | | | | | | |
| Segment liabilities | 53,626 | 219,146 | - | - | 53,626 | 219,146 |

There were no transfers between segments reflected in the revenues, expenses or result above. The pricing of any intersegment transactions is based on market values.
Segment accounting policies are consistent with the economic entity.

NOTE 29: COMPANY DETAILS

The registered office and principal place of business is:

Sayona Mining Limited
283 Given Terrace
Paddington Queensland 4064

SAYONA MINING LIMITED

ABN 26 091 951 978

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - (b) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (c) give a true and fair view of the financial position as at 30 June 2015 and of the performance of the consolidated group for the year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3. The directors have been given the declarations by their Chief Executive Officer and Chief Finance Officer required by section 259A of the *Corporations Act 2001*.

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



Dennis O'Neill
Director



Paul Crawford
Director

Dated this: 28 th day of September 2015



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF SAYONA MINING LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Sayona Mining Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1 the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

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

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

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

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SAYONA MINING LIMITED (continued)**

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Sayona Mining Limited as attached to the directors' report, has not changed as at the date of this auditor's report.

Opinion

In our opinion:

- a. the financial report of Sayona Mining Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 11 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 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.

Auditor's Opinion

In our opinion the remuneration report of Sayona Mining Limited for the year ended 30 June 2015 complies with s 300A of the *Corporations Act 2001*.

Hayes Knight Audit (Qld) Pty.Ltd.

Hayes Knight Audit (Qld) Pty Ltd

Hayes Knight Audit (Qld) Pty.Ltd.

AM Robertson

Director

Level 23, 10 Eagle Street
Brisbane, QLD, 4000

Date: 28 September 2015