

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2016**

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 2016. 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 2016 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 12 meetings of the full Board of Directors. The meetings attended by each Director were

| DIRECTOR | ELIGIBLE TO ATTEND | ATTENDED |
|-----------------|---------------------------|-----------------|
| D.C. O'Neill | 12 | 12 |
| P.A. Crawford | 12 | 12 |
| A. C. Buckler | 12 | 12 |
| J. S. Brown | 12 | 12 |

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

70,255,241 ordinary shares; 6,000,000 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

83,884,678 ordinary shares; 5,351,852 options.

Directorships in Other Listed Companies

Nil

Former directorships in last 3 years

ActivEX Limited

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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; 7,000,000 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 | 2,048,295 ordinary shares; 5,800,000 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 | 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 | 60,792,722 |
| 4 September 2015 | 30 December 2016 | 3.0 cents | 30,563,700 |
| 7 September 2015 | 30 December 2016 | 3.0 cents | 8,032,781 |
| 25 November 2015 | 30 June 2017 | 3.0 cents | 18,500,000 |
| 20 July 2016 | 30 December 2016 | 3.0 cents | 35,269,822 |
| 17 August 2016 | 30 December 2016 | 3.0 cents | 18,457,727 |
| 15 September 2016 | 30 December 2016 | 3.0 cents | 82,644,749 |
| | | | 266,261,501 |

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

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.

During the year ended 30 June 2016, the following ordinary shares of Sayona Mining Limited were issued on the exercise of options granted.

| Options | Grant Date | Exercise Price | Number of Options |
|----------------------|-------------------|-----------------------|--------------------------|
| Employee Option Plan | 8 July 2015 | 0.5 cents | 6,000,000 |
| Listed Options | 14 August 2015 | 3.0 cents | 11,516,667 |
| Directors | 25 November 2015 | 3.0 cents | 1,500,000 |

No amounts are unpaid on any shares.

CONTINUED OPERATIONS & FUTURE FUNDING

The financial statements have been prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The ability of the group to execute its currently planned activities requires the group to raise additional capital within the next 12 months. Because of the nature of its operations, the Directors recognise that there is a need on an ongoing basis for the group to regularly raise additional cash funds to fund future exploration activity and meet other necessary corporate expenditure. Accordingly, when necessary, the group investigates various options for raising additional funds which may include but is not limited to an issue of shares, a farm-out of an interest in one or more exploration tenements or the sale of exploration assets where increased value has been created through previous exploration activity.

At the date of this financial report, the group has commenced a number of these initiatives as may be evidenced in Note 24 Events after balance sheet date. As a result, the Directors have concluded that the current circumstances may cast significant doubt regarding the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after taking into account the various funding options available, the Directors have a reasonable expectation that the group will be successful with future fund raising initiatives and, as a result, will have adequate resources to fund its future operational requirements and for these reasons they continue to adopt the going concern basis in preparing the financial report.

The financial report does not include adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the company not be able to continue as a going concern.

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.

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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.

COMPETENT PERSON STATEMENT

East Kimberley, Mt Edon and Pilbara - The information in this report that relates to Exploration Results is based on information compiled by Mr Simon Attwell, a Competent Person, and who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Attwell is an employee of Attagold Pty Ltd ("Attagold") which provides geological services to Sayona. Mr Attwell is a financial beneficiary, being a director and shareholder of Attagold if Sayona exercises its option to purchase the East Kimberley Graphite project or Tabba Tabba lithium project.

Mr Attwell has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Attwell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Authier and Itabela - The information in this report that relates to Exploration Results is based on information compiled by Dr Gustavo Delendatti, a member of the Australian Institute of Geoscientists. Dr Delendatti is an independent consultant, and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which it is undertaking to qualify as a Competent Person as defined in the JORC Code (2012 Edition) of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves." Dr Delendatti was responsible for the design and conduct of this exploration drilling campaign, supervised the preparation of the technical information in this release and has relevant experience and competence of the subject matter. Dr Delendatti, as competent person for this announcement, has consented to the inclusion of the information in the form and context in which it appears herein.

Previous Disclosure - 2012 JORC Code

Certain Information relating to Mineral Resources, Exploration Targets and Exploration Data associated with the Company's projects in this June 2016 Quarterly Report has been extracted from the following ASX Announcements:

- Authier JORC Mineral Resource Estimate, 5 July 2016.
- Corkwood Drilling – Broad Zones of Mineralisation, 17 February 2016

Copies of these reports are available to view on the Sayona Mining Limited website www.sayonamining.com.au. These reports were issued in accordance with the 2012 Edition of the JORC Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement

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OPERATING AND FINANCIAL REVIEW

PRINCIPAL ACTIVITY

The consolidated group's principal activity during the financial year has been the identification, acquisition and evaluation of mineral exploration assets, focusing on lithium and graphite. 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

The Company's primary objective is to provide shareholders with satisfactory returns.

This is to be achieved through implementation of the Company's business model of identifying, 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 \$2,511,415 (2015: \$566,530). Exploration and evaluation expenditure during the year totalled \$2,712,521 (2015: \$310,394).

Review of Operations

During the year, the Company focused on sourcing and developing projects capable of supplying the raw materials required to construct lithium-ion batteries for use in the rapidly growing new and green technology sectors.

This has entailed:

- the strategic entry into the large flake graphite market by securing a large ground position in the East Kimberley region of Western Australia, together with the Itabela Graphite project in Brazil;
- securing a package of lithium prospective exploration tenements in Western Australia; and
- the acquisition of the Authier lithium project in Canada.

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.

Lithium is a high-value product which is anticipated to be in tight supply as the demand for lithium-ion batteries continues to experience transformational growth due to use in the new green technology sectors.

East Kimberley, Western Australia

The Kimberley region is a proven province for high purity, large flake graphite.

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 has not previously been explored for its graphite potential

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

- Attgold Pty Ltd ("Attgold") – Sayona paid Attgold \$5,000 on signing and a further \$30,000 on 4 August 2015. Sayona is required to issue shares to the value of \$170,000 to acquire a 100% interest in tenement E80/4949 and other tenement applications. Sayona issued shares to the value of \$50,000 on 7 September 2016 and is required to issue shares to the value of \$120,000 in January 2017.
- Western Iron Pty Ltd ("Western Iron") – Sayona paid Western Iron \$5,000 on signing and \$200,000 in January 2016 to exercise its option to acquire 100% of the graphite interests in tenement E80/4511. Western Iron retains a 1% gross production royalty. Western Iron also retains a back-in right to the nickel, copper and iron mineralisation by the payment of \$100,000 by January 2017.

During the year, the Company drilled 33 reverse circulation holes totalling 2,949 metres in six prospect areas within the Corkwood tenements. Every hole intersected visual flake graphite mineralisation, with significant zones of over 50 metre downhole widths in several holes, including an intercept of 64 metres. Some holes also intercepted multiple horizons of graphite mineralization.

OPERATING AND FINANCIAL REVIEW

The drilling program identified graphite mineralization over 7 kilometres within the 25 kilometre strike extent of the Corkwood geochemical and geophysical anomaly.

Highlights from the drilling program, included:

- Delineation of broad zones of shallow flake graphite mineralisation, including;
 - 16m @ 5.03% Total Graphitic Carbon (TGC) from 13m in SKRC006, Windrush,
 - 22m @ 3.8% TGC from 9m in SKRC008, Windrush,
 - 36m @ 3.39% TGC from 7m in SKRC015, Snowbird,
 - 54m @ 3.05% TGC from 14m in SKRC016, Snowbird,
 - 109m @ 1.84% TGC from 22m in SKRC017, Flying Ant,
- Mineralisation is open at depth and along strike;
- Assays up to 12.2% TGC;
- Mineralisation from surface, with shallow dip and good geometry, characteristics amenable to low cost open-cut mining; and
- Visible coarse graphite - graphite study underway to help characterise the quality of the mineralisation.

Petrographic study has been undertaken on drill material from the Snowbird, Windrush and Firefly prospects. Rock fragments, sieved from the drill cuttings were examined as well as the finer powdered rock which comprises the bulk of the drill sample.

The RC drilling method has resulted in many of the graphite flakes being broken into smaller pieces and diamond drilling will be required to finalise the actual flake size distribution. Observations give encouragement that the project is host to high value coarse flake graphite. Diamond drilling is being planned to gain metallurgical information and to provide graphite concentrate for off take evaluation.

The Company has also completed flotation test work on both surface and RC chip samples. The best flotation results were achieved in surface rocks from the Snowbird prospect, where a floatation concentrate grade of 96.2% TGC was achieved, with 43% above 180 mesh size. The metallurgical results provide encouragement that the Corkwood coarse flake graphite can deliver a high purity graphite concentrate using simple flotation technology.

Itabela, Brazil

In August 2015, the Company signed an option-to-purchase contract with Brasil Grafite S.A. (“Brasil Grafite”) for the advanced Itabela graphite project in Brazil.

Brasil Grafite is a privately owned Brazilian exploration and development company which owns 100% of the Itabela graphite project, comprising 13 exploration permits with a total area of 13,316 hectares. Sayona has signed a four-month, exclusive binding term sheet to acquire the Itabela project.

During the initial option period, the Company’s due diligence activities confirmed the potential for Itabela to be established as a near-term, globally competitive, low capital and operating cost development opportunity. However, the Company concluded that further drilling was required to validate historical drilling data to complete a resource estimate and scoping study.

The Company subsequently agreed to amend the option-to-purchase terms with Brasil Graphite on 30 November 2015. The new agreement extended the option period to 30 June 2016 and provided for an exercise payment of US\$1.5 million on exercise of the option and further payments based on delineating JORC resources. The new agreement provided a closer alignment of resource definition success with the future payment schedules.

Following an extensive exploration program in early 2016, drilling was unable to define a resource of sufficient scale to meet the Company’s financial return objectives. Coupled with the moderation in graphite concentrate prices, the Company was not able to negotiate suitable new contractual terms to justify extending the purchase option. The Company withdrew from the project after spending A\$1,055,123.

Western Australian Lithium Projects

During the second half of the year, the Company secured a package of lithium prospective exploration tenements in Western Australia. The projects have excellent regional infrastructure, and are close to the Asian markets for downstream processing and battery manufacturing.

OPERATING AND FINANCIAL REVIEW

Western Australia is a premium lithium province with world-class, high-grade lithium deposits associated with rare metal pegmatites. The Company has secured two regional project areas covering a total 1,065 square kilometres as part of its strategic move into lithium exploration.

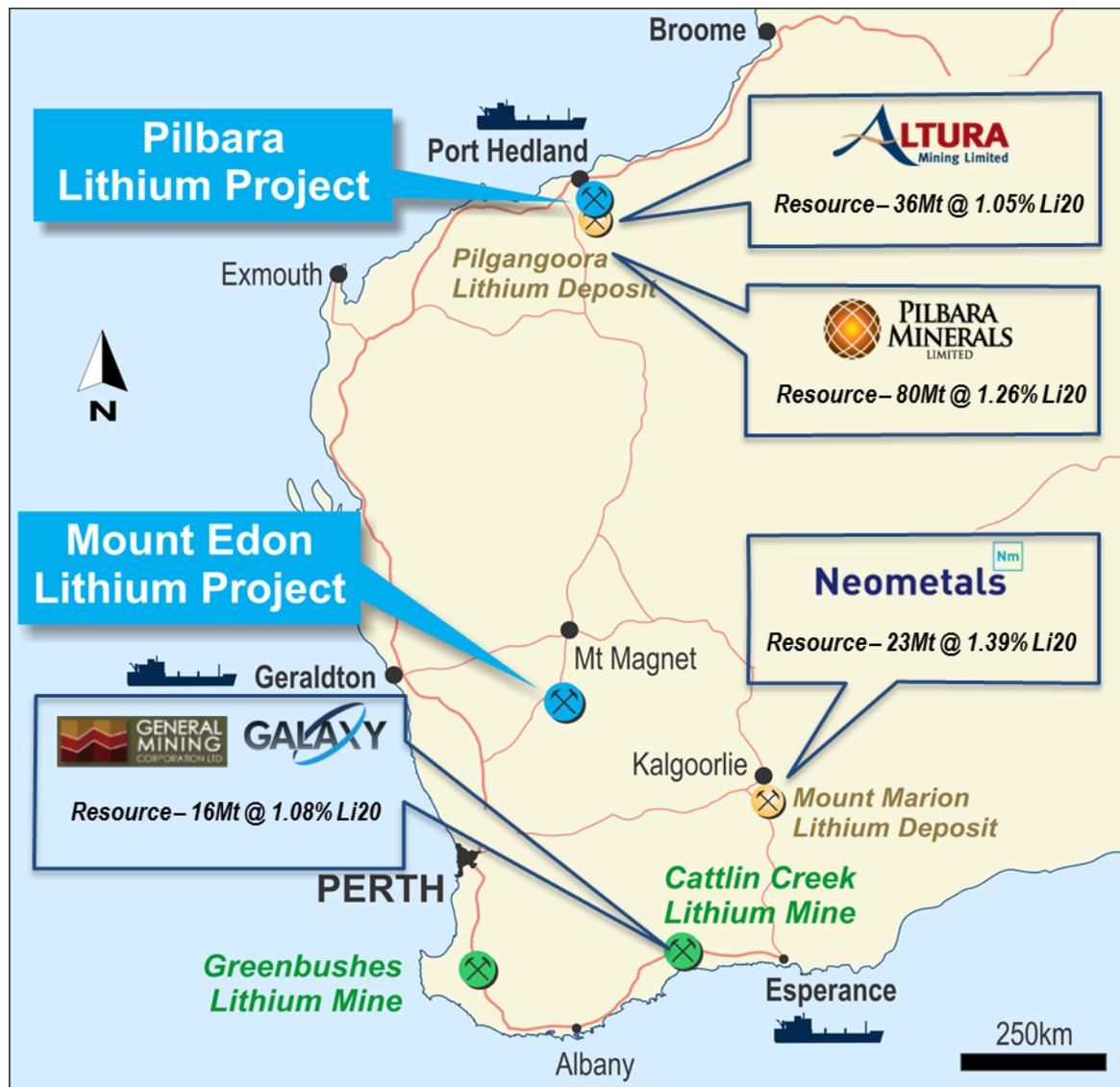


Figure 1: Project location and significant lithium mines and deposits in Western Australia

Pilbara Lithium Project, Pilgangoora district

The project areas host tantalum mineralisation within complex rare metal pegmatites. This class of fractionated pegmatite includes prospective lithium-cesium-tantalum (“LCT”) pegmatites, and especially albite-spodumene pegmatites, the target for the Company’s high grade lithium exploration strategy.

The projects have had little or no past lithium focussed exploration and the Company is encouraged that its initial reconnaissance work has been positive, identifying lithium minerals and geochemistry indicative of fractionated rare metal pegmatites.

OPERATING AND FINANCIAL REVIEW

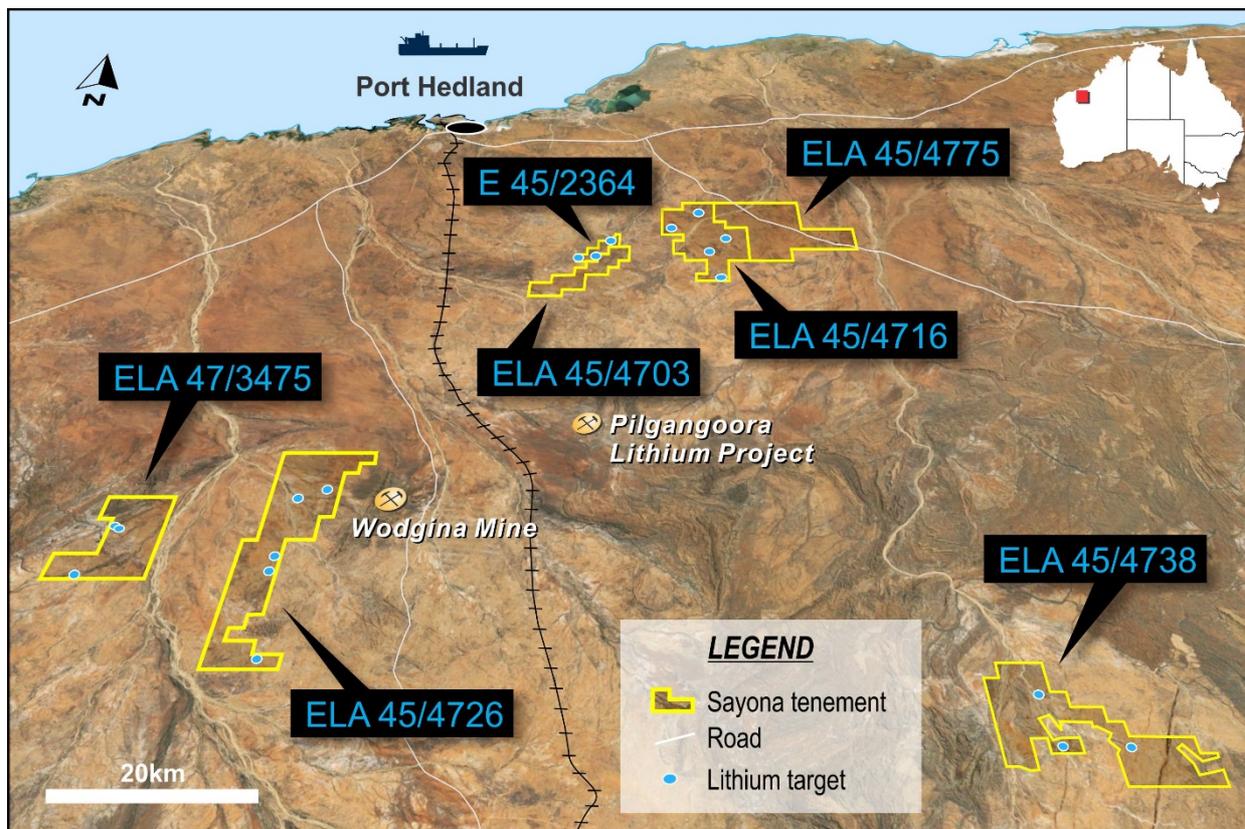


Figure 2: Pilbara lithium project location

Tabba Tabba Area - E45/2364 (pegmatite rights only) and ELA45/4703.

The Tabba Tabba project, located north of Pilgangoora is prospective for spodumene bearing pegmatites, similar to those located at Pilgangoora and Mount Cassiterite at Wodgina.

Sayona has focused its exploration over granted E45/2364, where it has an option to acquire 100% of the pegmatite rights. The tenement covers a 10 km strike extent of the greenstone stratigraphy to the south of the Tabba Tabba tantalum mine and has not been explored for its lithium potential in the past.

Within E45/2364 and adjoining ELA45/4703 the Company has carried out geochemical orientation with collection of a total 69 pegmatite rock samples, 88 soil samples and 11 stream samples.

Results define three new zones of anomalous pegmatites within greenstone, (maximum 357ppm tantalum, 428ppm cesium and 3,000ppm rubidium). The peak lithium value in sampling is 387ppm Li₂O. The Company is encouraged by the discovery of previously unidentified target rare metal pegmatites within the project area.

A second trend of pegmatites and geochemical anomalism, marginal to granite along the Tabba Tabba shear, has also been noted by explorers to the south west and remains to be systematically sampled. Historic stream sampling in this area recorded up to 5,000ppm tantalum and 1,700ppm tin.

A large number of target areas have been identified for systematic follow up exploration.

Red Rock Area - ELA45/4716, ELA45/4775

The Red rock project (415km²), is located to the east of Tabba Tabba and covers the northern extension of the Pilgangoora belt, securing the Red Rock pegmatite as well as greenstone remnants and old dredging claim areas, indicative of past tin-tantalum prospecting.

A new application ELA45/4775 was made following processing of magnetic and radiometric data. This work suggests remnant greenstone lithologies adjacent to a favourable granite contact may host lithium prospective pegmatites. The bedrock geology is obscured over much of the application area. The Company intends applying its developing exploration methodology to identify those areas of highest prospectivity.

OPERATING AND FINANCIAL REVIEW

Cooglegong Area - (ELA45/4738)

The Cooglegong project is a new application for the quarter. It covers 140 km² of the northern part of the Shaw River tin field, an area of historic tin mining. The area is host to albite pegmatites associated with younger, post tectonic granite with lithium potential.

First pass geological traversing and broad spaced sampling (75 pegmatite samples collected) has identified a large number of pegmatites. Assay results define three areas of elevated Ta-Rb-Cs-Nb, indicative of more fractionated, rare metal pegmatite. The maximum lithium result of 166ppm Li₂O is also elevated. Further reconnaissance and detailed sampling over the three target areas is planned.

Wodgina Area - (Friendly Creek, ELA47/3475 and West Wodgina ELA45/4726)

The project areas at Friendly Creek (ELA47/3475) and West Wodgina (ELA45/4726) cover 339km², and secure areas of past tin and tantalum prospecting activity. The bedrock rare metal pegmatite hosts have not been subject to modern exploration or assessment for their lithium potential. The project areas show similarities with the tin pegmatites at Mt Cassiterite in the Wodgina field which host spodumene bearing albite pegmatites, the Company's target exploration focus.

Mount Edon Project

Mount Edon covers the southern portion of the Paynes Find greenstone belt, South Murchison, which are host to an extensive swarm of pegmatites. The pegmatites have not previously been assessed for their lithium potential but have been variably prospected and mined for tantalum, mainly within an excised mining lease.

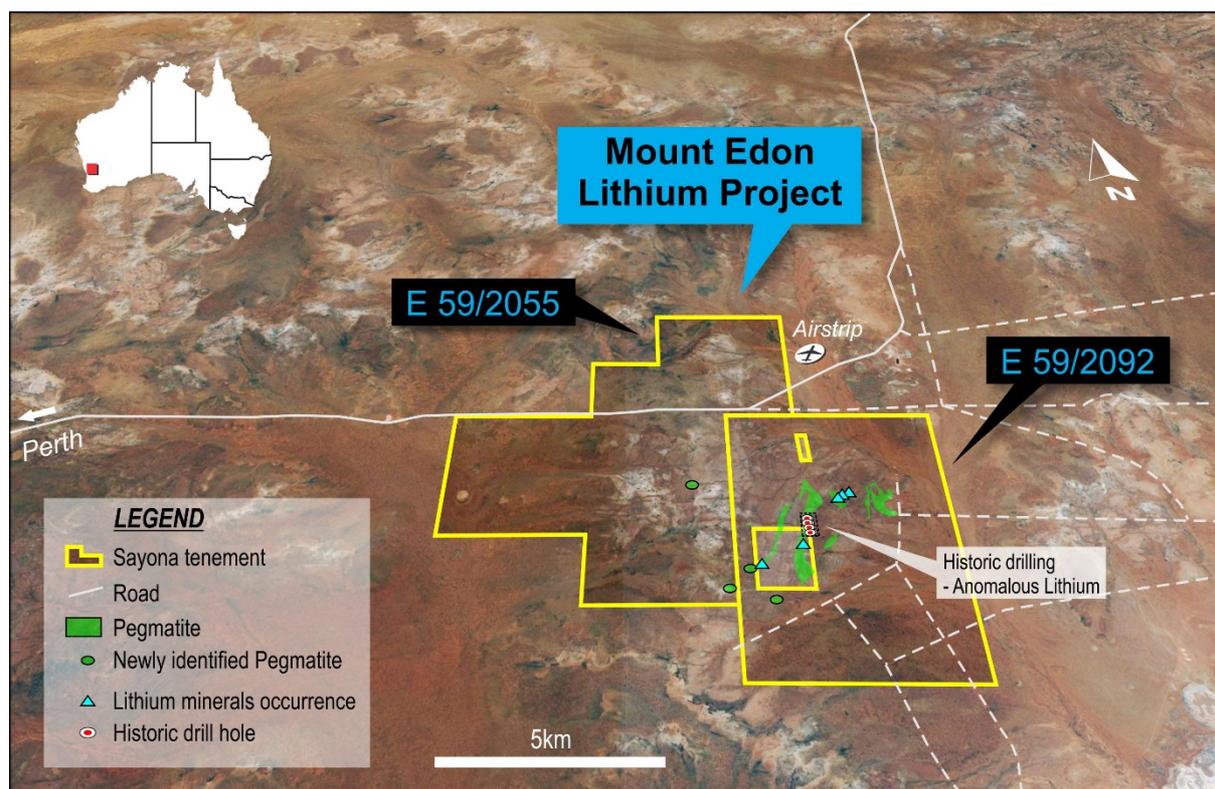


Figure 3: Mt Edon project location

The Mt Edon pegmatites range from simple microcline feldspar dominated occurrences to evolved rare metal albite types, mineralised with tantalum niobium and lithium. The Company is exploring the project for its potential to host the albite – spodumene class of rare metal pegmatite, similar to other greenstone hosted occurrences in the Yilgarn.

Pegmatites range from five metres to over 100 metres in surface width, arranged in swarms of up to 1 kilometre in strike extent. The pegmatites have variable outcrop and are in part obscured by colluvium.

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Over 70 pegmatites have been identified during reconnaissance mapping, spread out over a 4km zone. Others are present further to the north and west but outcrop in these areas is poor and these systems are poorly defined at present.

A total of 95 pegmatite rock samples have been collected during reconnaissance work and have returned a peak assay of 1.57% Li₂O. The pegmatites also contain anomalous tantalum, rubidium and cesium, indicative of rare metal pegmatites. Other anomalous lithium results nearby define a 400metre wide package of pegmatites which is a high priority target.

Rubidium assays to 2.6% Rb have been returned in association with lithium and cesium. Since rubidium is radiogenic, high-quality airborne radiometrics data has been reprocessed to help identify minerals with rubidium that occur in association with lithium mineralisation. This data is being used as a low-cost exploration methodology to cover the large project area, but is only effective in areas of outcrop.

Authier Lithium Project – Canada

In May 2016 the Company announced it had entered into a binding term sheet to acquire 100 per cent of the Authier lithium deposit in Quebec, subject to completion of a 60-day due diligence, Canada. The Company subsequently arranged a three week extension for completion of the acquisition to 21 July 2016 to allow the vendor to satisfy Canadian regulatory requirements.

The project area comprises 19 mineral claims totalling 653 hectares, and extends 3.4 kilometres in an east-west, and 3.1 kilometres in a north-south direction, respectively. It is situated 45 kilometres northwest of the city of Val d'Or, a major mining service centre in the, Province of Quebec. The project is easily accessed by a rural road network connecting to a national highway a few kilometres east of the project site.

The deposit is hosted in a spodumene-bearing pegmatite intrusion. The deposit is 825 metres long, striking east-west, with an average thickness of 25 metres, minimum 4 metres and maximum 55 metres, dipping at 40 degrees to the north. The deposit is modelled down to 200 metres depth.

The project has more than 15,000 metres of drilling in 123 diamond holes, and 2,143 assay samples. The project was initially drilled between 1991 and 1999, and then by the vendor between 2010 and 2012.

The project has been subject to two metallurgical test work programs in 1999 and 2012. Bumigeme Inc, processing consultants, conducted metallurgical testing on a 40 tonne sample and produced Li₂O concentrate grades between 5.78% and 5.89% at metallurgical recoveries between 67.52% and 70.19%, with an average head assay of 1.14%Li₂O. At an average head grade of 1.35%Li₂O, test work demonstrated a recovery of 75% and a concentrate grade of 5.96% Li₂O. In 2012, Glen Eagle completed further metallurgical testing and designed a flow sheet based on the concept of producing a 5-6% Li₂O concentrate at an 85% recovery rate using conventional processing routes.

Subsequent to the end of the quarter, part of its due diligence on the proposed Authier acquisition, an independent JORC Mineral Resource estimate, totalling 9.12 million tonnes containing 87,302 tonnes of Li₂O was reported. The Company has independently undertaken a detailed audit of all the available data to verify the previous work and convert the foreign estimate to a JORC 2012 compliant Mineral Resource estimate, tabulated below at a 0.5% Li₂O cut-off grade.

| Table 1 – Authier JORC Mineral Resources Estimate (0.5% Li₂O cut-off grade) | | | |
|--|-----------------------|-------------------------------|----------------------------------|
| Category | Million Tonnes | Grades Li₂O | Contained Li₂O |
| Measured | 2.08 | 0.95% | 19,730 |
| Indicated | 5.16 | 0.97% | 50,092 |
| Inferred | 1.88 | 0.93% | 17,480 |
| Total | 9.12 | 0.96% | 87,302 |
| Cautionary Note - Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources estimated will be converted into a Mineral Reserves estimate. | | | |

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OPERATING AND FINANCIAL REVIEW

The key attractions of the Authier lithium project acquisition, include:

- Extensively drilled - mineralisation hosted in a spodumene-bearing pegmatite intrusion with more than 15,000 metres of drilling in 123 holes;
- Simple deposit - 825 metres long with an average thickness of 25 metres dipping at 40 degrees, amenable to low-cost, open-cut mining techniques;
- Defined resources – foreign measured and indicated resources totalling 74,000 tonnes of contained Li₂O, with demonstrated economic viability. Additional inferred resources total 14,899 tonnes Li₂O - see Appendix A for details and cautionary statement;
- Simple metallurgy - extensive metallurgical testing and flowsheet designed to produce a 5-6% Li₂O concentrate at an 85% metallurgical recovery;
 - Well studied - a NI43-101 Technical Report – Preliminary Economic Assessment – completed in 2013, demonstrated the technical and commercial viability of developing the deposit, and selling lithium concentrates;
 - Excellent infrastructure – situated 45 kilometres from mining support services, and links to road and rail networks, including the Quebec export port; and
 - Large sunk cost – significant investment in drilling, geophysics and development studies.

Subsequent to the end of the quarter, the Company completed the Authier due diligence and entered into formal transaction documents for the CAD\$4 million acquisition of the Authier lithium Project. The acquisition was completed on the 20 July 2016. The Company's strategy going forward, includes:

- Exploration and further drilling to target expanding the existing mineral resources;
- Identifying other resources in the tenement package and in the surrounding district to potentially expand the scale of the project; and
- Studying options for improving the project economics including, metallurgical optimisation and downstream processing options.

Corporate

In July 2016 the Company appointed Mr Corey Nolan as Chief Executive Officer. Mr Nolan is an experienced public company director and senior executive with more than 23 years' experience in advisory, commercial and business development roles focused on the acquisition, funding, and development of resource projects.

During August and September 2015, the Company completed a fully underwritten, accelerated rights offer to raise \$2.6 million. The terms of the capital raising, included:

- a 1 for 4 entitlement offer at an issue price of \$0.025 per share;
- 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new share applied for;
- the placement of 1,224,115 shares and listed options in respect of underwriting oversubscriptions; and
- the issue of 1,603,522 shares and 6,808,666 listed options in part settlement of raising management and underwriting fees.

FINANCIAL POSITION

At 30 June 2016, the Company's Statement of Financial Position shows total assets of \$1,637,562, of which \$62,603 was cash, total liabilities of \$303,893 and net assets of \$1,333,669. Committed exploration & evaluation expenditure in the next 12 months totals \$193,651.

In July 2016, the Company announced its intention to undertake a private placement of shares and an underwritten, accelerated non-renounceable rights issue to raise up to \$7.1 million. The initial placement was completed on 22 July 2016 and the rights issue was completed on 17 August 2016. A further placement of \$600,000 was subject to shareholder approval at a general meeting of shareholders held on 7 September 2016.

Refer to significant events after balance date in this report and note 24 in the financial report for details of the Company's capital raising activity since the end of the financial year.

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

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SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes during the year include:

- 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 Company exercised its option on 6 January 2016 by paying \$200,000.
- On 4 August 2015, the Company entered into a four-month, exclusive binding term sheet to acquire the Itabela graphite project. The Company subsequently agreed to amend the Option-to-Purchase terms with Brasil Graphite in December 2015. The new agreement extended the option period to 30 June 2016. Following an extensive exploration program in early 2016, drilling was unable to define a resource of sufficient scale to meet the Company's financial return objectives. The Company could not negotiate suitable new contractual terms to justify extending the purchase option.
- 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 \$1,808,000.
- 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.
- On 1 May 2016, the Company entered into a binding term sheet with Glen Eagle Resources Inc to acquire 100 per cent of the Authier project in Quebec, Canada for CAD\$4 million. The agreement was subject to the satisfactory completion of a 60-day due diligence period. In June 2016 the parties agreed to a three week extension of the due diligence period. The acquisition was completed on 20 July 2016.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Key events since balance date have been:

- On 7 July 2016 a 100% owned, foreign subsidiary company, Sayona Quebec Inc was incorporated in Quebec, Canada.
- The Company issued 6,250 shares on 8 July 2016 and 4,361 shares on 20 July 2016 at \$0.03 per share, pursuant to the exercise of options.
- On 10 July 2016, the Group entered into a Mineral Claim Purchase Agreement with Glen Eagle Resources Inc to acquire the Authier graphite tenements in Quebec Canada. Purchase cost of the project was CAD4,000,000. The acquisition was completed on 20 July 2016.
- On 15 July 2016, the Company announced its intention to undertake an accelerated non-renounceable rights issue to raise up to \$2.9 million. The rights issue entailed a 1 for 5 entitlement offer at an issue price of \$0.027 per share, together with 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every 2 share applied for.
- On 18 July 2016, the Company undertook a private placement of 133,067,264 shares and 66,533,638 listed options to raise \$3,592,816. The terms of the placement included the grant of 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new 2 shares applied for. The allotment of the options gained shareholder approval at a General Meeting of the Company held on 7 September 2016.

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OPERATING AND FINANCIAL REVIEW

- On 22 July 2016, the Company completed the accelerated component of the rights issue, issuing 70,539,643 ordinary shares and 35,269,822 listed options to raise \$1,904,570.
- On 5 August, the Company entered into a new Heads of Agreement with Attagold Pty Ltd, varying the terms of the option exercise component of the original Heads entered into on 6 February 2015. The new agreement extends the option payment terms from a one off payment of \$170,000 payable in August 2016 to split payment of \$50,000 in September 2016, which was settled by issuing shares in the Company, and a further \$120,000 payable in January 2017. The payments are to be made in equivalent value of shares in Sayona Mining Limited. The Company issued 1,851,852 shares on 7 September 2016 in settlement of the first payment.
- On 17 August 2016, the Company completed the underwritten retail component of the rights issue raising \$996,682 by issuing 36,915,413 ordinary shares and 18,457,727 options.
- On 7 September 2016, the Company issued 22,222,222 shares and 11,111,111 listed options to raise \$600,000.
- On 7 September 2016, the Company issued 5,000,000 listed options pursuant to shareholder approval, in part settlement of raising management and underwriting fees.
- On 7 September 2016, the Company issued 1,851,852 ordinary shares as consideration for part acquisition of a mineral tenement in Western Australia.

Other than as set out in this report and the attached financial statements no matters or circumstances have arisen since 30 June 2016, 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.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

During the year, the Company has focused on sourcing and developing the raw materials required to construct lithium-ion batteries for use in the rapidly growing new and green technology sectors. The Company has assembled a portfolio of exploration and development assets to help 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 exposure to business risks may affect the Group's ability to achieve the objectives outlined above:

- 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 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 KMP 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.

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REMUNERATION REPORT

RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods have been applied to achieve this aim. The first is a performance based bonus based on KPIs and the second, is the issue of options to executives and directors to encourage the alignment of personal and shareholder interests. The Company believes this policy has been effective in increasing shareholder wealth over recent years.

The following table shows some key performance data of the Company for the last 3 years, together with the share price at the end of the respective financial years.

| | 2014 | 2015 | 2016 |
|--|-----------|---------|-----------|
| Exploration expenditure (\$) | 126,620 | 310,394 | 2,712,521 |
| Exploration tenements (no. including applications) | 0 | 4 | 14 |
| Net assets (\$) | 1,359,031 | 822,501 | 1,333,669 |
| Share Price at Year-end (\$) | 0.0028 | 0.0009 | 0.0287 |
| Dividends Paid (\$) | NIL | NIL | NIL |

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 2016 & 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 | 26% | 74% | 100% |
| P Crawford | Executive Director Company Secretary | No fixed term, termination as provided by Corporations Act | 26% | 74% | 100% |
| A Buckler | Non-executive Director | No fixed term, termination as provided by Corporations Act | 53% | 47% | 100% |
| J Brown | Non-executive Director | No fixed term, termination as provided by Corporations Act | 53% | 47% | 100% |
| C Nolan | Chief Executive Officer appointed 1 July 2015 | No fixed term, 3 months' notice to terminate. | 2% | 98% | 100% |

Employment Contract of Chief Executive Officer

The Company entered into a contract for service with Mr Corey Nolan, Chief Executive Officer on 1 July 2015. His contract has no fixed term.

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REMUNERATION REPORT

The Company may terminate the Chief Executive Officer's contract by giving 3 months' notice. In the case of serious misconduct the Company can terminate employment at any time. The contract provides for annual review of the compensation value. The terms of this agreement are not expected to change in the immediate future.

CHANGES IN DIRECTORS AND EXECUTIVES SUBSEQUENT TO YEAR-END

There have been no changes to Directors or executives since the end of the financial year.

REMUNERATION EXPENSE DETAILS

The remuneration of each Director and Chief Executive Officer of the Company during the year was as following table. Amounts have been calculated in accordance with Australian Accounting Standards.

| 2016 Key Management Personnel | Short term benefits | | Equity Settled Options | Post- employment superannuation | Long term benefits | Total |
|-------------------------------------|---------------------|----------------------|------------------------------|---------------------------------------|--------------------------|---------|
| | Salary & Fees | Non-Cash Benefits | | | | |
| D O'Neill | 91,324 | - | 34,366 | 8,676 | - | 134,366 |
| P Crawford (1) | 100,000 | - | 34,366 | 0 | - | 134,366 |
| A Buckler (2) | 30,000 | - | 34,366 | 0 | - | 64,366 |
| J Brown | 30,000 | - | 34,366 | 0 | - | 64,366 |
| C Nolan | 176,365 | - | 4,493 | 15,438 | - | 196,296 |
| | 427,689 | - | 141,957 | 24,114 | - | 593,760 |

(1) Represents payments made to Sirod Pty Ltd, an entity controlled by Mr Paul Crawford, to provide accounting, company secretarial and other services.

(2) Represents payments made to Buckler Pty Ltd, an entity controlled by Mr Allan Buckler, to provide technical services.

No payments were made to Directors or Chief Executive Officer of the Company during the previous year.

SECURITIES RECEIVED THAT ARE NOT PERFORMANCE-RELATED

No members of KMP may receive securities that are not performance-based as part of their remuneration package.

SHARE BASED PAYMENTS

The terms and conditions relating to options granted as remuneration to KMP during the year are as follows:

| KMP | Grant Date | Grant Value | Reason for Grant Note 1 | Percentage Vested/Paid in Year Note 2 | Percentage Forfeited in Year | Percentage Remaining Unvested | Expiry Date for Vesting or Payment | Value Range of Future Payments |
|------------|------------|-------------|-------------------------|---------------------------------------|------------------------------|-------------------------------|------------------------------------|--------------------------------|
| C Nolan | 8.07.2015 | \$1,765 | (a) | 100% | - | - | 30.06.16 | \$0-\$30,000 |
| C Nolan | 8.07.2015 | \$1,333 | (a) | 100% | - | - | 31.12.16 | \$0-\$60,000 |
| C Nolan | 8.07.2015 | \$1,396 | (a) | 100% | - | - | 30.06.17 | \$0-\$90,000 |
| D O'Neill | 25.11.2015 | \$34,366 | (b) | 100% | - | - | 30.06.17 | \$0-\$150,000 |
| P Crawford | 25.11.2015 | \$34,366 | (b) | 100% | - | - | 30.06.17 | \$0-\$150,000 |
| A Buckler | 25.11.2015 | \$34,366 | (b) | 100% | - | - | 30.06.17 | \$0-\$150,000 |
| J Brown | 25.11.2015 | \$34,366 | (b) | 100% | - | - | 30.06.17 | \$0-\$150,000 |

Note 1(a) The options have been granted to CEO Mr Nolan as part of the Group's incentive and motivation strategy for the recruitment and retention of key executives. Options vested immediately on grant date.

Note 1(b) The options were granted to Directors pursuant to shareholder approval at the 2015 Annual General Meeting.

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REMUNERATION REPORT

No options or shares were granted as remuneration in the 2015 year.

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.

There have not been any alterations to the terms or conditions of any grants since grant date.

| KMP | Balance 1 July 2015 | Grant Details | | | Exercised | | Lapsed | Balance 30 June 2016 |
|------------|------------------------|----------------|-----------|---------------|---------------|---------------|--------|-------------------------|
| | | Issued Date | No. | Value \$ | No. | Value \$ | No. | |
| | | | | Note 1 | Note 2 | Note 3 | | |
| C Nolan | - | 8.07.15 | 6,000,000 | 1,765 | 6,000,000 | 1,765 | - | - |
| C Nolan | - | 8.07.15 | 6,000,000 | 1,333 | - | - | - | 6,000,000 |
| C Nolan | - | 8.07.15 | 6,000,000 | 1,396 | - | - | - | 6,000,000 |
| D O'Neill | - | 25.11.15 | 5,000,000 | 34,366 | - | - | - | 5,000,000 |
| P Crawford | - | 25.11.15 | 5,000,000 | 34,366 | 1,500,000 | 45,000 | - | 3,500,000 |
| A Buckler | - | 25.11.15 | 5,000,000 | 34,366 | - | - | - | 5,000,000 |
| J Brown | - | 25.11.15 | 5,000,000 | 34,366 | - | - | - | 5,000,000 |

| KMP | Balance 30 June 2016 | Vested | | | Unvested |
|------------|-------------------------|-------------|---------------|------------|----------|
| | | Exercisable | Unexercisable | Total | Total |
| | | No. | No. | No. | No. |
| C Nolan | 12,000,000 | 12,000,000 | - | 12,000,000 | - |
| D O'Neill | 5,000,000 | 5,000,000 | - | 5,000,000 | - |
| P Crawford | 3,500,000 | 3,500,000 | - | 3,500,000 | - |
| A Buckler | 5,000,000 | 5,000,000 | - | 5,000,000 | - |
| J Brown | 5,000,000 | 5,000,000 | - | 5,000,000 | - |

Note 1 The fair value of options granted as remuneration and shown in the table above has been determined in accordance with Australian Accounting Standards and will be recognised as an expense over the relevant vesting period to the extent that conditions necessary for vesting are satisfied.

Note 2 All options exercised resulted in the issue of ordinary shares in Sayona Mining Limited on a 1:1 basis. All persons exercising option paid the applicable exercise price.

Note 3 The value of options have been exercised during the year as shown in the table above was determined as at the time of the exercise.

DESCRIPTION OF OPTIONS ISSUED AS REMUNERATION

Details of options granted by Sayona Mining Limited as remuneration to those KMP listed in the previous table are as follows:

| Grant Date | Entitlement on Exercise | Dates Exercisable | Exercise Price | Value per Option at Grant Date | Amount Paid/Payable by Recipient |
|------------|----------------------------|----------------------|-------------------|--------------------------------------|--|
| 8.07.2015 | 1:1 ordinary share | 30.06.2016 | 0.5 cents | 0.02941 cents | - |
| 8.07.2015 | 1:1 ordinary share | 31.12.2016 | 1.0 cents | 0.02221 cents | - |
| 8.07.2015 | 1:1 ordinary share | 30.06.2017 | 1.5 cents | 0.02326 cents | - |
| 25.11.2015 | 1:1 ordinary share | 30.06.2017 | 3.0 cents | 0.68733 cents | - |

Option values have been determined using the binomial lattice pricing model.

REMUNERATION REPORT

KMP SHAREHOLDINGS

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

| Key Management Personnel | Balance 1 July 2015 | Remun- eration | Exercise of Options | Other Changes | Balance 30 June 2016 |
|---------------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------|---------------------------------|
| D O'Neill | 67,255,241 | - | 1,000,000 | 2,000,000 | 70,255,241 |
| P Crawford | 73,180,974 | - | 4,250,000 | 2,750,000 | 80,180,974 |
| A Buckler | 81,081,394 | - | - | 2,000,000 | 83,081,394 |
| J Brown | 1,248,295 | - | - | 800,000 | 2,048,295 |
| C Nolan | - | - | 6,000,000 | - | 6,000,000 |
| Total | 222,765,904 | 0 | 11,250,000 | 7,550,000 | 241,565,904 |

OTHER EQUITY-RELATED KMP TRANSACTIONS

There were no other transactions involving equity instruments apart from those described in the tables above relating to options.

OTHER TRANSACTIONS WITH KMP AND/OR THEIR RELATED PARTIES

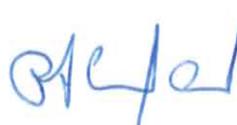
There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's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

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



Dennis O'Neill
Director

Signed: 30 September 2016
Brisbane, Queensland



Paul Crawford
Director

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

To the Directors of Sayona Mining Limited and Controlled Entities

As lead auditor for the audit of Sayona Mining Limited for the year ended 30 June 2016, 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.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Robertson.

A M Robertson
Director

Date: 30 September 2016

SAYONA MINING LIMITED

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DIRECTORS' DECLARATION

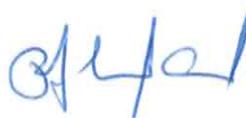
The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2016 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: 30 th day of September 2016

SAYONA MINING LIMITED

ABN 26 091 951 978

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 30 June 2016

| | Note | Consolidated Group | |
|---|------|--------------------|------------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| Revenue and other income | 2 | 42,764 | 55,219 |
| Administrative expenses | | (1,200,601) | (230,484) |
| Occupancy costs | | (40,562) | (39,201) |
| Exploration expenditure expensed during year | 3 | (1,273,785) | (310,394) |
| Net loss on financial asset at fair value through profit and loss | 3 | (39,231) | (41,670) |
| Loss before income tax | 3 | (2,511,415) | (566,530) |
| Tax expense | 4 | - | - |
| Loss for the year | | (2,511,415) | (566,530) |
| Other comprehensive income | | | |
| Items that will be reclassified subsequently to profit or loss when specific conditions are met: | | - | - |
| Items that will not be reclassified to profit or loss: | | - | - |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income or (loss) attributable to members | | (2,511,415) | (566,530) |
| Earnings per Share: | | | |
| Basic and diluted earnings per share (cents per share) | 6 | (0.50) | (0.14) |
| Dividends per share (cents per share) | | - | - |

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED**ABN 26 091 951 978****STATEMENT OF FINANCIAL POSITION****As at 30 June 2016**

| | | Consolidated Group | |
|----------------------------------|-------------|---------------------------|----------------|
| | Note | 2016 | 2015 |
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 8 | 62,603 | 737,545 |
| Trade and other receivables | 9 | 36,886 | 13,059 |
| Other financial assets | 10 | 78,462 | 117,693 |
| Other assets | 11 | 14,850 | 6,296 |
| Total Current Assets | | 192,801 | 874,593 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 12 | 6,025 | 1,534 |
| Exploration and evaluation asset | 13 | 1,438,736 | - |
| Total Non-Current Assets | | 1,444,761 | 1,534 |
| TOTAL ASSETS | | 1,637,562 | 876,127 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 284,183 | 53,626 |
| Provisions | 15 | 19,710 | - |
| Total Current Liabilities | | 303,893 | 53,626 |
| TOTAL LIABILITIES | | 303,893 | 53,626 |
| NET ASSETS | | 1,333,669 | 822,501 |
| EQUITY | | | |
| Issued capital | 16 | 52,945,695 | 50,069,511 |
| Reserves | 17 | 146,959 | (4,527,230) |
| Accumulated losses | | (51,758,985) | (44,719,780) |
| TOTAL EQUITY | | 1,333,669 | 822,501 |

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED

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STATEMENT OF CASH FLOWS
for the year ended 30 June 2016

| | Note | Share Capital | Accumulated Losses | Foreign Currency Translation Reserve | Option Reserve | Total |
|---|------|-------------------|-----------------------|---|-------------------|------------------|
| | | \$ | \$ | \$ | \$ | \$ |
| Consolidated Group | | | | | | |
| Balance at 1 July 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 | 16 | 30,000 | - | - | - | 30,000 |
| Transaction costs | | - | - | - | - | - |
| Balance at 30 June 2015 | | 50,069,511 | (44,719,780) | (4,527,230) | - | 822,501 |
| Loss attributable to members of the entity | | - | (2,511,975) | - | - | (2,511,975) |
| Other comprehensive income for the year | | - | - | - | - | - |
| Total comprehensive income for the year | | - | (2,511,975) | - | - | (2,511,975) |
| Other | | | | | | |
| Reserve transferred to retained earnings | | - | (4,527,230) | 4,527,230 | - | - |
| Total other | | - | (4,527,230) | 4,527,230 | - | - |
| Transactions with owners in their capacity as owners | | | | | | |
| Shares issued during the year | 16 | 3,083,284 | - | - | - | 3,083,284 |
| Transaction costs | | (207,100) | - | - | - | (207,100) |
| Share based payments | 23 | - | - | - | 146,959 | 146,959 |
| Total transactions with owners | | 2,876,184 | - | - | 146,959 | 3,023,143 |
| Balance at 30 June 2016 | | 52,945,695 | (51,758,985) | - | 146,959 | 1,333,669 |

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED

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**STATEMENT OF CASH FLOWS
for the year ended 30 June 2016**

| | | Consolidated Group | |
|---|-------------|---------------------------|------------------|
| | Note | 2016 | 2015 |
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | (2,137,423) | (571,486) |
| Interest received | | 26,361 | 21,123 |
| Net cash provided by (used in) operating activities | 18 | (2,111,062) | (550,363) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 12 | (6,328) | - |
| Capitalised exploration expenditure | | (1,418,736) | - |
| Proceeds from settlement of deferred sale consideration | | - | 227,660 |
| Net cash provided by (used in) investing activities | | (1,425,064) | 227,660 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | - | (127,652) |
| Proceeds from issue of shares | | 3,023,196 | - |
| Costs associated with share & option issues | | (162,012) | - |
| Net cash provided by (used in) financing activities | | 2,861,184 | (127,652) |
| Net increase (decrease) in cash held | | (674,942) | (450,355) |
| Cash at beginning of financial year | | 737,545 | 1,201,357 |
| Effect of exchange rates on cash holdings in foreign currencies | | - | (13,457) |
| Cash at end of financial year | 8 | 62,603 | 737,545 |

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED

ABN 26 091 951 978

Notes to the Financial Statements for the financial year ended 30 June 2016

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 26.

The financial statements have been authorised for issue as at the date of the Directors' Declaration.

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 27.

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.

Continued Operations & Future Funding

The financial statements have been prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The ability of the group to execute its currently planned activities requires the group to raise additional capital within the next 12 months. Because of the nature of its operations, the Directors recognise that there is a need on an ongoing basis for the group to regularly raise additional cash funds to fund future exploration activity and meet other necessary corporate expenditure. Accordingly, when necessary, the group investigates various options for raising additional funds which may include but is not limited to an issue of shares, a farm-out of an interest in one or more exploration tenements or the sale of exploration assets where increased value has been created through previous exploration activity.

At the date of this financial report, the group has commenced a number of these initiatives as may be evidenced in Note 24 Events after balance sheet date. As a result, the Directors have concluded that the current circumstances may cast significant doubt regarding the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, after taking into account the various funding options available, the Directors have a reasonable expectation that the group will be successful with future fund raising initiatives and, as a result, will have adequate resources to fund its future operational requirements and for these reasons they continue to adopt the going concern basis in preparing the financial report.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Continued Operations & Future Funding (continued)

The financial report does not include adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the company not be able to continue as a going concern.

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 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.

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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 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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

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.

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 are 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.

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 Estimates:

Impairment - general

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. No impairment has been recognised for the year.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical Accounting Estimates and Judgement (continued)

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. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded. During the year exploration and evaluation expenditure totalled \$2,712,521, of which \$1,273,785 was written-off and \$1,438,736 was capitalised. Capitalised expenditure at the end of the reporting period is \$1,438,736.

Going Concern

Refer to comments in Note 1 on Continued Operations and Future Funding.

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 beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, 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.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

The directors are of the view that any impact is immaterial to the Group's financial statements.

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 2: REVENUE AND OTHER INCOME

| | 2016 | 2015 |
|--|---------------|---------------|
| | \$ | \$ |
| Interest received from unrelated parties | 26,361 | 21,123 |
| Foreign exchange gains | 15,843 | 34,096 |
| Gain on disposal of controlled entity | 560 | - |
| | - | - |
| Total revenue and other income | 42,764 | 55,219 |

NOTE 3: LOSS FOR THE YEAR

Loss 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 | 39,231 | 41,670 |
| Rental expense on operating lease | 36,851 | 35,427 |
| Depreciation | 1,837 | 2,497 |

(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 | (1,273,785) | (310,394) |
|---|-------------|-----------|

NOTE 4: INCOME TAX EXPENSE

(a) The prima facie tax on loss from ordinary activities is reconciled to the income tax as follows:

| | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Prima facie tax payable on loss from ordinary activities before income tax at 30% (2015: 30%). (Australian domestic rate) | (753,593) | (169,959) |
| Adjust for tax effect of: | | |
| Tax losses and temporary differences not brought to account | 445,111 | 172,905 |
| Non-allowable items | 308,482 | (2,946) |
| 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 | 171,196 | 8,288 |
| Tax losses - Revenue | 6,160,656 | 5,494,181 |
| Tax losses - Capital | 6,736,405 | 6,736,405 |
| Net unbooked deferred tax asset | 13,068,257 | 12,238,874 |

The Company has unconfirmed, Australian carry forward losses for revenue of \$20,535,521 (2015: \$18,286,618) and for capital of \$22,454,683 (2015: \$22,454,683).

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

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 2016.

(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 |
| Corey Nolan | Chief Executive Officer |

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

| | 2016 \$ | 2015 \$ |
|------------------------------|------------|------------|
| Short-term employee benefits | 313,824 | - |
| Post-employment benefits | 24,113 | - |
| Other long-term benefits | - | - |
| Share-based payments | 141,959 | - |
| Total KMP compensation | 479,896 | - |

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

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.

| | 2016 No. | 2015 No. |
|---|-------------|-------------|
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS | 503,822,436 | 408,625,220 |
| Weighted average number of options outstanding. | - | - |
| Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in the calculation of diluted EPS | 503,822,436 | 408,625,220 |

Options to acquire ordinary shares in the parent company are the only securities considered as potential ordinary shares in determination of diluted EPS. These securities are not presently dilutive and have been excluded from the calculation of diluted EPS.

SAYONA MINING LIMITED**ABN 26 091 951 978****Notes to the Financial Statements
for the financial year ended 30 June 2016****NOTE 6: EARNINGS PER SHARE (continued)**

| | 2016 | 2015 |
|--|-------------|-------------|
| | \$ | \$ |
| Ordinary shares issued after 30 June 2016 that significantly change the number of ordinary shares outstanding | 264,607,005 | - |
| Options on ordinary shares issued after 30 June 2016 that significantly change the number of ordinary shares outstanding | 136,372,292 | - |

NOTE 7: AUDITORS' REMUNERATION

| | | |
|---|---------------|---------------|
| Remuneration of the auditor of the parent entity for: | | |
| - auditing or reviewing the financial reports | 26,700 | 28,400 |
| - other assurance services | - | - |
| | <u>26,700</u> | <u>28,400</u> |

NOTE 8: CASH AND CASH EQUIVALENTS

| | | |
|--------------------------|---------------|----------------|
| Cash at bank and on hand | 52,253 | 127,195 |
| Short-term bank deposits | 10,350 | 610,350 |
| | <u>62,603</u> | <u>737,545</u> |

The effective interest rate on short-term bank deposits was 1.25% (2015: 2.25%). 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 20).

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 | <u>62,603</u> | <u>737,545</u> |
|---------------------------|---------------|----------------|

NOTE 9: TRADE AND OTHER RECEIVABLES**Current (unsecured):**

| | | |
|---------------|---------------|---------------|
| Other Debtors | 36,886 | 13,059 |
| | <u>36,886</u> | <u>13,059</u> |

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

NOTE 10: OTHER FINANCIAL ASSETS**Current:**

| | | |
|--|---------------|----------------|
| Financial assets at fair value through profit and loss (a) | <u>78,462</u> | <u>117,693</u> |
|--|---------------|----------------|

(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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 11: OTHER ASSETS

| | 2016 | 2015 |
|-----------------|-------------|-------------|
| Current: | \$ | \$ |
| Prepayments | 14,850 | 6,296 |

NOTE 12: PLANT & EQUIPMENT

| Plant and equipment | | |
|---|---------|---------|
| At cost | 11,500 | 5,172 |
| Accumulated depreciation | (5,475) | (3,638) |
| Total plant and equipment | 6,025 | 1,534 |
| Reconciliation of the carrying amounts for property, plant and equipment: | | |
| Balance at the beginning of year | 1,534 | 4,031 |
| Additions | 6,328 | - |
| Depreciation expense | (1,837) | (2,497) |
| Carrying amount at the end of year | 6,025 | 1,534 |

NOTE 13: EXPLORATION AND EVALUATION ASSET

Exploration and evaluation expenditure carried forward in respect of areas of interest are:

| | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Exploration and evaluation phase - company interest 100% (a) | 1,362,774 | - |
| Exploration and evaluation phase - subject to joint operation (b) | 75,962 | - |
| | 1,438,736 | - |

(a) Movement in exploration and evaluation expenditure:

| | Non-Joint Operation | |
|-------------------------------------|----------------------------|---|
| Opening balance - at cost | - | - |
| Capitalised exploration expenditure | 1,362,774 | - |
| Carrying amount at end of year | 1,362,774 | - |

(b) Movement in exploration and evaluation expenditure:

| | Subject to Joint Operation | |
|--|-----------------------------------|---|
| Opening balance - at cost | - | - |
| Capitalised exploration & evaluation expenditure | 75,962 | - |
| Carrying amount at end of year | 75,962 | - |

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and development of projects, or alternatively, through the sale of the areas of interest.

Sayona East Kimberley Graphite Pty Ltd

In July 2015 the Company entered into a Tenement Option and Sale Agreement with Western Iron Pty Ltd to acquire 100% of the graphite interests in tenement E80/4511. Sayona paid Western Iron \$5,000 on signing and \$200,000 on 6 January 2016 to exercise its option. Western Iron is entitled to receive a 1% gross production royalty. Western Iron retains a Back-in option to the nickel, copper and iron mineralisation by the payment of \$100,000 within 12 months of completion date.

During the year, \$1,097,836 was expended and capitalised on this project.

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 13: EXPLORATION AND EVALUATION ASSET (continued)

Sayona Lithium Pty Ltd

Mt Edon

On 4 February 2016, the Company entered into a binding heads of agreement with Mr Bruce Legendre to acquire a 100% interest in Western Australian mineral tenement E59/2092.

The agreement provided for:

- an initial payment of \$15,000 and issue of 1,000,000 fully paid ordinary shares in the parent entity to acquire 80% of the tenement;
- a 3 year option to acquire the remaining 20% for \$100,000; and
- the vendor retains a 1% net smelter royalty on lithium production.

The agreement also provided the vendor with the right to explore for and develop other non-lithium commodity extraction within the Tenement during the option period.

The Company has acquired the initial 80% interest. During the year, \$75,962 was expended and capitalised on this tenement.

Mt Edon West

On 17 March 2016, the Company entered into a binding heads of agreement with Atgold Pty Ltd to acquire a 100% interest in Western Australian mineral tenement E59/2055. Consideration for the acquisition was \$15,000 payable at completion of a 7 day due diligence period.

The agreement also provided the vendor with an exclusive right to explore for, extract and sell (in accordance with the terms of grant of the Tenement) any non-lithium containing materials within the Tenement.

During the year, \$54,824 was expended and capitalised on this tenement.

Authier Lithium Project

On 1 May 2016, the Company entered into a binding term sheet with Glen Eagle Resources Inc to acquire 100 per cent of the Authier project in Quebec, Canada for CAD\$4 million. The agreement was subject to the satisfactory completion of a 60-day due diligence period. The Company paid Glen Eagle CAD\$50,000 for full exclusivity to the Authier project during the due diligence period.

In June 2016 the parties agreed to a three week extension of the due diligence period until 21 July 2016. The Company paid Glen Eagle a further CAD\$25,000 for the extension.

NOTE 14: TRADE AND OTHER PAYABLES

| | 2016 | 2015 |
|---|----------------|---------------|
| | \$ | \$ |
| Current: | | |
| Trade creditors | 185,721 | 38,126 |
| Sundry creditors and accrued expenses | 98,462 | 15,500 |
| Total trade & other payables (unsecured) | <u>284,183</u> | <u>53,626</u> |
| Financial liabilities at amortised cost classified as trade and other payables: | | |
| Financial liabilities as trade and other liabilities (refer Note 21) | <u>284,183</u> | <u>53,626</u> |

NOTE 15: PROVISIONS

| | | |
|----------------------------|---------------|---|
| Current: | | |
| Provision for annual leave | <u>19,710</u> | - |
| Opening balance | - | - |
| Additional provisions | 19,710 | - |
| Amounts used | - | - |
| Balance at year end | <u>19,710</u> | - |

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 16: ISSUED CAPITAL

| | 2016 | 2015 |
|---|-------------|-------------|
| | \$ | \$ |
| Fully paid ordinary shares | 52,945,695 | 50,069,511 |
| Ordinary shares issued during the year | No. | No. |
| Balance at the beginning of the reporting period | 411,534,809 | 405,534,809 |
| Shares issued during the year: | | |
| 24 December 2014, ordinary shares at \$0.005 each | | 6,000,000 |
| 14 August 2015, ordinary shares at \$0.025 per share, in the institutional component of the rights issue. | 72,320,000 | - |
| 4 September 2015, ordinary shares \$0.025 per share in the retail component of the rights issue. | 30,563,700 | - |
| 7 September 2015, ordinary shares at \$0.025 per share as a placement in respect of underwriting oversubscriptions. | 1,224,115 | - |
| 7 September 2015, ordinary shares at \$0.025 per share in part settlement of capital raising fees. | 1,603,522 | - |
| 21 March 2016 ordinary shares at \$0.02 per share in part settlement of tenement acquisition. | 1,000,000 | - |
| 23 May 2016 ordinary shares at \$0.03 per share following exercise of options. | 8,516,667 | - |
| 30 May 2016 ordinary shares at \$0.03 per share following exercise of options. | 3,000,000 | - |
| 25 June 2016 ordinary shares at \$0.03 per share following exercise of options. | 6,000,000 | - |
| 26 June 2016 ordinary shares at \$0.03 per share following exercise of options. | 1,500,000 | - |
| Balance at reporting date | 537,262,813 | 411,534,809 |

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.

| Options on issue are as follows: | 2016 | 2015 |
|---|--------------|-------------|
| | No. | No. |
| (i) Unlisted employee and officer options | | |
| Balance at beginning of reporting period | - | - |
| Granted | 38,000,000 | - |
| Exercised | (7,500,000) | - |
| Balance at reporting date | 30,500,000 | - |
| (ii) Listed options | | |
| Balance at beginning of reporting period | - | - |
| Granted | 110,916,481 | - |
| Exercised | (11,516,667) | - |
| Balance at reporting date | 99,399,814 | - |

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 16: ISSUED CAPITAL (continued)

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 17: RESERVES

Foreign currency translation reserve

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

Following the de-registration of DiamonEx (USA) Limited during the period, the Group no longer controls any foreign subsidiaries. Consequently the balance of the foreign currency translation reserve was reclassified to retained earnings in accordance with AASB 10: Consolidated Financial Statements.

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.

NOTE 18: CASH FLOW INFORMATION

| | 2016 | 2015 |
|---|-------------|-----------|
| | \$ | \$ |
| (a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax: | | |
| Loss from ordinary activities after income tax | (2,511,415) | (566,530) |
| Non-cash flows in profit from ordinary activities: | | |
| Gain on disposal of controlled entity | (560) | - |
| Depreciation | 1,837 | 2,497 |
| Share based payments | 141,959 | - |
| Loss on financial asset at fair value through profit and loss | 39,231 | 41,670 |
| Changes in operating assets and liabilities: | | |
| (Increase)/Decrease in receivables | (23,827) | (6,598) |
| (Increase)/Decrease in prepayments | (8,554) | (1,132) |
| (Decrease)/Increase in creditors and accruals | 230,557 | (20,270) |
| (Increase)/Decrease in provisions | 19,710 | - |
| Cash flows from operations | (2,111,062) | (550,363) |
| (b) Non-cash Financing and Investing Activities | | |

On 8 July 2015, the Company granted 18,000,000 options with various exercise conditions to Mr Nolan as remuneration. Options expire progressively, with 6,000,000 expiring on each of 30 June 2016, 31 December 2016 and 30 June 2017.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 18: CASH FLOW INFORMATION (continued)

During the period, 104,107,815 options were granted as part of the issue of shares under an entitlement offer. These options are exercisable at \$0.03 each and expire on 31 December 2016. The options are listed on the Australian Securities Exchange.

In addition, 1,603,522 shares and 6,808,666 options were granted as part settlement of the underwriting and management fees associated with the entitlement offer. These options are exercisable at \$0.03 each and expire on 31 December 2016. The options are listed on the Australian Securities Exchange.

On 25 November 2015, the Company granted a total of 20,000,000 options to Directors of the Company as remuneration. The options are exercisable at \$0.03 each and expire on 30 June 2017.

On 21 March 2016 the Company issued 1,000,000 new shares at \$0.02 per share to Mr Bruce Legendre in part settlement to acquire a 100% interest in Western Australian mineral tenement E59/2092.

During the previous year, 6,000,000 shares were issued at \$0.005 each to settle director fees outstanding from prior years.

NOTE 19: 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 year, the parent entity engaged Sirod Pty Ltd, an entity controlled by Mr Paul Crawford, a director of the company, to provide accounting, company secretarial and other services. Fees of \$100,000 were incurred during the period (2015: nil). \$20,000 was owed by the company at 30 June (2015: nil).

During the year, the parent entity engaged Buckler Pty Ltd, an entity controlled by Mr Allan Buckler, a director of the company, to provide technical services. Fees of \$30,000 were incurred during the period (2015: nil). This amount was owed by the company at 30 June (2015: nil).

During the year, the Company granted a total of 20,000,000 options to Directors of the Company as remuneration. The options are exercisable at \$0.03 each and expire on 30 June 2017.

During the previous 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.

NOTE 20: COMMITMENTS

| | 2016 | 2015 |
|---|-------|--------|
| | \$ | \$ |
| (a) Operating lease commitments | | |
| Non-cancellable operating leases contracted for but not recognised in the financial statements: | | |
| Not later than 1 year | 9,369 | 37,116 |
| Between 1 year and 5 years | - | 9,369 |
| Total commitment | 9,369 | 46,485 |

The property lease is a non-cancellable lease for the Brisbane office. The lease terminates on 30 September 2016. A new lease has not been executed at 30 June 2016.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 20: COMMITMENTS (continued)

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.

| | 2016 | 2015 |
|---|---------|---------|
| | \$ | \$ |
| The following commitments exist at balance date but have not been brought to account. | | |
| Not later than 1 year | 193,651 | 30,000 |
| Between 1 year and 5 years | 203,562 | 170,000 |
| Total commitment | 397,213 | 200,000 |

NOTE 21: FINANCIAL RISK MANAGEMENT

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

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 21.

Financial Risk Management Policies

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.

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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity Risk

Liquidity risk is the risk that the company will not be able 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 |
|---|-----------------------|---------------------|--------------------------|--------------|
| | \$ | \$ | \$ | \$ |
| 2016 | | | | |
| Financial assets | | | | |
| Cash & cash equivalents (i) | 62,603 | - | - | 62,603 |
| Receivables (ii) | 36,886 | - | - | 36,886 |
| Held for trading instruments | 78,462 | - | - | 78,462 |
| | 177,951 | - | - | 177,951 |
| Financial liabilities | | | | |
| Payables (ii) | 284,183 | - | - | 284,183 |
| | 284,183 | - | - | 284,183 |
| Net cash outflow on financial instruments | (106,232) | - | - | (106,232) |
| 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 |
| | 53,626 | - | - | 53,626 |
| Net cash inflow on financial instruments | 814,671 | - | - | 814,671 |

(i) Floating interest with a weighted average effective interest rate of 1.25% (2015: 2.25%)

(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.

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**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

(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. 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

- Cash held in US dollars.
- US dollar denominated supplier services.

| | USD | USD |
|---|-------------|-------------|
| | 2016 | 2015 |
| The Group's exposure to foreign currency risk at the reporting date was as follows: | | |
| Cash and cash equivalents | 3,300 | 88,741 |
| Net exposure | 3,300 | 88,741 |

(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.

(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 \$211 higher / lower (2015: \$5,773).

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 +/- \$626 (2015: \$7,375).

At year end, if the equity price of the held for trading investments strengthened/weakened by 10 percent, the effect on profit and equity would have been -/+ \$7,846 (2015: \$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 22: CONTINGENT LIABILITIES

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

NOTE 23: SHARE BASED PAYMENTS

On 8 July 2015, the Company granted 18,000,000 options with various exercise conditions to Mr Nolan as remuneration. The value of these options has been expensed and an amount of \$4,493 has been credited to the Option Reserve. Options expire progressively, with 6,000,000 expiring on each of 30 June 2016, 31 December 2016 and 30 June 2017. On 25 June 2016 6,000,000 options were exercised by Mr Nolan.

During the period, 104,107,815 options were granted as part of the issue of shares under an entitlement offer. These options are exercisable at \$0.03 each and expire on 31 December 2016. The options are listed on the Australian Securities Exchange.

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**Notes to the Financial Statements
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In addition, 1,603,522 shares and 6,808,666 options were granted as part settlement of the underwriting and management fees associated with the entitlement offer. These options are exercisable at \$0.03 each and expire on 31 December 2016. The options are listed on the Australian Securities Exchange. The value of these options has been treated as a non-cash cost of issue of the placement of shares. An amount of \$5,000 has been credited to the Option Reserve.

On 25 November 2015, the Company granted a total of 20,000,000 options to Directors of the Company as remuneration. The value of these options has been expensed and an amount of \$137,466 has been credited to the Option Reserve. These options are exercisable at \$0.03 each and expire on 30 June 2017. On 26 June 2016 1,500,000 options were exercised.

On 21 March 2016 the Company issued 1,000,000 new shares at \$0.02 per share to Mr Bruce Legendre in part settlement to acquire a 100% interest in Western Australian mineral tenement E59/2092.

Except as indicated, all of the above options were on issue at the end of the reporting period.

All Company options granted are over ordinary shares in Sayona Mining Limited, which confer a right of one ordinary share per option. The options hold no voting or dividend rights. Options issued under share based payment arrangements are summarised as:

| | 2016 | | 2015 | |
|---|------------------------------|--|------------------------------|--|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| | No | \$ | No | \$ |
| Options issued under employee share based payment arrangements are summarised as: | | | | |
| Outstanding at beginning of the period | - | - | - | - |
| Granted | 38,000,000 | 0.021 | - | - |
| Forfeited | - | - | - | - |
| Exercised | 7,500,000 | 0.010 | - | - |
| Expired | - | - | - | - |
| Outstanding at period end | 30,500,000 | 0.023 | - | - |
| Exercisable & vested at period end | 30,500,000 | 0.023 | - | - |

The weighted average remaining contractual life of options at year-end was 0.7 years. The weighted average fair value of those equity instruments determined by reference to market price was \$0.0023.

The Company established the Sayona Mining Limited Employees and Officers Share Option Plan on 26 November 2014. All members become eligible to participate at the discretion of the Board. Options forfeit one month after the holders ceases to be employed by the Company.

At reporting date, the options granted to key management personnel under the Share Option Plan are:

| | Options |
|--------------------------|----------------|
| Granted 8 July 2016 | 18,000,000 |
| Granted 25 November 2016 | 20,000,000 |

The weighted average fair value of options granted during the year was \$0.02. These values were calculated using a binomial option valuation model, applying the following assumptions:

| | |
|---------------------------------|-----------|
| Weighted average exercise price | 2.1 cents |
| Expected share price volatility | 100.0% |
| Weighted average life of option | 1.2 years |
| Expected dividends | nil |
| Risk-free interest rate | 2.00% |

These shares were issued as compensation to key management personnel of the Group. Further details are provided in the Directors' Report.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 24: EVENTS AFTER BALANCE SHEET DATE

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

- (i) On 7 July 2016 a 100% owned, foreign subsidiary company, Sayona Quebec Inc was incorporated in Quebec, Canada.
- (ii) The Company issued 6,250 shares on 8 July 2016 and 4,361 shares on 20 July 2016 at \$0.03 per share, pursuant to the exercise of options.
- (iii) On 10 July 2016, the Group entered into a Mineral Claim Purchase Agreement with Glen Eagle Resources Inc to acquire the Authier graphite tenements in Quebec Canada. Purchase cost of the project was CAD4,000,000. The acquisition was completed on 20 July 2016.
- (iv) On 15 July 2016, the Company announced its intention to undertake an accelerated non-renounceable rights issue to raise up to \$2.9 million. The rights issue entailed a 1 for 5 entitlement offer at an issue price of \$0.027 per share, together with 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every 2 share applied for.
- (v) On 18 July 2016, the Company undertook a private placement of 133,067,264 shares and 66,533,638 listed options to raise \$3,592,816. The terms of the placement included the grant of 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new 2 shares applied for. The allotment of the options gained shareholder approval at a General Meeting of the Company held on 7 September 2016.
- (vi) On 22 July 2016, the Company completed the accelerated component of the rights issue, issuing 70,539,643 ordinary shares and 35,269,822 listed options to raise \$1,904,570. See (v) above.
- (vii) On 5 August, the Company entered into a new Heads of Agreement with Attagold Pty Ltd, varying the terms of the option exercise component of the original Heads entered into on 6 February 2015. The new agreement extends the option payment terms from a one off payment of \$170,000 payable in August 2016 to split payment of \$50,000 in September 2016 and a further \$120,000 payable in January 2017. The payments are to be made in equivalent value of shares in Sayona Mining Limited. The Company issued 1,851,852 shares on 7 September 2016 in settlement of the first payment.
- (viii) On 17 August 2016, the Company completed the underwritten retail component of the rights issue raising \$996,682 by issuing 36,915,413 ordinary shares and 18,457,727 options. See (v) above.
- (ix) On 7 September 2016, the Company issued 22,222,222 shares and 11,111,111 listed options to raise \$600,000 pursuant to shareholder approval.
- (x) On 7 September 2016, the Company issued 5,000,000 listed options pursuant to shareholder approval, in part settlement of raising management and underwriting fees.
- (xi) On 7 September 2016, the Company issued 1,851,852 ordinary shares as consideration for part acquisition of a mineral tenement in Western Australia.

This financial report was authorised for issue on 30 September 2016 by the Board of Directors.

NOTE 25: JOINT ARRANGEMENTS

The Group has entered into joint arrangements with the following parties. Joint arrangements are in the form of options to acquire mineral tenements. Refer to note 13 for more information about the arrangements.

Sayona Lithium Pty Ltd

On 4 February 2016, the Company entered into a binding heads of agreement with Mr Bruce Legendre to acquire a 100% interest in Western Australian mineral tenement E59/2092.

The agreement provides for an initial payment of \$15,000 and issue of 1,000,000 fully paid ordinary shares in the parent entity to acquire 80% of the tenement with a further 3 year option to acquire the remaining 20% for \$100,000.

The Group holds an 80% interest in the project at 30 June 2016. Under the agreement, the vendor is entitled to receive a 1% gross production royalty and is entitled to explore for and develop other non-lithium commodity within the Tenement during the option period.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 25: JOINT ARRANGEMENTS (continued)

On 17 March 2016, the Company entered into a binding heads of agreement with Atfgold Pty Ltd to acquire the pegmatite interest in Western Australian mineral tenement E59/2364. The Company paid \$15,000 for a 1 year option to acquire the interest.

Consideration on exercising the option is \$80,000. The agreement also provides for the vendor to retain a 1% net smelter royalty on lithium production.

The Group held no interest in the project at 30 June 2016.

NOTE 26: 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.

| | 2016 | 2015 |
|--|--------------|--------------|
| | \$ | \$ |
| Current assets | 1,421,418 | 875,153 |
| Non-current assets | 216,144 | 1,534 |
| Total assets | 1,637,562 | 876,687 |
| Current liabilities | 303,893 | 53,626 |
| Non-current liabilities | - | - |
| Total liabilities | 303,893 | 53,626 |
| Contributed equity | 52,945,695 | 50,069,511 |
| Option Reserve | 146,959 | - |
| Accumulated losses | (51,758,985) | (49,246,450) |
| Total equity | 1,333,669 | 823,061 |
| Statement of Profit or Loss and Other Comprehensive Income | | |
| Total loss for the year | (2,323,416) | (566,530) |
| Total other comprehensive income | - | - |
| Total comprehensive loss for the year | (2,323,416) | (566,530) |

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 27: INTERESTS IN SUBSIDIARIES

Information about principal subsidiaries

Sayona Lithium Pty Ltd, incorporated in Australia. The parent entity holds 100% (2015: 100%) of the ordinary shares of the entity, carried at nil recoverable amount. The company changed its name from Lake Exploration Pty Ltd on 29 February 2016. The company holds options to acquire and tenement applications for lithium tenements in Western Australia.

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.

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Notes to the Financial Statements for the financial year ended 30 June 2016

NOTE 27: INTERESTS IN SUBSIDIARIES (continued)

Sayona International Pty Ltd, incorporated in Australia on 29 April 2016. The parent entity holds 100% of the ordinary shares of the entity, carried at recoverable amount of \$1. The company was established to hold overseas projects acquired by the Group. No assets were held by the entity at 30 June 2016.

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.

Disposal of controlled entity

On 1 July 2015, the parent entity voluntarily dissolved its 100% owned subsidiary, DiamonEx (USA) Limited. The total gain recognised in respect of the disposal amounted to \$560 and was recognised in profit or loss as part of other income.

NOTE 28: 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 2016 | | | 30 June 2015 | | |
|--|--------------|-----------|-----------|--------------|-----------|-----------|
| | (Level 1) | (Level 2) | (Level 3) | (Level 1) | (Level 2) | (Level 3) |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Recurring fair value measurements | | | | | | |
| Held for trading financial assets | 78,462 | - | - | 117,693 | - | - |

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ABN 26 091 951 978

**Notes to the Financial Statements
for the financial year ended 30 June 2016**

NOTE 28: FAIR VALUE MEASUREMENT (continued)

Disclosed Fair Value Measurements

The following table provides the level of the fair value hierarchy within which the disclosed fair value measurements are categorised in their entirety and a description of the valuation technique and inputs used:

| Description | Note | Fair Value Hierarchy Level | Valuation Technique(s) | Inputs Used |
|----------------------------|------|----------------------------------|---------------------------|---------------------------|
| Assets: | | | | |
| Shares in listed companies | 10 | 1 | Closing quoted bid prices | Closing quoted bid prices |

NOTE 29: 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 | | Overseas | | Consolidated Group | |
|--|-------------|-----------|-------------|------|--------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| REVENUE | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | 42,764 | 55,219 | - | - | 42,764 | 55,219 |
| Total revenue from ordinary activities | 42,764 | 55,219 | - | - | 42,764 | 55,219 |
| RESULT | | | | | | |
| Profit/(loss) from ordinary activities before income tax expense | (1,456,292) | (566,530) | (1,055,123) | - | (2,511,415) | (566,530) |
| Income tax expense | - | - | - | - | - | - |
| Profit/(loss) from ordinary activities after income tax expense | (1,456,292) | (566,530) | (1,055,123) | - | (2,511,415) | (566,530) |
| ASSETS | | | | | | |
| Segment assets | 1,427,448 | 876,127 | 210,114 | - | 1,637,562 | 876,127 |
| LIABILITIES | | | | | | |
| Segment liabilities | 283,954 | 53,626 | 19,939 | - | 303,893 | 53,626 |

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 30: COMPANY DETAILS

The registered office and principal place of business is:

Sayona Mining Limited
283 Given Terrace
Paddington Queensland 4064

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 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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.

Nexia Brisbane Audit Pty Ltd

Registered Audit Company 299289
Level 28, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1189, Brisbane QLD 4001
p +61 7 3229 2022, f +61 7 3229 3277
email@nexiabrisbane.com.au, www.nexia.com.au

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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 2016 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.

Emphasis of Matter – Continued Operations and Future Funding

Without qualifying our opinion, we draw attention to Note 1 in the financial report which states that the company's ability to execute its planned exploration and evaluation activities and meet other necessary corporate expenditure is dependent on the company's ability to raise additional funds. The matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt over the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

As set out in the note the directors have prepared the financial report on a going concern basis.

Report on the Remuneration Report

We have audited the remuneration report included in pages 15 to 19 of the directors' report for the year ended 30 June 2016. 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 2016 complies with s 300A of the *Corporations Act 2001*.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd

Robertson.

AM Robertson

Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 30 September 2016