

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2018**

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 2018. 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 2018 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 14 meetings of the full Board of Directors. The meetings attended by each Director were:

DIRECTOR	ELIGIBLE TO ATTEND	ATTENDED
D.C. O'Neill	14	14
P.A. Crawford	14	14
A. C. Buckler	14	14
J. S. Brown	14	14

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

Managing Director

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

86,593,477 ordinary shares

Directorships in other listed entities during the 3 years prior to current year

Altura Mining Limited

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. 40 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

98,440,535 ordinary shares and 769,650 listed options

Directorships in other listed entities during the 3 years prior to current year

Nil

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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

97,924,530 ordinary shares and 980,392 listed options

Directorships in other listed entities during the 3 years prior to current year

Altura Mining Limited, Interra Resources Limited

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 30 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

3,187,463 ordinary shares and 69,294 listed options

Directorships in other listed entities during the 3 years prior to current year

Altura Mining Limited

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
31 May 2018	30 April 2020	7.8 cents	120,242,789

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

Movements in listed shareholder options and unlisted employee options are set out in the state of affairs section of this report and Note 22 in the financial report.

During the year ended 30 June 2018, the following ordinary shares of Sayona Mining Limited were issued on the exercise of options granted:

Options	Issue Date	Exercise Price	Number of Share Issued
Employee Option Plan	29 December 17	\$0.035	2,500,000
Employee Option Plan	29 December 17	\$0.045	2,500,000

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DIRECTORS' REPORT

INDEMNIFICATION OF DIRECTORS AND AUDITORS

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

AUDITOR INDEPENDENCE

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

Non-Audit Services

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

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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. During the year, the Company undertook feasibility studies on the Authier Project in Canada and exploration activity on a number of projects in Australia and Canada.

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 and development assets.

Operating Results

The entity's consolidated operating loss for the financial year after applicable income tax was \$2,328,463 (2017: \$2,570,538). Tenement acquisition, exploration and evaluation expenditure during the year totalled \$5,724,378 (2017: \$7,109,318).

Review of Operations

The Company's primary focus during the year has been on completing the studies required to commence the development of the Authier project, including the Definitive Feasibility Study. Authier is a near-term development project and cash-flow generation opportunity. The Company believes it will create significant share value-uplift potential for shareholders as the project advances towards development.

Authier, Canada

JORC Mineral Resources Upgrade

In June 2017, the Company reported a JORC 2012 compliant Mineral Resource following the Phase 2 drilling program. During the year, the Mineral Resource was updated to include the Northern Pegmatite which was not previously incorporated in the Mineral Resource. In addition, the Authier Main pegmatite has been increased due to refinement of the lithium solids model for the main pegmatite and inclusion of new mineralisation from the Phase 3 drilling program. The Authier deposit has approximately 23,000 metres of drilling in 176 holes.

Table 1 – Authier JORC Mineral Resources Estimate (0.45% Li₂O cut-off grade)			
Category	Tonnes (Mt)	Grades %Li₂O	Contained Li₂O
Measured	6.09	1.01%	61,509
Indicated	11.55	1.04%	120,120
Inferred	2.82	0.98%	27,636
Total	20.46	1.02%	209,265

Based on the results of the new information, a new Proven and Probable Ore Reserve estimate of 11.66Mt @ 1.03% Li₂O at a 0.45% Li₂O cut-off grade (Table1) has been defined.

Table 2– Authier JORC Ore Reserve Estimate (0.45% Li₂O cut-off grade)			
Category	Tonnes (Mt)	Grades (%Li₂O)	Contained Li₂O
Proven Reserve	5.59	0.99	55,341
Probable Reserve	6.07	1.06	64,363
Total Reserves	11.66	1.03	119,704
Note: The Ore Reserve estimate is based on the details published in a separate ASX release "Authier JORC Ore Reserve", 11 December 2017. The Ore Reserve Estimate is inclusive of 2% dilution and 5% ore loss.			

OPERATING AND FINANCIAL REVIEW

Authier Optimised Pre-Feasibility Study

During the year, the Company completed the Optimised Pre-Feasibility Study (“PFS”). The PFS incorporates the expanded JORC Mineral Resource from phase 2 drilling, results from a number of technical optimisation programs, and realignment of pricing to reflect a concentrate grade of 6% Li₂O and more recent industry forecasts. The PFS confirms the technical and financial viability of constructing a simple, low-strip ratio, open-cut mining operation and processing facility producing spodumene concentrate. The positive PFS demonstrates the opportunity to create substantial long-term sustainable shareholder value at a low capital cost.

Authier Definitive Feasibility Study

In November 2017, the Company awarded the main components of Authier Definitive Feasibility Study (“DFS”) including the mining, processing and infrastructure to BBA. BBA is an independent Canadian consulting engineering firm operating internationally. BBA have extensive experience in the Canadian mining industry and have been actively involved in Feasibility Studies for Quebec lithium projects including Nemaska and the North American Lithium project.

A number of other DFS work programs including geotechnical, transport and environmental were outsourced to specialist contractors.

The DFS will incorporate the new JORC Resource estimate and the results of the successful 5-tonne pilot metallurgy program. The company is targeting completion of the DFS in September 2018, which has taken longer than expected due to finalisation of design work on parts of the process plant following late completion of the pilot metallurgy program.

Authier Marketing and Finance

With DFS nearing completion, the Company is actively engaging with a number of potential production off-takers. Strong interest has been received from Chinese concentrate converters interested in purchasing Authier concentrates or value-adding in country. The Company will be undertaking a marketing roadshow in China in July/August to secure binding off-take contracts for the Authier production.

In addition, the Company is engaged with a number of parties interested in financing the Authier project. Potential financing strategies include royalties, concentrate pre-sales and convertible notes. The objective of the financing strategy is to minimise dilution to shareholders.

Environmental Work Programs

The Company commissioned a number of environmental studies to examine whether the Authier mine has any physical, biological or social impacts on the environment and communities. The studies were undertaken by highly reputable independent consultants with extensive experience and expertise in the region, including SNC Lavalin, Lamont Inc, Hydrogeology Richelieu and Groupe DDM.

Authier has now been the subject of a number of detailed environmental studies. In 2010, a comprehensive base-line environmental study was completed by environmental consultancy group, Dessau. Since the Company’s acquisition of the Authier project in late 2016, all of the environmental studies have been updated.

The studies have not identified any potential environmental issues at the Authier project or any major impact on the local communities. The Authier project is planned to be an operation processing 1,900 tonnes of ore per day which is significantly smaller than other operations in the district.

Permitting Process Update

The Company’s strategy is to initially develop Authier and sell lithium concentrates while it completes the test work and feasibility study for a downstream processing facility producing lithium carbonate and/or hydroxide. The strategy is analogous to other lithium developers in Quebec including Nemaska and North American Lithium.

The Company is currently continuing its consultation process to comply with the permitting process required by Quebec Government agencies.

Tansim Exploration Project

In January 2018, the Company entered into an acquisition agreement to acquire a number of tenements. Tansim is situated 82 kilometres south-west of the Authier lithium project in Quebec. The project comprises 65 mineral claims of 12,000 hectares, and is prospective for lithium, tantalum, and beryllium.

OPERATING AND FINANCIAL REVIEW

A recent airborne geophysics survey confirmed a strong east-west magnetic anomaly coincident with historical surface mapping of pegmatites over an area of 9 kilometres long and up to 700 metres wide.

Mapping and sampling programs are planned to define the geometry of the pegmatites for future drilling. Exploration is being closely coordinated with the local First Nations group, Long Point First Nation, who will provide support services for the future work programs.

Western Australian Lithium Projects

Exploration tenure in Western Australia includes leases covering some 1,780 km² in the world class Pilgangoora lithium district. The 141 km² Mallina project, E47/2983, is the most advanced with three zones of spodumene pegmatite identified by the Company's exploration to date. Other advancing projects include Tabba Tabba where three drill targets have been outlined and lithium anomalous albite pegmatites at the Moolyella project. Pilbara lithium tenure is displayed in the figure below.

Mallina Project

The Mallina project now includes multiple areas of spodumene bearing pegmatites in three broad groups, within a 20 km² zone. During the year soil geochemistry and geological mapping were carried out. These identified new geochemical anomalies and pegmatite occurrences, enhancing the projects prospectivity and calibre of the drill targets identified so far

Permitting at Mallina is now complete and a 20 hole, 2,500m RC drilling programme is planned to commence in August. The programme is principally designed as a first pass test of the Area C prospect and other spodumene pegmatites, where rock chip sampling has returned spodumene mineralisation up to 4.6% Li₂O₂. The pegmatite has a generally poor outcrop but is geochemically defined by a strong lithium soil anomaly extending over 1,400m in extent.

The project has been awarded a co-funded Government grant. This incentive scheme grant, funded by the Western Australia Government, provides up to 50% rebate on direct drilling costs, up to a maximum of \$150,000. The planned work includes RC and diamond drilling.

Tabba Tabba Project

The Tabba Tabba project, located 40km north of Pilgangoora, is an area of historic tin and tantalum mining, currently being re-evaluated for its lithium potential. Within the Company's tenure first pass drilling is planned at three pegmatite targets following receipt of statutory approvals for drill testing. Prospects include previously undrilled pegmatites at the Northern River, Roadside and Turley areas. Orientation soil geochemistry, carried out in the northern part of the lease during the year, returned elevated lithium results to 396ppm Li₂O. A more comprehensive programme of 450 samples collected along the northern 5km extent of the tenement has now been completed. Results of this work are pending.

Subsequent to the end of the financial year, two exploration licenses were applied for to the north and along strike to the Tabba Tabba project. Exploration and geological data on these areas is being compiled and it is anticipated they will provide the company with additional exposure to the areas emerging lithium prospectivity.

Moolyella and Other Pilbara Project Areas

The Moolyella project is located east of Marble Bar in an area of lithium, tin and tantalum mineralisation, including spodumene pegmatite associated with the intrusion of the Moolyella monzogranite. Within the Company's tenure (three tenements covering 334 km²) a number of lithium-caesium-tantalum (LCT) albite pegmatites have been identified. Orientation soil sampling has been completed and results are awaited.

Great Sandy Option

During the year, the Company made the first stage option payment to Great Sandy Pty Ltd ("Great Sandy") to acquire a 694 km² package of 6 tenements in the world-class Pilgangoora lithium district of Western Australia. This package includes the Mallina and Moolyella project areas.

The Great Sandy purchase terms include an option to acquire an 80% interest in all the tenements by making staged payments in cash or shares at Great Sandy's election of \$300,000 within 12 months (paid 28 December 2017), and \$300,000 within 24 months and free carrying Grant Sandy to Decision to Mine. At the Decision to Mine, Great Sandy can either elect to dilute or contribute to ongoing expenditure commitments or convert the 20% interest to a 2% gross smelter royalty.

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OPERATING AND FINANCIAL REVIEW

Corporate

On 10 November 2017, the company completed a pro rata renounceable rights issue, comprising an offer on the basis of one (1) new share for every two (2) existing shares held at an issue price of 1 cent per share. Under the rights issue, 487,409,777 new shares were issued raising \$4,874,097 before the costs of the offer.

On 24 April 2018, the Company completed a capital raising to international and domestic institutional, and sophisticated investors. This involved the issue of 218,000,273 new shares, raising A\$11.1 million, before costs. In addition, the Company granted 109,000,137 free attaching options exercisable at 7.8 cents or before 30 April 2020.

On 31 May 2018, the company completed a pro rata renounceable rights issue, comprising an offer on the basis of one (1) new share for every twenty-two (22) existing shares held at an issue price of 5.1 cents per share, together with one (1) free attaching rights option exercisable at 7.8 cents or before 30 April 2020 for every two (2) rights shares subscribed. Under the rights issue, 22,485,064 new shares and 11,442,562 options were issued raising \$1,146,738 before the costs of the offer.

FINANCIAL POSITION, CONTINUED OPERATIONS AND FUTURE FUNDING

At 30 June 2018, the Company's Statement of Financial Position shows total assets of \$24,260,022, of which \$10,275,738 was cash, total liabilities of \$1,579,300 and net assets of \$22,680,722.

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.

Over recent years the Group has focused on its exploration and evaluation of its assets to the point where the Authier Lithium Project is subject to a definitive feasibility study, with the potential to advance to development within the next 12 months.

The Directors believe that the Group is in a strong and stable financial position to grow its current operations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes during the year include:

- On 10 November 2017, the company completed a pro rata renounceable rights issue, comprising an offer on the basis of one (1) new share for every two (2) existing shares held at an issue price of 1 cent per share. Under the rights issue, 487,409,777 new shares were issued raising \$4,874,097 before the costs of the offer;
- On 24 April 2018, the Company completed a capital raising to international and domestic institutional, and sophisticated investors. This involved the issue of 218,000,273 new shares, raising A\$11.1 million, before costs. In addition, the Company granted 109,000,137 free attaching options exercisable at 7.8 cents or before 30 April 2020; and
- On 31 May 2018, the company completed a pro rata renounceable rights issue, comprising an offer on the basis of one (1) new share for every twenty-two (22) existing shares held at an issue price of 5.1 cents per share, together with one (1) free attaching rights option exercisable at 7.8 cents or before 30 April 2020 for every two (2) rights shares subscribed. Under the rights issue, 22,485,064 new shares and 11,442,562 options were issued raising \$1,146,738 before the costs of the offer.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Other than ongoing exploration activity, no other matters or circumstances have arisen since 30 June 2018 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 completing the studies required to commence the development of the Authier Lithium Project, including the Definitive Feasibility Study. Authier is a near-term development project and cash-flow generation opportunity. The Company believes it will create significant share value-uplift potential for shareholders as the project advances towards development.

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OPERATING AND FINANCIAL REVIEW

The Company's strategic focus will continue to be on the development of Authier and the exploration and evaluation its other assets. The assets range from early stage exploration to advanced projects with potential for advancement to production.

To complete mine development at the Authier Project, the Company is likely to require additional funding. 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:

- that the feasibility study and associated technical works will not achieve the results expected;
- all relevant approvals are obtained to conduct proposed operations;
- exploration and evaluation success on individual projects; and
- the ability to raise additional funds in the future;

ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulation under the law in Australia and Canada.

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.

PREVIOUS DISCLOSURE - 2012 JORC CODE

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

- Authier JORC Resource Expanded , 12 April 2018
- Authier Phase 3 Drilling Results, 10 April 2018
- Authier Maiden JORC Ore Reserve, 11 December 2017
- Authier Pilot Metallurgy Program, 13 April 2018
- Tansim Geophysics Program, 21 March 2018

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.

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 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; and
- 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 their interests with shareholders' interests.

Options granted under incentive arrangements 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 Group for the last 3 years, together with the share price at the end of the respective financial years.

	2016	2017	2018
Exploration Expenditure (\$)	2,712,521	7,109,318	5,625,576
Exploration Tenements (no. including applications)	14	25	40
Net Assets (\$)	1,333,669	8,861,943	22,680,722
Share Price at Year-end (\$)	0.0287	0.015	0.040
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 2018 & change during the year	Contract Details	Proportion of Remuneration:		Total
			Related to performance	Not related to performance	
			Options	Salary & Fees	
D O'Neill	Executive Director	No fixed term, termination as provided by Corporations Act	-	100%	100%
P Crawford	Executive Director Company Secretary	No fixed term, termination as provided by Corporations Act	-	100%	100%
A Buckler	Non-executive Director	No fixed term, termination as provided by Corporations Act	-	100%	100%
J Brown	Non-executive Director	No fixed term, termination as provided by Corporations Act	-	100%	100%
C Nolan	Resigned as Chief Executive Officer on 3 May 2018, and ceased employment on 31 July 2018	No fixed term, 3 months' notice to terminate	-	100%	100%

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REMUNERATION REPORT

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. Mr Nolan resigned on 3 May 2018 and ceased employment on 31 July 2018.

The Chief Executive Officer responsibilities have been assumed by the Executive Directors, pending recruitment of an appropriate person. Mr O'Neill is Managing Director. No formal contract is in place with the Executive Directors. This is 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 is detailed in the following table. Amounts have been calculated in accordance with Australian Accounting Standards.

2018	Short term benefits		Equity Settled Options	Post-employment superannuation	Long term benefits	Total
Key Management Personnel	Salary & Fees	Non-Cash Benefits				
D O'Neill	123,288	-	-	11,712	-	135,000
P Crawford	123,288	-	-	11,712	-	135,000
A Buckler (2)	60,000	-	-	-	-	60,000
J Brown	60,000	-	-	-	-	60,000
C Nolan	241,482	-	-	22,941	-	264,423
	608,058	-	-	46,365	-	654,423

2017	Short term benefits		Equity Settled Options	Post-employment superannuation	Long term benefits	Total
Key Management Personnel	Salary & Fees	Non-Cash Benefits				
D O'Neill	109,589	-	-	10,411	-	120,000
P Crawford (1)	120,000	-	-	-	-	120,000
A Buckler (2)	60,000	-	-	-	-	60,000
J Brown (3)	67,500	-	-	-	-	67,500
C Nolan	228,311	-	-	21,689	-	250,000
	585,400	-	-	32,100	-	617,500

- (1) Represents payments made to Cambridge Business & Corporate Services, an entity controlled by Mr Paul Crawford, to provide directorial and corporate financial services.
- (2) Represents payments made to Shazo Holdings Pty Ltd, an entity controlled by Mr Allan Buckler, to provide directorial and exploration technical services.
- (3) Represents fees accrued but not paid at year end to Mr James Brown.

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

No options were granted as remuneration to KMP during the current or previous year. KMP may hold shareholder options acquired in their capacity as shareholders.

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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 2017	Remun- eration	Exercise of Options (*)	Other Changes (**)	Balance 30 June 2018
D O'Neill	71,593,477	-	-	15,000,000	86,593,477
P Crawford	89,001,236	-	-	9,439,299	98,440,535
A Buckler	85,963,747	-	-	11,960,783	97,924,530
J Brown	2,048,295	-	-	1,139,168	3,187,463
C Nolan	15,200,000	-	-	(6,950,000)	8,250,000
Total	263,806,755	-	-	30,589,250	294,396,005

*Remuneration options and shareholder options

** Share trades and participation in share issues

OTHER EQUITY-RELATED KMP TRANSACTIONS

Options acquired by KMP in their capacity as shareholders were:

P Crawford 769,650 listed options

A Buckler 980,392 listed options

J Brown 69,294 listed options

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

OTHER TRANSACTIONS WITH KMP AND/OR THEIR RELATED PARTIES

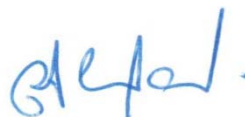
There were no other transactions conducted between the Group and KMP or their related parties, other than those disclosed above, that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's 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: 13 September 2018
Brisbane, Queensland



Paul Crawford
Director

Auditor's Independence Declaration**Under Section 307C of the *Corporations Act 2001*****To the Directors of Sayona Mining Limited**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2018 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**

N D Bamford
Director

Date: 13 September 2018

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Consolidated Group 2018 \$	2017 \$
Revenue and other income	2	79,288	14,539
Administrative expenses		(1,273,353)	(1,039,795)
Exploration expenditure expensed during year	3	(229,352)	(723,893)
Employee benefit expense		(832,231)	(655,701)
Foreign exchange losses		(14,495)	(34,553)
Occupancy costs		(58,320)	(52,673)
Net loss on financial asset at fair value through profit and loss	3	-	(78,462)
Loss before income tax	3	(2,328,463)	(2,570,538)
Tax expense	4	-	-
Loss for the year		(2,328,463)	(2,570,538)
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operations		106,478	(125,752)
Items that will not be reclassified subsequently to profit or loss		-	-
Other comprehensive income/(loss) for the year		106,478	(125,752)
Total comprehensive income or (loss) attributable to members		(2,221,985)	(2,696,290)
Earnings per Share:			
Basic and diluted earnings per share (cents per share)	6	(0.17)	(0.31)
Dividends per share (cents per share)		-	-

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
<hr/>			
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	10,275,738	1,216,054
Trade and other receivables	9	484,445	321,259
Other assets	10	175,134	42,264
Total Current Assets		<hr/> 10,935,317	<hr/> 1,579,577
NON-CURRENT ASSETS			
Property, plant and equipment	11	5,518	7,297
Exploration and evaluation asset	12	13,319,187	7,824,161
Total Non-Current Assets		<hr/> 13,324,705	<hr/> 7,831,458
TOTAL ASSETS		<hr/> 24,260,022	<hr/> 9,411,035
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	1,531,489	502,821
Provisions	14	47,811	46,271
Total Current Liabilities		<hr/> 1,579,300	<hr/> 549,092
TOTAL LIABILITIES		1,579,300	549,092
NET ASSETS		<hr/> 22,680,722	<hr/> 8,861,943
EQUITY			
Issued capital	15	79,183,501	63,165,259
Reserves	16	(19,274)	(125,752)
Accumulated losses		(56,483,505)	(54,177,564)
TOTAL EQUITY		<hr/> 22,680,722	<hr/> 8,861,943

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2018

Consolidated Group		Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Option Reserve	Total
		\$	\$	\$	\$	\$
Balance at 1 July 2016		52,945,695	(51,758,985)	-	146,959	1,333,669
Loss attributable to members of the entity		-	(2,570,538)	-	-	(2,570,538)
Other comprehensive income for the year		-	-	(125,752)	-	(125,752)
Total comprehensive income for the year		-	(2,570,538)	(125,752)	-	(2,696,290)
Other transfers						
Reserve transferred to retained earnings		-	151,959	-	(151,959)	-
Total other		-	151,959	-	(151,959)	-
Transactions with owners in their capacity as owners						
Shares issued during the year	15	10,968,353	-	-	-	10,968,353
Transaction costs		(748,789)	-	-	-	(748,789)
Share based payments	22	-	-	-	5,000	5,000
Total transactions with owners		10,219,564	-	-	5,000	10,224,564
Balance at 30 June 2017		63,165,259	(54,177,564)	(125,752)	-	8,861,943
Loss attributable to members of the entity		-	(2,328,463)	-	-	(2,328,463)
Other comprehensive income for the year		-	-	106,478	-	106,478
Total comprehensive income for the year		-	(2,328,463)	106,478	-	(2,221,985)
Other						
Reserve transferred to retained earnings		-	22,522	-	(22,522)	-
Total other		-	22,522	-	(22,522)	-
Transactions with owners in their capacity as owners						
Shares issued during the year	15	17,578,853	-	-	-	17,578,853
Transaction costs		(1,560,611)	-	-	-	(1,560,611)
Share based payments	22	-	-	-	22,522	22,522
Total transactions with owners		16,018,242	-	-	22,522	16,040,764
Balance at 30 June 2018		79,183,501	(56,483,505)	(19,274)	-	22,680,722

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Consolidated Group 2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,586,817)	(2,379,033)
Sale of technical information		12,500	-
Interest received		66,788	14,539
Net cash provided by (used in) operating activities	17	(1,507,529)	(2,364,494)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(4,862)	(8,342)
Capitalised exploration expenditure	12	(5,207,482)	(6,436,177)
Net cash provided by (used in) investing activities		(5,212,344)	(6,444,519)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	15	16,920,493	10,672,053
Costs associated with share and option issues		(1,142,251)	(709,589)
Net cash provided by (used in) financing activities		15,778,242	9,962,464
Net increase (decrease) in cash held		9,058,369	1,153,451
Cash at beginning of financial year		1,216,054	62,603
Effect of exchange rates on cash holdings in foreign currencies		1,315	-
Cash at end of financial year	8	10,275,738	1,216,054

The accompanying notes form part of these financial statements.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 26.

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

Income Tax

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

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

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

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

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

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax (cont)

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, 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 and Equipment

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

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

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

Depreciation

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

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

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

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, where the Group has right of tenure, 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 Group 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 Group 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.

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.

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.

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).

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

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.

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

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

i. 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.

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

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

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

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition

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

Foreign Currency Transactions and Balances

Functional and presentation currency

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

Transaction and balances

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

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

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

Group companies

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

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

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

Employee Benefits

Short-term employee benefits

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

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY 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 fair value of options is determined using a binomial 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 and other short-term highly liquid investments with original maturities of three months or less.

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.

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.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Goods and Services Tax (GST) (cont)

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.

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.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

ABN 26 091 951 978

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Key Judgments:

Exploration and evaluation expenditure (Note 12):

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 technical and feasibility studies in such areas have not yet concluded. During the year exploration and evaluation expenditure totalled \$5,724,378, of which \$229,352 was written-off and \$5,495,026 was capitalised. Capitalised expenditure at the end of the reporting period is \$13,319,187.

Tax Losses Available (Note 4):

The availability of the Group's carry forward tax losses are based on estimates of tax deductibility of exploration expenditure, and compliance with tax laws in Australia and Canada.

New Accounting Standards for Application in Future Periods

Accounting Standards and Interpretations issued by the AASB that are relevant to the Group, but not yet mandatorily applicable, 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 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 directors currently anticipate that the adoption of AASB 9 will have no significant impact on the Group's financial instruments.

AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014).

This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issue of AASB 9: Financial Instruments (December 2014). More significantly, additional disclosure requirements have been added to AASB 7: Financial Instruments: Disclosures regarding credit risk exposures of the entity. This Standard also makes various editorial corrections to Australian Accounting Standards and an Interpretation.

AASB 2014-7 mandatorily applies to annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted, provided AASB 9 (December 2014) is applied for the same period.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Standards for Application in Future Periods (continued)

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 currently of the view that any impact is immaterial to the financial statements.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 2: REVENUE AND OTHER INCOME

	2018	2017
	\$	\$
Interest received from unrelated parties	66,788	14,539
Sale of technical information	12,500	-
Foreign exchange gains	-	-
Total revenue and other income	79,288	14,539

NOTE 3: LOSS FOR THE YEAR

(i) Expenses:

Included in expenses are the following items:

Net loss on financial asset at fair value through profit and loss	-	78,462
Rental expense on operating lease	55,996	38,504
Foreign exchange loss	14,495	34,553
Depreciation	6,641	7,070

(ii) Significant Revenue and Expenses

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

Exploration and evaluation expenditure expensed during the year	(229,352)	(723,893)
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NOTE 4: INCOME TAX EXPENSE

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

Prima facie tax payable on loss from ordinary activities before income tax at 27.5% (2017: 27.5%).	(640,327)	(706,898)
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Adjust for tax effect of:

Exploration expenditure capitalised	(1,315,724)	(511,369)
Other deductible costs (net)	-	(54,152)
Other non-deductible costs (net)	334,667	-
Tax losses and temporary differences not brought to account	1,621,384	1,272,419

Income tax expense attributable to entity	-	-
Weighted average effective tax rate (nil due to tax losses)	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	172,017	188,823
Tax losses - Revenue	7,756,000	6,117,809
Tax losses - Capital	6,175,038	6,175,038
Net unbooked deferred tax asset	14,103,055	12,481,670

The Group has unconfirmed carry forward losses for revenue of \$28,203,636 (2017: \$22,246,580) and for capital of \$22,454,683 (2017: \$22,454,683). Prior year carry forward revenue losses have been re-instated to agree to amended tax returns due for lodgement.

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.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 (including equity interests) for the year ended 30 June 2018.

(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:

	2018 \$	2017 \$
Short-term employee benefits	608,057	585,400
Post-employment benefits	46,366	32,101
Other long-term benefits	-	-
Share-based payments	-	-
Total KMP compensation	654,423	617,501

Short-term employee benefits

These amounts include salary, fees and paid leave benefits paid to the directors, or their related entities (Note 18).

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.

Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS

1,333,621,930 826,212,422

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

1,333,621,930 826,212,422

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 AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 7: AUDITORS' REMUNERATION

	2018	2017
	\$	\$
Remuneration of the auditor for:		
- auditing or reviewing the financial reports	34,000	34,000
- other assurance services	-	-
	34,000	34,000

NOTE 8: CASH AND CASH EQUIVALENTS

Cash at bank and on hand	1,221,575	155,704
Short-term bank deposits	9,054,163	1,060,350
Cash at bank and on hand	10,275,738	1,216,054

The effective interest rate on short-term bank deposits was 2.49% (2017: 1.25%). These deposits have an average maturity of 56 days.

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	10,275,738	1,216,054
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NOTE 9: TRADE AND OTHER RECEIVABLES

Current (unsecured):

Other Debtors	484,445	321,259
	484,445	321,259

Other debtors includes \$449,722 (2017: \$210,931) of GST/VAT amounts due from the Australian and Canadian taxation authorities, which represents a significant concentration of credit risk to the Group.

NOTE 10: OTHER ASSETS

Current:

Deposits	2,154	-
Prepayments	172,980	42,264
	175,134	42,264

NOTE 11: PLANT AND EQUIPMENT

Plant and equipment

At cost	24,728	19,842
Accumulated depreciation	(19,210)	(12,545)
Total plant and equipment	5,518	7,297

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

Balance at the beginning of year	7,297	6,025
Additions	4,862	8,342
Depreciation expense	(6,641)	(7,070)
Carrying amount at the end of year	5,518	7,297

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 12: EXPLORATION AND EVALUATION ASSET

	2018	2017
	\$	\$
Exploration and evaluation expenditure carried forward in respect of areas of interest are:		
Exploration and evaluation phase - group interest 100% (a)	12,712,550	7,697,147
Exploration and evaluation phase - subject to joint operation (b)	606,637	127,014
	13,319,187	7,824,161
(a) Movement in exploration and evaluation expenditure:	Non-Joint Operation	
Opening balance - at cost	7,697,147	1,362,774
Capitalised exploration and evaluation expenditure	5,015,403	6,334,373
Carrying amount at end of year	12,712,550	7,697,147
(b) Movement in exploration and evaluation expenditure:	Subject to Joint Operation	
Opening balance - at cost	127,014	75,962
Capitalised exploration and evaluation expenditure	479,623	51,052
Carrying amount at end of year	606,637	127,014

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.

Movements during the year on exploration and evaluation assets included \$4,769,829 (2017: \$6,207,579) on the Authier Lithium project in Canada . A further \$725,197 (2017: \$177,846) has been expended on existing and new projects. Of that total, \$80,000 was settled by issue of 1,869,159 ordinary shares in the company.

Commitments in respect of exploration projects are set out in Note 19. In addition, the Group has options on projects as set out in Note 24.

NOTE 13: TRADE AND OTHER PAYABLES

Current (unsecured):

Trade creditors	1,115,265	272,242
Sundry creditors and accrued expenses	416,224	230,579
Total trade and other payables	1,531,489	502,821

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

Financial liabilities as trade and other liabilities (refer Note 20)	1,531,489	502,821
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NOTE 14: PROVISIONS

Current:

Provision for employee entitlements	47,811	46,271
Opening balance	46,271	19,710
Additional provisions	39,632	26,561
Amounts used	(38,092)	-
Balance at year end	47,811	46,271

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 15: ISSUED CAPITAL

	2018	2017
	\$	\$
Fully paid ordinary shares	79,183,501	63,165,259
Ordinary shares issued during the year	No.	No.
Balance at the beginning of the reporting period	974,819,553	537,262,813
Shares issued during the prior year:		437,556,740
Shares issued during the current year:		
10 November 2017, new issue of shares at \$0.01 per share following a rights issue.	487,410,061	-
16 November 2017, new issue of shares at \$0.0269 per share in settlement of services.	5,947,955	-
28 December 2017, new issue of shares at \$0.0428 per share in part settlement of tenement acquisition.	1,869,159	-
29 December 2017, new issue of shares at \$0.035 per share following the exercise of options.	2,500,000	-
29 December 2017, new issue of shares at \$0.045 per share following the exercise of options.	2,500,000	-
24 April 2018, new issue of shares at \$0.051 from placement of shares to institutional and sophisticated investors.	218,000,273	-
31 May 2018, new issue of shares at \$0.051 per share following a rights issue.	22,485,064	-
Balance at reporting date	1,715,532,065	974,819,553

The November 2017 rights issue was on the basis of 1 share for every 2 shares held.

The May 2018 rights issue was on the basis of 1 share for every 22 shares held.

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:

(i) Unlisted employee and officer options

Balance at beginning of reporting period	-	30,500,000
Granted (Note 22)	5,000,000	-
Exercised (Note 22)	(5,000,000)	(13,500,000)
Expired	-	(17,000,000)
Balance at reporting date	-	-

(ii) Listed options

Balance at beginning of reporting period	-	99,399,814
Granted (Note 22)	120,242,789	136,372,298
Exercised	-	(43,764,995)
Expired	-	(192,007,117)
Balance at reporting date	120,242,789	-

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

NOTE 15: 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 16: RESERVES

Foreign currency translation reserve

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

Options reserve

The options reserve records amounts recognised as expenses on valuation of employee share options.

NOTE 17: CASH FLOW INFORMATION

	2018 \$	2017 \$
(a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax:		
Loss from ordinary activities after income tax	(2,328,463)	(2,570,538)
Non-cash flows in profit from ordinary activities:		
Depreciation	6,641	7,070
Share based payments - exploration and corporate	160,000	187,100
Share based payments - remuneration	22,522	-
Loss on financial asset at fair value through profit and loss	-	78,462
Changes in operating assets and liabilities:		
(Increase)/Decrease in receivables	(158,168)	(284,373)
(Increase)/Decrease in other assets	(129,146)	(27,414)
(Decrease)/Increase in creditors and accruals	917,545	218,638
(Increase)/Decrease in provisions	1,540	26,561
Cash flows from operations	<u>(1,507,529)</u>	<u>(2,364,494)</u>

(b) Non-cash Financing and Investing Activities

On 28 December 2017, 1,869,159 new shares were issued in part settlement of a tenement acquisition.

On 24 April 2018, 588,235 new shares were issued in consideration of fees relating to a capital raising.

On 24 April 2018, 1,143,137 new shares were issued in consideration of fees relating to an underwriting fee for a capital raising.

On 24 April 2018, 6,471,765 new shares were issued in consideration of fees relating to a capital raising.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 18: RELATED PARTY TRANSACTIONS

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

Key Management Personnel:

Any persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or non-executive) of the Group, are considered key management personnel (see Note 5).

- (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 Shazo Holdings Pty Ltd, an entity controlled by Mr Allan Buckler, a director of the company, to provide directorial and exploration technical services. Fees of \$60,000 were incurred during the year (2017:\$60,000). \$15,000 was owed by the company at 30 June (2017: \$15,000).

NOTE 19: COMMITMENTS

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not recognised in the financial statements:

	2018 \$	2017 \$
Not later than 1 year	3,904	3,904
Between 1 year and 5 years	3,579	7,483
Total commitment	<u>7,483</u>	<u>11,388</u>

In addition to the above, the Group has a month to month lease for office premises.

(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.

The following commitments exist at balance date but have not been brought to account.

Not later than 1 year	765,004	300,632
Between 1 year and 5 years	-	-
Total commitment	<u>765,004</u>	<u>300,632</u>

NOTE 20: FINANCIAL RISK MANAGEMENT

The Group's financial instruments mainly comprises cash balances, 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) below.

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.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 20: FINANCIAL RISK MANAGEMENT (continued)

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk, consisting of interest rate risk and foreign exchange 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 (Notes 8 and 9).

Credit risk is managed and reviewed regularly by the Board. The Board monitors credit risk by actively assessing the rating quality and liquidity of counter parties.

The carrying amount of cash and receivables recorded in the financial statements represent the Group's maximum exposure to credit risk. Concentration of credit risk is set out in Note 9.

(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 Group's reputation.

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

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
	\$	\$	\$	\$
2018				
Financial assets				
Cash and cash equivalents (i)	10,275,738	-	-	10,275,738
Receivables (ii)	484,445	-	-	484,445
	<u>10,760,183</u>	<u>-</u>	<u>-</u>	<u>10,760,183</u>
Financial liabilities				
Payables (ii)	1,531,489	-	-	1,531,489
	<u>1,531,489</u>	<u>-</u>	<u>-</u>	<u>1,531,489</u>
Net cash flow on financial instruments	<u>9,228,694</u>	<u>-</u>	<u>-</u>	<u>9,228,694</u>
2017				
Financial assets				
Cash and cash equivalents (i)	1,216,054	-	-	1,216,054
Receivables (ii)	321,259	-	-	321,259
	<u>1,537,313</u>	<u>-</u>	<u>-</u>	<u>1,537,313</u>
Financial liabilities				
Payables (ii)	502,821	-	-	502,821
	<u>502,821</u>	<u>-</u>	<u>-</u>	<u>502,821</u>
Net cash flow on financial instruments	<u>1,034,492</u>	<u>-</u>	<u>-</u>	<u>1,034,492</u>

(i) Floating interest with a weighted average effective interest rate of 2.49% (2017: 2.16%).

(ii) Non-interest bearing

SAYONA MINING LIMITED AND CONTROLLED ENTITIES

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 20: FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risks

(i) Interest Rate Risk

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

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

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency movements, primarily in respect of the Canadian and US Dollar. No derivative financial instruments are employed to mitigate the exposed risks. Risk 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 Canadian and US dollars.
- Canadian and US dollar denominated receivables and payables.

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

	CAD 2018	USD 2018
Cash and cash equivalents	102,394	11,598
Receivables	443,179	-
Payables	(1,280,987)	(34,620)
Net exposure	<u>(735,414)</u>	<u>(23,022)</u>
	CAD 2017	USD 2017
Cash and cash equivalents	21,764	7,333
Receivables	186,427	-
Payables	(29,716)	(15,780)
Net exposure	<u>178,475</u>	<u>(8,447)</u>

(d) Sensitivity analysis

If the spot Australian Dollar rate strengthened/weakened 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 \$1,139 +/- (2017: \$549).

If the spot Australian Dollar rate strengthened/weakened by 5 percent against the Canadian Dollar, with all other variables held constant, the Group's post-tax result for the year would have been \$36,770 +/- (2017: \$9,174).

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 +/- \$102,757 (2017: \$12,161).

(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.

NOTE 21: CONTINGENT LIABILITIES

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 22: SHARE BASED PAYMENTS

Options

On 16 November 2017, 5,000,000 options were granted under the Company's Share Option Plan, pursuant to an Employment Agreement. 2,500,000 options were exercisable at \$0.035 each and 2,500,000 options were exercisable at \$0.045 each. All options were due to expire on 30 June 2019. The options were exercised in December 2017 and raised \$200,000 in capital.

On 31 May 2018, 11,242,652 options were granted to shareholders as part of the rights issue. These options are exercisable at \$0.078 each and expire on 30 April 2020.

On 31 May 2018, 109,000,137 options were granted pursuant to a private placement. These options are exercisable at \$0.078 each and expire on 30 April 2020.

	2018		2017	
Options issued under employee share based payment arrangements are summarised as:	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	No	\$	No	\$
Outstanding at beginning of the year	-	-	30,500,000	0.023
Granted	5,000,000	0.040	-	-
Forfeited	-	-	-	-
Exercised	5,000,000	0.040	13,500,000	0.014
Expired	-	-	17,000,000	0.030
Outstanding at period end	-	-	-	-
Exercisable and vested at year end	-	-	-	-

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 the date of exercise, the share price was \$0.076.

The weighted average fair value of options granted in 2018 was \$0.0045, determined by reference to a binomial option valuation method. The fair value of options granted represents the value of employee services received over the vesting period.

Inputs used in the valuation of the options were:

Weighted average exercise price	\$0.04
Weighted average life	1.6 years
Expected share price volatility	100%
Risk free interest rate	2%
Share price	\$0.016
Dividend yield	0%

Historical share price volatility has been used on the assumption it is indicative of future volatility.

Shares

On 16 November 2017, 5,947,955 new shares were issued in consideration of fees relating to corporate services.

On 28 December 2017, 1,869,159 new shares were issued in part settlement of a tenement acquisition.

On 24 April 2018, 588,235 new shares were issued in consideration of fees relating to a capital raising.

On 24 April 2018, 1,143,137 new share were issued in consideration of fees relating to an underwriting fee for a capital raising.

On 24 April 2018, 6,471,765 new shares were issued in consideration of fees relating to a capital raising.

The value of the shares issued was determined by reference to market price.

SAYONA MINING LIMITED AND CONTROLLED ENTITIES**ABN 26 091 951 978****NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 23: EVENTS AFTER BALANCE SHEET DATE**

The Group continues with its exploration program, with the Canada project being the primary focus.
The Company's CEO Mr Corey Nolan resigned on 3 May 2018, and ceased employment on 31 July 2018.
There have been no other key events since the end of the financial year.

NOTE 24 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 Note 12).

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 2018. 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.

During the period, the Company made the first stage option payment to Great Sandy Pty Ltd ("Great Sandy") to acquire a 694 km² package of 6 tenements in the world-class Pilgangoora lithium district of Western Australia. This package includes the Mallina and Moolyella project areas.

The Great Sandy purchase terms include an option to acquire an 80% interest in all the tenements by making staged payments in cash or shares at Great Sandy's election of \$300,000 within 12 months (paid 28 December 2017), and \$300,000 within 24 months and free carrying Grant Sandy to Decision to Mine. At the Decision to Mine, Great Sandy can either elect to dilute or contribute to ongoing expenditure commitments or convert the 20% interest to a 2% gross smelter royalty.

NOTE 25: PARENT ENTITY INFORMATION

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

	2018	2017
	\$	\$
Current assets	10,229,890	9,371,478
Non-current assets	12,731,956	7,414
Total assets	22,961,846	9,378,892
Current liabilities	281,124	516,949
Non-current liabilities	-	-
Total liabilities	281,124	516,949
Net Assets	22,680,722	8,861,943
Contributed equity	79,183,501	63,165,259
Option Reserve	-	-
Accumulated losses	(56,502,779)	(54,303,316)
Total equity	22,680,722	8,861,943

SAYONA LIMITED AND CONTROLLED ENTITIES AND CONTROLLED ENTITIES**ABN 26 091 951 978****NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018****NOTE 25: PARENT ENTITY INFORMATION (continued)**

	2018	2017
	\$	\$
Statement of Profit or Loss and Other Comprehensive Income		
Total loss for the year	2,176,941	2,544,331
Total other comprehensive income	-	-
Total comprehensive loss for the year	<u>2,176,941</u>	<u>2,544,331</u>

Guarantees

There are no parent company guarantees.

Contingent Liabilities

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

NOTE 26: INTERESTS IN SUBSIDIARIES**Information about principal subsidiaries**

Sayona Lithium Pty Ltd, incorporated in Australia on 4 September 1986. The parent entity holds 100% of the ordinary shares of the entity. 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. The company holds options on graphite tenements in Western Australia.

Sayona International Pty Ltd, incorporated in Australia on 29 April 2016. The parent entity holds 100% of the ordinary shares of the entity. The company was established to hold overseas projects acquired by the Group. No assets were held by the entity at 30 June 2018.

Sayona Quebec Inc, incorporated in Canada on 7 July 2016. The parent entity holds 100% of the ordinary shares of the entity. The company was established to hold overseas projects acquired by the Group. The company holds the Authier lithium project at 30 June 2018.

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.

Each subsidiary's principal place of business is also its country of incorporation, and year ends coincide with the parent company.

SAYONA LIMITED AND CONTROLLED ENTITIES AND CONTROLLED ENTITIES

ABN 26 091 951 978

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

NOTE 27: 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	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
REVENUE						
Revenue	78,875	14,539	413	-	79,288	14,539
Total revenue from ordinary activities	78,875	14,539	413	-	79,288	14,539
RESULT						
Profit/(loss) from ordinary activities before income tax expense	(2,197,589)	(2,536,487)	(130,874)	(34,051)	(2,328,463)	(2,570,538)
Income tax expense	-	-	-	-	-	-
Profit/(loss) from ordinary activities after income tax expense	(2,197,589)	(2,536,487)	(130,874)	(34,051)	(2,328,463)	(2,570,538)
	Australia		Overseas		Consolidated Group	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
ASSETS						
Segment assets	12,367,549	2,780,151	11,892,473	6,630,884	24,260,022	9,411,035
LIABILITIES						
Segment liabilities	293,744	517,790	1,285,556	31,302	1,579,300	549,092

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 28: FAIR VALUE MEASUREMENT

The Group does not measure any assets or liabilities at fair value on a recurring basis after initial recognition. The Group does not subsequently measure any assets or liabilities at fair value on a non-recurring basis.

NOTE 29: COMPANY DETAILS

The registered office and principal place of business is:

Sayona Mining Limited
Unit 68
283 Given Terrace
Paddington Queensland 4064

SAYONA MINING LIMITED
ABN 26 091 951 978

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - (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 2018 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: 13th day of September 2018

Independent Auditor's Report to the Members of Sayona Mining Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Sayona Mining Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Independent Auditor's Report to the Members of Sayona Mining Limited

(continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of exploration and evaluation assets</p> <p>Refer to note 12 (exploration and evaluation assets)</p> <p>As at 30 June 2018 the carrying value of exploration and evaluation assets is \$13,319,187. This is a significant asset of the Group. The Group's accounting policy in respect of exploration and evaluation assets is outlined in Note 1.</p> <p>This is a key audit matter due to the fact that significant judgement is applied in determining whether the capitalized exploration and evaluation assets meet the recognition criteria set out in AASB6 Exploration for and Evaluation of Mineral Resources.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We obtained evidence as to whether the rights to tenure of the areas of interest remained current at balance date and as well as confirming that rights to tenure are expected to be renewed for tenements that will expire in the near future; • We obtained evidence of the future intention for the areas of interest, including reviewing future budgeted expenditure and related work programs; • We obtained an understanding of the status of ongoing exploration programs, for the areas of interest; • We obtained evidence as to the assumptions made by management in the determination of the recoverable value of the asset.

Independent Auditor's Report to the Members of Sayona Mining Limited**(continued)*****Other information***

The directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon. The Annual Report will be made available to us after the date of this auditor's report. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and request that a correction be made.

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 such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report to the Members of Sayona Mining Limited**(continued)**

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent Auditor's Report to the Members of Sayona Mining Limited

(continued)

Report on the Remuneration Report***Opinion on the Remuneration Report***

We have audited the Remuneration Report included in pages 10 to 13 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of ABC Company Ltd for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

**Nexia Brisbane Audit Pty Ltd****ND Bamford**

Director

Level 28, 10 Eagle Street
Brisbane Qld 4000

Date: 13 September 2018