

**SAYONA MINING LIMITED
AND CONTROLLED ENTITIES**

ABN 26 091 951 978

**FINANCIAL REPORT
FOR THE HALF - YEAR ENDED
31 DECEMBER 2015**

The information contained in this report is to be read in conjunction with the Company's 2015 annual report and any announcements made to the market during the half-year ending 31 December 2015.

**SAYONA MINING LIMITED
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DIRECTORS' REPORT

Your Directors present their report of the Company and its controlled entities for the half year ended 31 December 2015.

DIRECTORS

The names of the Company's Directors in office during the half year or until the date of this report are set out below.

Dennis O'Neill	Allan Buckler
Paul Crawford	James Brown

REVIEW OF OPERATIONS

The loss of the consolidated group after providing for income tax for the half year was \$1,175,365 (2014: \$364,999 loss).

During the period, the Company announced a strategic entry into the large flake graphite market by securing a large ground position in the East Kimberley region of Western Australia and the Itabela Graphite project in Brazil.

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

East Kimberley, Western Australia

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

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

The project includes one granted tenement and three separate tenement applications, subject to two option-to-purchase agreements. The project covers 278 km² and has never been previously explored for its graphite potential

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

- Attgold Pty Ltd ("Attgold") - SYA paid Attgold \$5,000 on signing and a further \$30,000 on 4 August 2015. Sayona is required to pay \$170,000 within 18 months of signing of the agreement to acquire a 100% interest in the tenement E80/4949 and other tenement applications; and
- Western Iron Pty Ltd ("Western Iron") - SYA paid Western Iron \$5,000 on signing and was required to pay \$200,000 on or before the six month agreement anniversary to exercise its option to acquire 100% of the graphite interests in tenement E80/4511. This option was exercised on 6 January 2016. Western Iron will also receive a 1% gross production royalty. Western Iron retains a Back-in Right to the nickel, copper and iron mineralisation by the payment of \$100,000 within 12 months.

During the period, the Company drilled 33 reverse circulation holes totalling 2,949 metres in six prospect areas within the Corkwood tenements. Every hole intersected visual flake graphite mineralisation, with significant zones of over 50 metre downhole widths in several holes, including an intercept of 64 metres. Some holes also intercepted multiple horizons of graphite mineralization. The drilling has defined consistent, broadly tabular bodies of graphite mineralization and the thickness of the mineralisation is better than anticipated from surface observations.

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

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Subsequent to the end of the period, the Company exercised its option to acquire the Western Iron tenement E80/4511.

Itabela, Brazil

In August 2015, the Company signed an option-to-purchase contract with Brasil Grafite S.A. ("Brasil Grafite") for the advanced Itabela graphite project in Brazil. Sayona has paid US\$60,000 (A\$86,527) exclusivity payments pursuant to this contract.

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

Itabela is located in the north-eastern state of Bahia, Brazil, 800 kilometres north of Rio de Janeiro and 500 kilometres south of the state capital, Salvador. The nearest town, Itabela, is situated 5 kilometres to the south-east and has an estimated population of 28,500.

Itabela is located in a major graphite district with three operating graphite mines. Brazil is the second largest graphite producer in the world and home to the largest producer of high quality graphite outside of China with a history of over 60 years of continuous production.

The Itabela project has been subject to extensive drilling and metallurgical testing at bench and pilot scale.

During the four month option period, the Company made substantial progress on its technical due diligence. However, the Company concluded that further drilling was required to validate historical drilling data to complete a resource estimate and scoping study.

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

Under this new agreement, Sayona has paid a restructure fee of US\$120,000 (A\$170,416) and an exclusivity fee of US\$15,000 (A\$21,063). Further exclusivity payments are due until the release of the JORC resource statement. These unpaid amounts are capped at US\$90,000.

The Company's initial due diligence activities have confirmed the potential for Itabela to be established as a near-term, globally competitive, low capital and operating cost development opportunity based on the following key attributes:

- The Itabela ore has been extensively tested through a 31 tonne pilot plant testing program, demonstrating the superior product quality characteristics of the graphite;
- At shallow levels, the Itabela mineralisation is hosted within a saprolitic profile, the result of deep weathering of the original metamorphic rocks in a sub-tropical environment. The extent of weathering is from surface down to the current limit of drilling, 30 metres below surface. The weathered rocks are soft and friable. The graphite mineralisation is evident from surface and contains a high percentage of large flake graphite; and
- Itabela is close to established infrastructure including port, power, water, labour, roads and an airport. The local workforce are skilled in graphite geology, mining, processing and marketing. The well-established infrastructure and mining services will assist in delivering low operating and capital costs; and
- The State of Bahia has very attractive tax incentive schemes for new mineral project developments which has the potential to reduce the tax burden over the first ten years of production

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DIRECTORS' REPORT

Corporate

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

- a 1 for 4 entitlement offer at an issue price of \$0.025 per share;
- 1 free attaching option, exercisable at \$0.03 and expiring 30 December 2016, for every new share applied for;
- the placement of 1,224,116 shares and listed options in respect of underwriting oversubscriptions; and
- the issue of 1,603,522 shares and 6,808,666 listed options in part settlement of raising management and underwriting fees

GOING CONCERN

The financial statements of the Group have been prepared on a going concern basis that contemplates the continuity of normal operating activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group undertakes exploration activity on a number of projects. Historically, this activity has been financed by equity and joint operations. The Group's ability to continue with these planned exploration activities is dependent on having finance available.

At 31 December 2015 the Group had cash reserves of \$1,457,624. Commitments in relation to option to acquire agreements and exploration permits held is approximately \$3.4m over the next 12 months. This assumes that all options to acquire are exercised.

The ability of the Group to achieve its development goals and continue as a going concern will depend on attaining additional financing. Directors are confident that these further funding initiatives will be successful, however there can be no assurance that such funding will in fact be raised.

SUBSEQUENT EVENTS

The following matters or circumstances have arisen since balance date:

- On 6 January 2016, Sayona East Kimberley Pty Ltd exercised its option with Western Iron Ore Pty Ltd by paying \$200,000 to acquire 100% of the graphite interest in tenement E80/4511.

AUDITOR INDEPENDENCE

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

Signed in accordance with a resolution of the Directors.



Dennis C. O'Neill
Director
Brisbane



Paul A. Crawford
Director

15 March 2016

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DIRECTORS' DECLARATION

The directors of the company declare that:

1. The attached financial statements and notes are in accordance with the *Corporations Act 2001* including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-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.

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



Dennis C. O'Neill
Director



Paul Crawford
Director

Dated this: 15th day of March 2016



Hayes Knight
Accountants, Advisors & Auditors

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

To the Directors of Sayona Mining Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2015 there have been no contraventions of:

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

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

Hayes Knight Audit (Qld) Pty. Ltd.

Hayes Knight Audit (Qld) Pty Ltd

A M Robertson

A M Robertson
Director

Date: 15 March 2016

SAYONA MINING LIMITED
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME
for the half-year ended 31 December 2015

	Note	Consolidated Group	
		31 December 2015 \$	31 December 2014 \$
Revenue and other income	2	29,195	39,723
Administrative expenses		(330,151)	(147,690)
Current period exploration & evaluation expenditure written-off	2	(548,322)	(201,962)
Employee benefit expense		(296,443)	-
Occupancy expenses		(19,836)	(13,400)
Loss on financial asset held for trading	2	(9,808)	(41,670)
Loss before income tax		(1,175,365)	(364,999)
Income tax expense		-	-
Loss for the period		(1,175,365)	(364,999)
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		-	-
		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
Total comprehensive income for the half-year		-	-
Total comprehensive loss attributable to members		(1,175,365)	(364,999)
Earnings per Share			
From continuing operations			
Basic earnings per share (cents per share)	9	(0.24)	(0.09)
Diluted earnings per share (cents per share)	9	(0.24)	(0.09)
Dividends per share (cents per share)		-	-

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015**

	Note	Consolidated Group	
		31 December 2015	30 June 2015
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		1,457,624	737,545
Trade and other receivables		59,068	13,059
Financial assets	3	107,885	117,693
Other assets		34,435	6,296
Total Current Assets		1,659,012	874,593
NON-CURRENT ASSETS			
Property, plant and equipment		4,425	1,534
Exploration and evaluation asset	4	752,556	-
Total Non-Current Assets		756,981	1,534
TOTAL ASSETS		2,415,993	876,127
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	5	186,214	53,626
Total Current Liabilities		186,214	53,626
TOTAL LIABILITIES		186,214	53,626
NET ASSETS		2,229,779	822,501
EQUITY			
Issued capital	6	52,505,195	50,069,511
Reserves		146,959	(4,527,230)
Accumulated losses		(50,422,375)	(44,719,780)
TOTAL EQUITY		2,229,779	822,501

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year-ended 31 December 2015

Consolidated Group	Note	Issued Capital \$	Accumulated Losses \$	Foreign Currency Translation Reserve \$	Option Reserve \$	Total \$
Balance at 1 July 2014		50,039,511	(44,153,250)	(4,527,230)	-	1,359,031
Loss for the period		-	(364,999)	-	-	(364,999)
Total comprehensive income (loss) for the period		-	(364,999)	-	-	(364,999)
Transactions with owners in their capacity as owners						
Shares issued during the period	6	30,000	-	-	-	30,000
Balance at 31 December 2014		50,069,511	(44,518,249)	(4,527,230)	-	1,024,032
Balance at 1 July 2015		50,069,511	(44,719,780)	(4,527,230)	-	822,501
Loss for the period		-	(1,175,365)	-	-	(1,175,365)
Total comprehensive income (loss) for the period		-	(1,175,365)	-	-	(1,175,365)
Other						
Reserve transferred to retained earnings	13	-	(4,527,230)	4,527,230	-	-
Total other		-	(4,527,230)	4,527,230	-	-
Transactions with owners in their capacity as owners						
Shares issued during the period	6(a)	2,602,696	-	-	-	2,602,696
Transaction Costs	6(a)	(207,100)	-	-	-	(207,100)
Share based payments/transactions	6(a)	40,088	-	-	146,959	187,047
Total transactions with owners		2,435,684	-	-	146,959	2,582,643
Balance at 31 December 2015		52,505,195	(50,422,375)	-	146,959	2,229,779

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ending 31 December 2015

	Consolidated Group	
	31 December 2015 \$	31 December 2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(985,279)	(344,174)
Interest received	20,447	13,276
Net cash provided by (used in) operating activities	(964,832)	(330,898)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,217)	-
Capitalised exploration expenditure	(752,556)	-
Proceeds from settlement of deferred sale consideration	-	227,660
Net cash provided by (used in) investing activities	(755,773)	227,660
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings	-	(127,652)
Proceeds from issue of shares	2,602,696	-
Costs associated with shares & option issues	(162,012)	-
Net cash provided by (used in) financing activities	2,440,684	(127,652)
Net increase/(decrease) in cash held	720,079	(230,890)
Cash at 1 July	737,545	1,201,357
Effect of exchange rates on cash holdings in foreign currencies	-	12,990
Cash at 31 December	1,457,624	983,457

The accompanying notes form part of these financial statements.

**SAYONA MINING LIMITED
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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. Sayona Mining Limited ("the company") is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of the Company and its controlled entities ("the Group"). As such it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year.

These interim financial statements were authorised for issue on 15 March 2016.

Going Concern

The financial statements of the Group have been prepared on a going concern basis that contemplates the continuity of normal operating activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Group undertakes exploration activity on a number of projects. Historically, this activity has been financed by equity and joint operations. The Group's ability to continue with these planned exploration activities is dependent on having finance available.

At 31 December 2015 the Group had cash reserves of \$1,457,624. Commitments in relation to option to acquire agreements and exploration permits held is approximately \$3.4m over the next 12 months. This assumes that all options to acquire are exercised.

The ability of the Group to achieve its development goals and continue as a going concern will depend on attaining additional financing. Directors are confident that these further funding initiatives will be successful, however there can be no assurance that such funding will in fact be raised.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, subject to the following changes:

The Company has considered the implications of new or amended Accounting Standards, but determined that their application to the financial statements either is not relevant or not material.

NOTE 2: RESULT FOR THE PERIOD	Half year ended 31 Dec 2015	Half year ended 31 Dec 2014
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue		
Interest received from other persons	20,447	13,276
Foreign exchange gains	8,188	26,447
Gain on disposal of controlled entity	560	-
	26,195	39,723

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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 2: RESULT FOR THE PERIOD (continued)	Half year ended 31 Dec 2015	Half year ended 31 Dec 2014
	\$	\$
Expenses		
Exploration expenditure expensed during period	548,322	201,962
Loss on financial asset held for trading	9,808	41,670
Depreciation	326	834

NOTE 3: FINANCIAL ASSETS	31 December 2015	30 June 2015
	\$	\$
Current:		
Financial assets at fair value through profit and loss (a)	107,885	117,693

(a) These assets comprise ASX listed shares in Kimberley Diamonds Limited, received in September 2014 as part of settlement of the Company's deferred sale consideration for its former Lerala diamond mine.

Shares are held for trading for the purposes of short-term profit taking. Changes in fair value are included in the statement of comprehensive income.

NOTE 4: EXPLORATION AND EVALUATION ASSET	31 December 2015	30 June 2015
	\$	\$
Exploration and evaluation expenditure carried forward in respect of areas of interest are:		
Exploration and evaluation phase - company interest 100%	752,556	-
	752,556	-
Movement in exploration and evaluation expenditure:		
Opening balance - at cost	-	-
Capitalised exploration & evaluation expenditure	752,556	-
Carrying amount at 31 December 2015	752,556	-

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.

East Kimberley Graphite Project:

In February 2015 the Company entered into a Heads of Agreement with Attagold Limited to acquire a 100% in three tenements. Applications in relation to two of the tenements were subsequently withdrawn prior to 31 December 2015. Under the agreement, the Company paid \$30,000 in August 2015 and is required to pay a further \$170,000 in July 2016.

During the period, \$7,164 was expended and subsequently expensed.

In July 2015 the Company entered into a Tenement Option and Sale Agreement with Western Iron Pty Ltd to acquire 100% of the graphite interests in tenement E80/4511. Sayona paid Western Iron \$5,000 on signing and is required to pay \$200,000 on or before 8 January 2016 to exercise its option. Western Iron will also receive a 1% gross production royalty. Western Iron retains a Back-in option to the nickel, copper and iron mineralisation by the payment of \$100,000 within 12 months of completion date.

The option to acquire E80/4511 was exercised on 6 January 2016. During the period, \$752,556 was expended and capitalised.

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**Notes to the Financial Statements
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NOTE 4: EXPLORATION AND EVALUATION ASSET (continued)

Itabela Graphite Project

On 4 August 2015, the Company entered into a four-month, exclusive binding term sheet with Brasil Graphite SA to acquire 100% of the Itabela graphite project, located in Brazil.

The agreement provided for:

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

In December 2015, the Company completed a restructure of its Option to Purchase agreement. The key terms of the new agreement, include:

- US\$120,000 restructure payment, payable in December 2015;
- Monthly option payment of US\$15,000 until June 2016;
- A US\$0.5 million drilling commitment by Sayona and publication of a JORC resource statement on the ASX before 30 June 2016;
- Option exercise payment of US\$1.5 million on 30 June 2016 to acquire 100% of the tenements; and
- Contingent JORC resource payments, payable 60 days after the completion of a JORC Resource Statement, including:
 - US\$6.50 per tonne of contained graphite for any JORC Resource in excess of 300,000 tonnes, capped at a maximum payment US\$2,000,000; and
 - US\$2.00 per tonne of contained graphite for any JORC Resources in excess of 690,000 tonnes, payable in cash or shares at Sayona's election; and
 - There is no time limit on the application of these provisions. These provisions also attach to the tenements.

The agreement can be terminated at Sayona's discretion by giving 15 days' notice in writing.

During the period, \$536,498 was expended and subsequently expensed.

NOTE 5: TRADE AND OTHER PAYABLES

	31 December 2015	30 June 2015
	\$	\$
Current:		
Trade creditors	96,573	38,126
Sundry creditors and accrued expenses	82,708	15,500
Employee provisions	6,933	-
Total trade & other payables (unsecured)	186,214	53,626

NOTE 6: ISSUED CAPITAL

	31 December 2015	30 June 2015
	\$	\$
517,246,146 (30 June: 411,534,809) fully paid ordinary shares	52,505,195	50,069,511

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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 6: ISSUED CAPITAL (continued)

	Half year ended 31 Dec 2015	Half year ended 31 Dec 2014
(a) Ordinary shares	\$	\$
Balance at the beginning of the reporting period	50,069,511	50,039,511
Shares issued during the period:		30,000
14 August 2015, 72,320,000 new shares at \$0.025 per share, in the institutional component of the rights issue.	1,808,000	-
4 September 2015, 30,563,700 new shares \$0.025 per share in the retail component of the rights issue.	764,093	-
7 September 2015, 1,224,115 new shares at \$0.025 per share as a placement in respect of underwriting oversubscriptions.	30,603	-
7 September 2015, 1,603,522 new shares at \$0.025 per share in part settlement of capital raising fees.	40,088	-
Transaction costs relating to share issues	(207,100)	-
Balance at reporting date	52,505,195	50,069,511
	No.	No.
Balance at the beginning of the reporting period	411,534,809	405,534,809
Shares issued during the period:		6,000,000
14 August 2015	72,320,000	-
4 September 2015	30,563,700	-
7 September 2015	1,224,115	-
7 September 2015	1,603,522	-
Balance at reporting date	517,246,146	411,534,809
(b) Options on issue are as follows:	No.	No.
(i) Unlisted employee and officer options		
Balance at beginning of reporting period	-	-
Granted during the period (note 14)	38,000,000	-
Balance at reporting date	38,000,000	-
(ii) Listed options		
Balance at beginning of reporting period	-	-
Granted during the period (note 14)	110,916,481	-
Balance at reporting date	110,916,481	-

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**Notes to the Financial Statements
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NOTE 7: COMMITMENTS

(a) 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.

	31 December 2015	30 June 2015
	\$	\$
Not later than 1 year	62,311	-
Between 1 year and 5 years	-	-
Total commitment	62,311	-

(b) Option to acquire commitments

The entity holds options to acquire mineral tenements in relation to the East Kimberley graphite project and the Itabela project. If an option to acquire is not exercised, the relevant commitment also ceases.

Not later than 1 year	3,398,986	30,000
Between 1 year and 5 years	-	170,000
Total commitment	3,398,986	200,000

(c) Operating lease commitments

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

Not later than 1 year	27,027	37,116
Between 1 year and 5 years	-	9,369
Total commitment	27,027	46,485

NOTE 8: RELATED PARTY TRANSACTIONS

Related party transactions are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated. In the current period, arrangements with related parties continue to be in place, consistent with those reported at 30 June 2015, subject to the following addition:

During the period, the parent entity engaged Sirod Pty Ltd, an entity controlled by Mr Paul Crawford, a director of the company, to provide accounting, company secretarial and other services. Fees of \$40,000 were incurred during the period. No amount was owed by the company at 31 December 2015.

During the period, the company de-registered a controlled entity, DiamonEx (USA) Limited. Refer note 13.

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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 9: EARNINGS PER SHARE	Half year ended 31 Dec 2015	Half year ended 31 Dec 2014
	No.	No.
The earnings figures used in the calculation of both the basic EPS and the dilutive EPS are the same.		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	486,770,687	405,763,070
Weighted average number of dilutive securities outstanding	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period used in the calculation of diluted EPS	486,770,687	405,763,070

NOTE 10: DIVIDENDS

No dividends were declared or paid during the period.

NOTE 11: CONTINGENT LIABILITIES

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

NOTE 12: EVENTS AFTER THE END OF THE INTERIM PERIOD

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

- (i) On 6 January 2016, Sayona East Kimberley Pty Ltd exercised its option with Western Iron Ore Pty Ltd to acquire 100% of the graphite interest in tenement E80/4511.

NOTE 13: RESERVES

Foreign currency translation reserve

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

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

	31 December 2015	30 June 2015
	\$	\$
Balance at the beginning of the reporting period	4,527,230	4,527,230
Transfers to retained earnings	(4,527,230)	-
Balance at reporting date	-	4,527,230

NOTE 14: SHARE BASED PAYMENTS

During the period, 109,312,959 options were granted as part of the issue of shares under an entitlement offer. These options are exercisable at \$0.03 each and expire on 31 December 2016. The options are listed on the Australian Securities Exchange.

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

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

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

All of the above options were on issue at the end of the reporting period.

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 expire one month after the holders ceases to be employed by the Company.

Options issued under all share based payment arrangements are summarised as:	31 December 2015		31 December 2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
	No	\$	No	\$
Outstanding at beginning of the period	-	-	-	-
Granted	148,916,481	0.030	-	-
Outstanding at period end	<u>148,916,481</u>	<u>0.030</u>	-	-
Exercisable & vested at period end	<u>148,916,481</u>	<u>0.030</u>	-	-

The weighted average remaining contractual life of options at year-end was 1.1 years. The exercise price of outstanding options at the end of the reporting period was \$0.03.

NOTE 15: FAIR VALUE MEASUREMENT

(a) Valuation Techniques

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 15: FAIR VALUE MEASUREMENT (continued)

(b) Financial Instruments

The following table represents a comparison between the carrying amounts and fair values of financial assets and liabilities:

	31 December 2015		30 June 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
2015	\$	\$	\$	\$
Financial assets				
Cash & cash equivalents	1,457,624	1,457,624	737,545	737,545
Receivables	59,068	59,068	13,059	13,059
Held for trading instruments	107,885	107,885	117,693	117,693
	<u>1,624,577</u>	<u>1,624,577</u>	<u>868,297</u>	<u>868,297</u>
Financial liabilities				
Payables	186,214	186,214	53,626	53,626
	<u>186,214</u>	<u>186,214</u>	<u>53,626</u>	<u>53,626</u>

(c) Recurring and Non-recurring Fair Value Measurement Amounts and the Level of the Fair Value Hierarchy within which the Fair Value Measurements Are Categorised

	Fair Value Measurements at 31 December 2015 Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs Other than Level 1 Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	\$	\$	\$
Recurring fair value measurements			
- Shares in listed companies	107,885	-	-
Recurring fair value measurements	<u>-</u>	<u>-</u>	<u>-</u>
	30 June 2015		
	(Level 1)	(Level 2)	(Level 3)
	\$	\$	\$
Recurring fair value measurements			
- Shares in listed companies	117,693	-	-
Recurring fair value measurements	<u>-</u>	<u>-</u>	<u>-</u>

There were no transfers between Level 1 and Level 2 or Level 3 for assets measured at fair value on a recurring basis during the reporting period (30 June 2015: Nil transfers).

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**Notes to the Financial Statements
for the half year-ended 31 December 2015**

NOTE 15: FAIR VALUE MEASUREMENT (continued)

(b) Disclosed Fair Value Measurements

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

Description	Note	Fair Value Hierarchy Level	Valuation Technique(s)	Inputs Used
Assets:				
Shares in listed companies	3	1	Closing quoted bid prices	Closing quoted bid prices

NOTE 16: OPERATING SEGMENTS

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

	Australia		Brazil		Economic Entity	
	Half Year ended 31 December		Half Year ended 31 December		Half Year ended 31 December	
	2015	2014	2015	2014	2015	2014
	\$	\$	\$	\$	\$	\$
REVENUE						
Revenue	28,635	39,723	-	-	28,635	39,723
Total segment revenue	28,635	39,723	-	-	28,635	39,723
RESULT						
Loss from ordinary activities before income tax expense	(639,427)	(364,999)	(536,498)	-	(1,175,925)	(364,999)
	December	June	December	June	December	June
	2015	2015	2015	2015	2015	2015
	\$	\$	\$	\$	\$	\$
ASSETS						
Segment assets	2,415,993	876,127	-	-	2,415,993	876,127
LIABILITIES						
Segment liabilities	186,214	53,626	-	-	186,214	53,626

There were no transfers between segments reflected in the revenues, expenses or result above. The pricing of any intersegment transactions is based on market values.

Segment accounting policies are consistent with the economic entity.



Hayes Knight

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SAYONA MINING LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Sayona Mining Limited and the entities it controlled at the end of the half-year or from time to time during the half-year, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Sayona Mining Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements *ASRE 2410: Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Sayona Mining Limited's financial position as at 31 December 2015 and its performance for the half-year ended on that date, and complying with Accounting Standard *AASB 134: Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sayona Mining Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SAYONA MINING LIMITED (CONTINUED)

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Sayona Mining Limited is not in accordance with the *Corporations Act 2001* including:

- (i) giving a true and fair view of Sayona Mining Limited's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Inherent Uncertainty – Continued Operations and Future Funding

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the company's ability to continue with its planned exploration activities is dependent on having finance available.

As indicated in the note, the Directors are confident the further funding initiatives will be successful, however there can be no assurance that such funding will in fact be raised. The Directors have formed the view that it is appropriate to prepare the financial report on a going concern basis.

The outcome of the initiatives taken by Director's cannot presently be determined with any certainty. The company's ability to continue as a going concern will be dependent on obtaining future finance.

Hayes Knight Audit (Qld) Pty.Ltd.

Hayes Knight Audit (Qld) Pty Ltd

Robertson.

A M Robertson
Director

Level 23, 10 Eagle Street,
Brisbane, QLD, 4000

Date: 15 March 2016