

Cleveland Commences Premier Gold Mine Expansion

Clear funding strategy to underpin expansion project to more than double production to ~40,000oz-a-year by the end of 2015

Highlights:

- Vendor finance secured for primary and secondary crushing circuits. Installation of these key items to commence this week and available to be completed in ~1 month.
- Vendor financing has also been secured for all mobile mining equipment required to support the expanded production rate. This equipment is available to be delivered by the dates required to meet the ramp-up schedule.
- The Company is launching an innovative royalty-linked debt note in order to raise the final funds required to complete the installation of a second, new ball mill by mid-year, thereby avoiding an equity raising.
- The Contractor Flotation Plant is now in the commissioning phase.

Cleveland Mining Company Ltd (ASX: CDG) is pleased to announce that it has commenced the recently announced expansion program at its **Premier Joint Venture Gold Mine** in central Brazil, where it is aiming to more than double production to approximately 40,000oz per annum by the end of 2015.

Vendor financing has now been secured for all mobile mining equipment, along with the new 100 tonne per hour primary and secondary crushing plant(s). The new primary jaw crusher has arrived on site, and is currently being incorporated into the current circuit. The secondary cone crusher is available to be installed within a month.

While the Joint Venture awaits installation of a new larger 100 tonne per hour (tph) ball mill – the final component of the expanded gravity circuit – the new jaw crusher will be used to provide the extra crushing capacity for the ore to reduce the input feed size to the ball mill and reduce the recirculating work-load of the existing mill. This will increase the output and reliability of the existing ball mill until the second, larger mill has been installed. The cone crusher is available for installation within a month in preparation for the mid-year completion of the gravity circuit, or should the Company desire to bring the installation forwards to provide additional pre-crushing in the existing circuit.

Corporate Information

Total shares: 242.7 million
Listed options: 11.4 million
Unlisted options: 33.2 million

Contact

Investor & Media Enquiries
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Board of Directors

Russell Scrimshaw - Non-Executive Chairman
David Mendelawitz – Managing Director
Rick Stroud – Non-Executive Director
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The Company is now seeking to secure funding of approximately A\$1–2 million, by way of an innovative royalty-linked debt instrument issued by the Company, to fund the renovation, installation and tie-in of the new 100tph ball mill, which is already owned by the Company and located in Brazil, and to make down-payments on mobile mining equipment.

This represents the final funding required to complete the expansion of the gravity circuit at Premier from 40tph currently to 100tph. The expansion project will also provide significantly improved plant reliability, as the 100tph and 40tph circuits will remain installed in parallel to each other.

The final step of the plant expansion will be the installation of a new 100tph flotation circuit and associated leaching tanks. The Company is aiming to install these items during the second half of the year. Funding for these items, as well as for the resource expansion drilling program and payments to Cleveland's joint venture partner to increase Cleveland's project equity to 60%, is expected to be sourced through a combination of vendor financing and production cash-flows.

The overall expansion project is targeted for completion by the end of calendar 2015.

Royalty-Linked Note Details

The Company is issuing an innovative instrument as an alternative to either an equity raise or conventional convertible note.

The note details are:

- 12-month duration
- 9% coupon
- 5% (against \$1.5 million facility) Production Royalty linked to the first 3 months of production following the commissioning and steady state production of the new ball mill
- Only convertible to equity at a discount to the prevailing Volume Weighted Average Price at the maturity date 12 months after issue in the case of default by Cleveland

The benefits to Cleveland shareholders include:

- No equity dilution;
- Low base rate compared to a conventional unsecured convertible note in the current financial climate;
- Disconnected to the current low equity price; and
- Funds raised will assist in the rapid installation of the expanded gravity circuit to underpin a significant increase in free cash-flows in the short term.

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Benefits to the investors in the note include:

- A fair interest rate, secured by convertibility at a discount to the prevailing equity price at the time of the note expiry in the case of default;
- The opportunity to participate in the substantial upside that will be generated by the expansion of the gravity circuit; and
- Potential to participate in the upside generated by the installation of the 100tph flotation circuit, should the Company complete installation during the 3-month royalty period.

The note is being offered to sophisticated investors (including current shareholders) and preliminary interest has been very strong.

Contractor Flotation Plant

Installation of the 40tph Contractor Flotation Plant has now been completed and commissioning has commenced.

Cleveland has granted the Contractor the right to process tailings previously produced by the gravity circuit under a contract for ~10 months. All costs will be borne by the contractor and Cleveland-Premier will be entitled to 30% of the gross revenue produced by the plant.

Along with additional cash flows generated, the plant will enable full-scale flotation process validation to occur on site prior to the finalisation of the 100tph flotation circuit, which has been targeted for installation by Cleveland in H2 2015.

Resource Expansion Update

Field work has commenced in preparation for expansion drilling this year to target an increase in the resource base to underpin 6 years of production at ~40,000oz per annum.

Resource expansion will be targeting direct extensions of the Metago and Dona Maria ore bodies, which remain open in all directions. Particular focus will be on the eastern extension of the “Metago” orebody, along with the up-dip extension targeting mineralisation which remains under the historical Government-operated open pit.

Positive results are being generated from all areas, providing further confidence in the potential for to grow the resource inventory.

In addition, work is currently underway on the Southern Anomaly, located ~800m south of the Premier mine, where the Company has previously identified a large co-incident

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geophysical and geo-chemical anomaly along strike from the dominant lode in the Anglo Gold Ashanti Serra Grande Mine. To date, results have been very encouraging.

Further details on the exploration results will be published in a separate announcement, once the Company is in a position to provide a clear and meaningful update.

Management Comment

Cleveland Mining's Managing Director, David Mendelawitz, said work was already well underway on site at the Premier Gold Mine less than two months after the expansion project was announced just prior to Christmas.

"It is great to start seeing the equipment required to underpin the expansion arriving at site and being funded under Vendor Finance packages. The expansion of the gravity circuit will have a major positive effect, both on current production and on the longer term production outlook for Premier.

"While there has been a mistaken assumption in some areas of the market that this expansion would require an equity raising of up to A\$8 million, we have always made it clear that the expansion program would be largely funded by a combination of freeing up internal project cash-flows and vendor finance.

"Given the current state of the equities market for junior gold companies, I am delighted that we have now been able to secure the majority of the initial funds required through vendor financing arrangements – which will make an immediate and meaningful positive impact on the project's ability to generate free cash.

"At the same time, I am pleased to be able to clearly articulate our funding strategy to raise the balance of the funding required to complete the expansion project. The innovative nature of the royalty-linked debt structure means that shareholders, potential investors, our existing debt-providers and our Joint Venture partners all benefit – as we can provide a high return to investors along with an even higher return to the project, leading to greater profit generation and debt servicing capacity, without the need for a dilutive equity raise."

Premier Mine – Expansion and Upgrade Program Overview

Cleveland announced plans to undertake a substantial expansion and upgrade of the Premier Gold Mine in December 2014. The expansion will increase plant reliability and includes plans to undertake a significant exploration program to grow the resource inventory and mine life. Key components of the planned expansion include:

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- Installation of a new 100tph crushing and grinding circuit in parallel to the existing 40tph circuit to provide both an increase in production and an increase in reliability;
- Installation of a new 100tph flotation circuit to increase recovery;
- Approximately 10,000m of ore-body extensional drilling targeting an increase in the resource base to 250,000oz ounces from the current 114,000oz, which would support a mine life of six years at the expanded production rate; and
- Increasing Cleveland's equity in the project from 50% to 60%, and associated procurement of the farm-land over the main Metago ore-body (along with an attached royalty), through cash payments to the projects' Joint Venture partners

Cleveland's externally constructed Discounted Cash Flow models value the expanded production case, assuming production of 40,000oz-a-year, a minimum 6-year mine life and increasing the Company's equity ownership of the project to 60%, at A\$99.2 million. This compares with Cleveland's current market capitalisation of approximately A\$11 million. The assumptions used in this valuation are included as Appendix 1 to this announcement.

This cash flow model assumes that the expansion will be majority funded by project cash-flows made available by the extension of the debt facility and vendor financing for key equipment items. Full details of the Company's expansion plans, discounted cash flow model and forward plans are provided in a corporate presentation which was lodged separately on the ASX Platform today.

Expansion Timeline

Expansion of the gravity circuit is targeted for mid-2015 with the additional upgraded flotation circuit expected to be completed by the end of calendar 2015. Resource drilling will continue throughout the year, with revised resource estimates also targeted by the end of the year.

Completion of the revised equity ownership structure is targeted for Q3 2015. The expanded production rate is planned to be achieved by the end of 2015.

ENDS

Further Information:

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About Cleveland Mining Company Ltd

Cleveland Mining Company Ltd is an Australian-managed, ASX-listed minerals company squarely focused on developing projects into mines.

The Company's management team has a track-record for building billion-dollar projects from the ground up, providing Cleveland with the expertise to secure and build robust projects.

Cleveland has gold and iron ore assets in Brazil in areas with excellent mining credentials:

- Mining and production are underway at Cleveland's Premier 50/50 Gold Mine JV in Goiás State in central Brazil. The Company is working to add throughput from the O Capitão project, which is less than 10km from the Premier Mine.
- Cleveland has signed binding Option Agreements with the Brazilian private company Bahmex covering multiple iron projects. The Company is investigating developing a pig iron processing plant as an alternative to selling iron ore.

Cleveland has a different approach to project selection with project economics driving target selection. Projects are chosen according to their likelihood of generating returns at the bottom of the economic cycle.

Forward-looking Statements

Forward-looking statements can be identified by the use of terminology such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' or similar words. These statements discuss future expectations concerning the results of operations or financial condition, or provide other forward looking statements. They are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this ASX update. Readers are cautioned not to put undue reliance on forward looking statements

Competent Person's Statement

The information in this report that relates to Exploration Results is based on information reviewed by David Mendelawitz, who is a Fellow of the AusIMM. Mr Mendelawitz has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Mendelawitz consents to the inclusion of the matters based on his information in the form and context in which it appears. Mr Mendelawitz is employed by Cleveland Mining Company Ltd.

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Appendix 1 - Key Project Assumptions

100% Basis	Units	FY2015	FY2016	FY2017	FY2018	LOM/LT
Gold Price	AUD\$/oz	1,555	1,555	1,555	1,555	1,555
Mining						
ROM Ore	kt	161	720	720	720	4,121
Gold Grade	g/t	2.17	2.00	2.00	2.00	2.01
Gravity Circuit						
Volume	kt	161	720	720	720	4,121
Gold Grade	g/t Au	2.17	2.00	2.00	2.00	2.01
Recovery	%	65%	65%	65%	65%	65%
Gold Production	koz Au	7.3	30.1	30.1	30.1	172.8
Flotation Circuit						
Volume	kt	-	720	720	720	3,960
Gold Grade	g/t Au	-	2.00	2.00	2.00	2.01
Recovery	%	-	18%	20%	20%	20%
Gold Production	koz Au	-	8.1	9.3	9.3	49.8
Tailings Circuit						
Volume	kt	90	240	240	240	1,410
Gold Grade	g/t Au	0.80	0.80	0.80	0.80	0.80
Recovery	%	60%	60%	60%	60%	60%
Gold Production	koz Au	0.6	1.2	1.2	1.2	0.3
Total Premier Production						
Total Gold Produced	koz Au	7.7	39.3	40.5	40.5	229.1
C1 Cash Cost	A\$/t	31.90	21.67	21.67	21.67	22.07
C1 Cash Cost	A\$/oz Au	668	398	386	386	399
AISC	A\$/t	50.19	29.12	21.81	21.94	24.28
AISC	A\$/oz Au	1,070	544	388	390	443
Other Assumptions						
Drilling Capex	A\$m	0.7	0.8	-	-	1.5
Total Capex	A\$m	2.9	5.4	0.1	0.2	9.1
Payment to Edifica	A\$m	-	-2.0	-	-	-2.0
Dividends Paid	A\$m	-	-5.0	-	-	-5.0

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