

Cleveland Mining Company Limited

ABN 85 122 711 880

Annual Report

**for the financial year ended
30 June 2015**

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Corporate Directory

Directors

Mr David Mendelawitz Managing Director
Mr Rick Stroud Non-Executive Director
Mr Wayne Zekulich Non-Executive Director
 and acting Chairman

Company Secretary

Mr Albert Longo

Registered Office

Suite 1, 41 Walters Drive,
Osborne Park WA 6017

Principal Place of Business

Suite 1, 41 Walters Drive,
Osborne Park WA 6017

Contact Details

Tel: +61 8 6389 6000
Fax: +61 8 6389 6099

Solicitors to the Company

Mendelawitz Morton Commercial Lawyers
Gryphon House
39 Richardson Street
West Perth WA 6005

Share Registry

Computershare Investors Services Pty Ltd
Level 11,
172 St George's Terrace
Perth WA 6000

Tel: +61 8 9323 2000
Fax: +61 8 9323 2033
Free 1300 787 272

Auditors

Deloitte Touche Tohmatsu
Level 14
240 St George's Terrace
Perth WA 6000

Stock Exchange

Australian Securities Exchange
2 The Esplanade
Perth WA 6000

ASX Code: CDG

Directors' Report

The directors of Cleveland Mining Company Limited submit herewith the annual report of the Company for the financial year ended 30 June 2015. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Information about the directors

The names and particulars of the directors of the Company during or since the end of the financial year are as follows. All directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Mr Russell Scrimshaw – Non-Executive Chairman
Appointed 5 July 2011, resigned 19 October 2015

Russell Scrimshaw retired as Executive Director and Deputy CEO of Fortescue Metals Group Ltd where he was part of the key management team that completed FMG's history-making iron ore mine, port and rail start up. At Fortescue, he was a lead member of the team that raised A\$2.7 billion in what was the largest ever high-yield Asia Pacific transaction, the largest ever high-yield bond raising, one of the largest corporate bonds out of Australia, and one of the largest in the resource sector worldwide. Russell has negotiated billions of dollars of off-take agreements, signing agreements with approximately 50 steel mills, including all ten of China's top ten steel mills. Russell is also Chairman of London Stock Exchange-listed Sirius Minerals Plc.

Prior to Fortescue Metals, Russell was a board member of Commonwealth Properties Ltd, EDS Australia, Mobilesoft Ltd, Telecom New Zealand Australia Pty Ltd, The Garvan Institute Foundation and Athletics Australia. He previously held executive positions within the Commonwealth Bank of Australia, Optus, Alcatel, IBM and Amdahl USA.

Over the past three years Russell has not held directorships with any ASX-listed companies other than Cleveland Mining Company Limited.

Mr David Mendelawitz – Managing Director
Appointed 16 June 2010

David Mendelawitz has extensive international experience in exploration, mining and commerce. His most recent role was as Head of Business Improvement at Fortescue Metals Group Ltd, in which he drove projects in exploration, project construction, mine and infrastructure optimisation and expansion planning. David has a successful track-record both as a geologist and in the corporate aspects of large minerals projects.

Over the past three years David has not held directorships with any ASX-listed companies other than Cleveland Mining Company Limited.

Mr Rick Stroud – Non-Executive Director
Appointed 8 October 2013

Rick Stroud is a mining engineer with over 40 years' worldwide experience in the mining industry. Over the last 12 years he has held the position of General Manager for P&H Minepro for WA, SA and South-East Asia, Manager Mining and Alternate Resident Manager for Argyle Diamonds, Group General Manager Engineering for Snowden Mining Consultants and co-founder of Optiro Mining Consultants. Rick has had exposure to all facets of the mining industry from operations to corporate, most mineral commodities, open pit and underground and consulting to contracting. His specialist skills are in strategic and project management, operational optimisation, mentoring senior mining management and personnel and peer reviewing/ project managing mining studies and projects.

During his time with Snowden, Rick project managed the mining DFS for FMG on Cloud Break and various other iron ore studies, reviews on hematite, magnetite, CIDs and detritals while assisting in establishing an office in Belo Horizonte in Brazil. His gold experience has blanketed mines from Newmont on Batu Hijau in Indonesia, Freeport in West Papua, to mines in Australia, Africa, Mexico and Chile. Previous directorships have included Paget Gold Mining, International Brick and Tile and more recently Rick was a director of ASX-listed A1 Minerals Limited (now Stone Resources Australia

Directors' Report

Limited) from August 2010 to April 2011. He currently lives in Perth and is Non-Executive Chairman of Fodere Mining, a private investment group investigating mining prospects primarily in Indonesia and Australia.

Over the past three years Rick has not held directorships with any ASX-listed companies other than Cleveland Mining Company Limited.

Mr Wayne Zekulich – Non-Executive Director and acting Chairman
Appointed 9 February 2015

Mr Zekulich has an extensive depth of experience in the banking and corporate sectors in Australia, including a distinguished career as head of both Deutsche Bank and NM Rothschild & Sons (Australia) in Perth and as an Executive Vice President with Commonwealth Bank in Western Australia, South Australia and the Northern Territory.

During his investment banking career, Mr Zekulich has provided strategic and corporate advice on a wide range of transactions and mergers and acquisitions, played a key role in arranging and underwriting project financings, and was involved in privatisations and capital raisings in both debt and equity capital markets.

He has also previously held senior corporate roles including Chief Financial Officer and Chief Development Officer with Oakajee Port & Rail and as Chief Financial Officer with Gindalbie Metals.

Mr Rod Campbell – Former Executive Director – Commercial
Appointed 4 September 2013
Resigned 29 August 2014

Rod Campbell held senior management positions with Fortescue Metals Group Ltd from 2004 until 2012, during which he was involved in a number of high-profile debt raising transactions to facilitate the development of Fortescue's mine, port and rail infrastructure. He was Fortescue's Company Secretary over those years with extensive involvement across all areas of corporate governance. From 2010 to 2012 he was also Fortescue's Head of Investor Relations where he built a broad network across both the domestic and international resource investment communities.

Prior to working with Fortescue, Rod was State Manager Western Australia of Rabobank Australia Ltd. and before that was a Senior Manager with State Bank NSW Ltd. Rod holds a Bachelor of Agricultural Economics from the University of New England and a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia (now Financial Services Institute of Australasia).

Over the past three years Rod has not held directorships with any ASX-listed companies other than Cleveland Mining Company Limited.

Directors' Report

Directors' security holdings

The following table sets out each director's relevant interest in shares and rights or options in shares of the Company or a related body corporate as at the date of this report:

| Name | Cleveland Mining Company Limited | | Cleveland Mining HK Limited | |
|------------------|--------------------------------------|--|--------------------------------------|--|
| | Number of fully paid ordinary shares | Number of options over ordinary shares | Number of fully paid ordinary shares | Number of options over ordinary shares |
| Mr D Mendelawitz | 41,908,015 | 2,240,000 | - | 1,750,000 |
| Mr R Scrimshaw | 2,928,958 | 3,250,000 | - | 2,000,000 |
| Mr R Stroud | 455,000 | 3,000,000 | - | - |
| Mr W Zekulich | 500,000 | - | - | - |

Remuneration of directors and key management personnel

Information about the remuneration of directors and key management personnel is set out in the remuneration report of this directors' report. The term "key management personnel" refers to those persons having authority and responsibility for planning, directing and controlling the activities of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the consolidated entity.

Share options granted to directors and senior management

During and since the end of the financial year no share options were granted to directors and key management personnel of the Company and its controlled entities as part of their remuneration.

Company Secretary

Mr Albert Longo

Appointed 5 September 2014

Mr Longo is a Chartered Accountant with over 33 years' experience in accounting and commercial administration, predominantly in gold mining and engineering industries. He has been involved in a number of start-up gold operations including Kanowna Belle and more recently Allied Gold's Simberi Mine in Papua New Guinea. He was appointed caretaker CEO and Finance Director at A1 Minerals Ltd whilst awaiting a cornerstone investor.

Ms Katrina Grose

Appointed 12 July 2013

Resigned 5 September 2014

Katrina Grose is a Chartered Accountant and Chartered Company Secretary with 19 years' experience in the accounting and finance profession. Katrina began her career in professional practice, and has since held finance positions for several ASX-listed and unlisted companies, including the role of Company Secretary for ASX-listed gold explorer and producer Dioro Exploration NL for over 5 years. Prior to her appointment as Company Secretary, Katrina had been Cleveland's Financial Controller for 2 years.

Katrina holds a Bachelor of Commerce from the University of Western Australia, a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia (now Financial Services Institute of Australasia) and a Graduate Diploma in Applied Corporate Governance from Chartered Secretaries Australia (now Governance Institute of Australia).

Principal activities and significant changes in affairs

Cleveland Mining Company Limited ("Cleveland") is an Australian-managed public minerals company focused on developing projects into operating mines. Cleveland's ability to deliver comes from its management team and board, who have successfully led high-profile projects across the world; and its partners, who provide local strength. This experience uniquely positions the Company to acquire quality projects and develop them with stability, sustainability and profits squarely in mind.

The Company has a different approach to project selection, with project economics driving target selection as well as geological prospectivity, local costs and infrastructure being rigorously scrutinised before entering into a project. Projects are assessed according to their potential to generate returns at the bottom of the commodity price cycle.

Operating and financial review

Operating results

The loss of the consolidated entity for the year ended 30 June 2015 after providing for income tax amounted to \$11,995,384 (2014: \$12,145,155 loss).

Financial position

The net assets of the consolidated entity were \$1,479,218 as at 30 June 2015 (2014: \$16,142,941).

Review of operations

On 25 July 2014 the Company announced the completion of the initial exploration programme at the Bahia and Minas Novas Iron ore projects in Brazil.

On 28 July 2014 the Company announced that it had signed a mining agreement to increase production and cash flow with Orinoco Gold Limited to undertake mining operations at Orinoco's Cascavel Gold Project.

On 27 August 2014 the Company announced that it had secured a US\$3m funding facility to advance Brazilian iron ore exploration.

On 29 August 2014 the Company announced that Rod Campbell had resigned as Commercial Director.

On 1 September 2014 the Company announced the successful installation and commissioning of the In-Line Leach Reactor at the Premier Gold Mine.

On 5 September 2014 the Company announced that Katrina Grose had resigned as Company Secretary. Albert Longo was appointed as Company Secretary from that date.

On 9 September the Company announced the commencement of Resource Drilling at O Capitão.

On 1 October the Company announced drilling had confirmed significant extensions to the Metago Pit at the Premier Gold Mine.

On 23 October 2014 the Company announced high grade rock chips and drill hole intercepts indicate significant growth potential.

On 12 November 2014 the Company announced that it had terminated the Orinoco toll milling agreement.

On 22 December 2014 the Company announced that it was to expand its production base and increase ownership of the Premier Gold Mine.

Directors' Report

On 2 February 2015 the Company announced that BC Iron Limited was withdrawing from the 50:50 alliance of the Bahia and Minas Novas iron ore exploration projects in Brazil.

On 9 February 2015 the Company announced the appointment of Wayne Zekulich as a Non-Executive Director.

On 24 February 2015 the Company announced the commencement of the expansion program at Premier God Mine and launched a royalty-linked note to fund the renovation, installation and tie-in of the new 100tph ball mill.

On 17 March 2015 the Company announced it had secured the debt restructure and funding support to underpin Premier Gold Mine expansion.

On the 30 March 2015 the Company announced a significant discovery of an extensive zone of primary gold mineralisation less than 1.5km south of its operating Premier Joint Venture Gold Mine in central Brazil

On 30 April 2015 the Company announced an agreement with its principal financier Platinum Capital Projects, to extend the maturity date of its existing \$6.8 million debt facility to September 2016. The Company announced preparatory work for expansion drilling to increase its resource base to underpin 6 years production at 40,000z per annum.

Competent Person's Statement

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by David Mendelawitz, who is a Member of The Australian Institute of Geoscientists. 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 2004 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 as Chief Executive Officer/Managing Director by Cleveland Mining Company Ltd.

Directors' Report

Dividends paid or recommended

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report (2014: Nil).

Events subsequent to balance date

On 13 July 2015 the Company announced that it had signed a Gold prepayment agreement with a refiner subject to 9% interest pro-rated for the period of the prepaid amount. The agreement allows for the Company to receive prepayments of USD500,000 for gold shipments for the next 11 months. The agreement is valid for a 3 year term. A prepayment of USD500,000 (equivalent to 14 kg gold dore) has been received.

On 13 July 2015 the Company announced closure of the Royalty Linked Note. A total of \$125,000 was raised post balance date. During August 2015 the Company accepted applications for a further \$540,000 in Royalty Linked Notes. (see Note 19).

On 13 July 2015 the Company announced an update on the initial JORC resource and mine plans for the high-grade gold mineralisation at the Cleveland Premier Joint Venture's Lavra Project, part of the O Capitão Project, located 9km from the Premier process plant in Goiás State, Brazil.

On 10 September 2015 the Company announced that it had mobilized a drill rig to complement the 2 existing grade control rigs for initial advance grade control drilling 100 tph of ore and future drilling extension holes in the highly prospective Vanuza south of the Premier open pit.

On 30 September 2015, the Company suspended its securities pending an announcement relating to the ownership and financing structure of the Premier Gold mine.

On the 19 October 2015, Mr. Russell Scrimshaw announced his intention to step down from the Non-Executive Chairman role and the Board of the Company. Mr Wayne Zekulich accepted the role as Acting Non-Executive Chairman

On 24 October 2015 the Company formalised an option agreement to acquire the remaining 50% interest in the Premier Project from Edifica for 3 staged payments of \$US4 million and a 5% gold royalty. The option is valid for 6 months and is at the discretion of the Company. 100% ownership is formalised on the receipt of the first payment. Subsequent payments are each 12 months apart.

On 12 November 2015 the Company announced a Waiver Agreement with Platinum Partners, regarding outstanding interest payments, which was executed on 11 December 2015. The agreement consolidated the \$US6.8m note with the \$US1m note and \$US2m note, providing a consolidated US\$10,974,861 note with a maturity date of 19 September 2016. The interest rate on the consolidated note was reduced to 12%, and interest is payable quarterly in arrears, commencing 1 April 2016. In addition, four consecutive monthly repayments of US\$250,000 will commence on 1 April 2016. The Company will issue Platinum Partners 29,371,525 shares in consideration for the waiver subject to shareholder approval, 5,000,000 warrants at an exercise price of AU\$0.05, and the Company will transfer 50% of the fully paid shares in Cleveland Iron Holdings Pty Ltd to Platinum Partners. The redemption amount of the consolidated note at maturity is US\$13,169,833. The note holder has, subject to shareholder approval, the option of converting any portion of the note together with any accrued and unpaid interest thereon into shares in the Company at a conversion price of AU\$0.07.

On 10 December 2015, the Company announced an equity placement for approximately \$1.6 million and a Share Purchase Plan (SPP) of up to \$500,000 (with \$400,000 underwritten). Of the \$1.6 million placement, \$1,328,876 is available following the Company's securities recommencing trading on the Australian Securities Exchange, with the balance of \$300,000 being subject to shareholder approval. Shareholder approval for the \$300,000 and the SPP will be sought in January 2016 and funds raised by the SPP from existing shareholders or Underwriters will be made available post shareholder approval. The Company also announced Mr Alex Sundich and Mr Glenn Simpson are to join the Board of Cleveland as non-executive Directors, following the completion of this capital raising.

Future developments, prospects and business strategies

The Company is primarily focused on gold and iron ore projects in Brazil, where it sees potential to build operations that can operate profitably regardless of the commodity price cycle. The Company 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.

Following commencement of production at the Premier Gold Mine in the 2013 financial year, 2014 was a year of consolidation, and the 2015 financial year has reflected a further improvement in the capabilities of the Premier plant by the commencement of the installation of more robust treatment plant equipment to improve the reliability of production and the mechanical availability of the treatment plant. In addition works were undertaken to expand the ore resources to provide future mill feed as a result of initial drilling commenced last year.

Environmental issues

The Company is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations at all times.

Meetings of directors

During the financial year, 5 meetings of Directors and two meetings of the Audit and Risk Committee were held. Attendances by each Director during the year were as follows:

| | Board of Directors | | Audit and Risk Committee | |
|------------------|--------------------|----------|--------------------------|----------|
| | Held | Attended | Held | Attended |
| Mr D Mendelowitz | 5 | 5 | - | - |
| Mr R Scrimshaw | 5 | 5 | 2 | 2 |
| Mr R Stroud | 5 | 4 | 2 | 2 |
| Mr W Zekulich | 3 | 3 | 2 | 1 |
| Mr R Campbell | 1 | 1 | - | - |

Shares under option or issued on exercise of options

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

| <i>Details</i> | <i>Date of expiry of options</i> | <i>Exercise price of options</i> | <i>Number under option</i> |
|------------------|----------------------------------|----------------------------------|----------------------------|
| Unlisted options | 31 Dec 2015 | \$0.20 | 5,340,000 |
| Unlisted options | 31 Dec 2015 | \$0.36 | 3,250,000 |
| Unlisted options | 16 May 2016 | \$0.25 | 1,000,000 |
| Unlisted options | 31 Dec 2018 | \$0.25 | 1,000,000 |
| Unlisted options | 31 Dec 2018 | \$0.40 | 2,000,000 |
| Unlisted options | 31 July 2019 | \$0.14 | 7,500,000 |
| Listed options | 4 July 2016 | \$0.65 | 11,364,998 |
| | | | <u>31,454,998</u> |

During the year ended 30 June 2015, no options were exercised. During the year ended 30 June 2014 no options were exercised.

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

Directors' Report

| <i>Details</i> | <i>Date of expiry of options</i> | <i>Exercise price of options</i> | <i>Number under option</i> |
|------------------|----------------------------------|----------------------------------|----------------------------|
| Unlisted options | 15 Apr 2019 | \$0.20 | 7,800,000 |

During the years ended 30 June 2015 and 30 June 2014, no options in Cleveland Mining HK Limited were exercised.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Indemnifying officers or auditor

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every officer of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

Proceedings on behalf of 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 these proceedings.

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

Non-audit services

The Company did not engage the external auditor to provide any non-audit services during or since the end of the financial year.

Auditor's independence declaration

The lead auditor's independence declaration for the year ended 30 June 2015 has been received and can be found on page 27 of this annual report.

REMUNERATION REPORT (Audited)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of Cleveland Mining Company Limited's directors and its senior management for the financial year ended 30 June 2015. The prescribed details for each person covered by this report are detailed below under the following headings:

- Directors and senior management details
- Remuneration policy
- Relationship between the remuneration policy and Company performance
- Remuneration of directors and senior management
- Key terms of employment contracts

Director and senior management details

The following persons acted as directors of the Company during or since the end of the financial year:

- Mr D Mendelawitz (Managing Director)
- Mr R Scrimshaw (Non-Executive Director) (resigned 19 October 2015)
- Mr R Stroud (Non-Executive Director)
- Mr W Zekulich (Non-Executive Director) (appointed 9 February 2015)
- Mr R Campbell (Executive Director) (appointed 4 September 2013, resigned 29 August 2014)

The term "senior management" is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Mr A Santos (Brazilian Commercial Manager)
- Mr J Sharp (Manager of Mineral Resources)
- Mr A Longo (Company Secretary) (appointed 5 September 2014)
- Ms K Grose (Company Secretary & Financial Controller) (appointed 12 July 2013, resigned 5 September 2014)

Remuneration policy

In determining competitive remuneration rates, the Board seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes benefit plans and share plans. Independent advice is obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices. No external advice has been received during the current financial year.

In considering the Group's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, primarily related to financial and operational performance, the development progress towards production on the Company's projects, results and evaluation of exploration activities etc. Excluding remuneration in the form of share-based payments, which are discussed further below, the Company is of the view that any adverse movement in the Company's share price related to an industry trend or other similar non-specific economic condition should not be a punitive factor in assessing the performance of individuals.

Directors' Report

Performance-based remuneration

The Board recognises that Cleveland Mining Company Limited operates in a global environment. To prosper in this environment the Company must attract, motivate and retain key executive staff. The principles supporting the Company's remuneration policy are that:

- Reward reflects the competitive global market in which we operate;
- Rewards to executives are linked to creating value for shareholders. Reward in the form of options where possible take the form of options with exercise prices materially above the share price at the time of grant;
- Remuneration arrangements are equitable and facilitate the development of senior management across the company; and
- Where appropriate senior managers receive a component of their remuneration in equity to align their interests with those of the shareholders.

Market comparisons

Consistent with attracting and retaining talented executives, the Board endorses the use of incentive and bonus payments. The Board continues to seek external advice to ensure reasonableness in remuneration scale and structure, and to compare the Company's position with the external market. The impact and high cost of replacing senior employees and the competition for talented executives requires the Company to reward key employees when they deliver consistently high performance.

Relationship between the remuneration policy and company performance

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years to 30 June 2015:

| | 30 June 2015 | 30 June 2014 | 30 June 2013 (restated) | 30 June 2012 (restated) | 30 June 2011 |
|--------------------------------|--------------|--------------|----------------------------|----------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ |
| Revenue | 735,889 | 221,098 | 202,822 | 125,887 | 97,477 |
| Net loss before tax | (11,995,384) | (12,145,155) | (12,210,684) | (4,593,535) | (2,906,407) |
| Net loss after tax | (11,995,384) | (12,145,155) | (12,210,684) | (4,593,535) | (2,906,407) |
| Share price at start of year | 0.090 | 0.093 | 0.78 | 0.29 | 0.29 |
| Share price at end of year | 0.039 | 0.090 | 0.093 | 0.78 | 0.29 |
| Basic loss per share (cents) | (3.34) | (4.93) | (6.60) | (3.08) | (2.69) |
| Diluted loss per share (cents) | (3.34) | (4.93) | (6.60) | (3.08) | (2.69) |

As part of the group reorganisation completed effective 23 September 2010, in which Cleveland Mining Company Limited acquired 100% of the issued share capital of Cleveland Mining Limited, all options previously issued to the directors and senior management of Cleveland Mining Limited were replaced with options in Cleveland Mining Company Limited on a one for one basis. Some of the options issued contain non-market vesting conditions aligned with the technical goals of the Company, including the completion of certain Definitive Feasibility Studies or Wet Commissioning of the first full scale process plant. Should any of the vesting conditions fail to be achieved, the related share options will not vest, consequently there is a direct link between the creation of shareholder wealth and share based payments.

Remuneration of directors and senior management

Shareholders approve the maximum aggregate remuneration for non-executive directors. The Board determines actual payments to directors and reviews their remuneration annually based, on independent external advice with regard to market practice, relativities, and the duties and accountabilities of directors. A review of the Directors' remuneration is conducted annually to benchmark overall remuneration including retirement benefits.

The remuneration for each Director and member of senior management was as follows:

| | Short-term employee benefits | | Post-employment Benefits | Termination Benefits | Share-based payments | Total | Performance related |
|---------------------------------|------------------------------|--------------|--------------------------|----------------------|----------------------|-----------|---------------------|
| | Salary and fees | Non-monetary | Super-annuation | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | % |
| 2015 | | | | | | | |
| Directors | | | | | | | |
| R Scrimshaw | 30,000 | - | 2,850 | - | 50,342 | 83,192 | 60.51 |
| D Mendelawitz | 200,000 | - | 19,000 | - | - | 219,000 | - |
| R Campbell (1) | 60,579 | - | 4,275 | - | (30,201) | 34,653 | - |
| R Stroud | 126,300 | - | 2,850 | - | 40,926 | 170,076 | 24.06 |
| W Zekulich (2) | 11,423 | - | 1,085 | - | - | 12,508 | - |
| | 428,302 | - | 30,060 | - | 91,268 | 549,630 | |
| Key Management Personnel | | | | | | | |
| A Santos | 223,450 | - | - | - | - | 223,450 | - |
| K Grose (3) | 53,023 | - | 3,617 | - | - | 56,640 | - |
| J Sharp | 190,000 | - | 18,050 | - | - | 208,050 | - |
| A Longo (4) | 175,937 | - | - | - | - | 175,937 | - |
| Sam Clarke | 192,425 | - | - | - | - | 192,425 | - |
| | 834,835 | - | 21,667 | - | - | 856,502 | |
| | 1,263,137 | - | 51,727 | - | 91,268 | 1,406,132 | |

(1) Mr Campbell resigned as of 29 August 2014

(2) Mr Zekulich was appointed 9 February 2015. Remuneration is from this date

(3) Ms Grose ceased employment with the Group on 5 September 2014

(4) Mr Longo commenced employment with the Group on 5 September 2014

Directors' Report

| | Short-term employee benefits | | Post-employment Benefits | Termination Benefits (11) | Share-based payments | Total | Performance related |
|---------------------------------|------------------------------|--------------|--------------------------|---------------------------|----------------------|-----------|---------------------|
| | Salary and fees | Non-monetary | Super-annuation | | | | % |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| 2014 | | | | | | | |
| Directors | | | | | | | |
| R Scrimshaw | 30,000 | - | 2,775 | - | 42,109 | 74,884 | 56.2 |
| D Mendelawitz | 200,000 | - | 18,500 | - | - | 218,500 | - |
| R Campbell (5) | 170,000 | - | 14,569 | - | 30,201 | 214,770 | 14.1 |
| R Stroud (6) | 85,131 | - | 1,964 | - | 23,658 | 110,753 | 21.4 |
| J Williams (7) | 10,962 | - | 1,014 | - | - | 11,976 | - |
| D Bailey (8) | 5,538 | - | - | - | - | 5,538 | - |
| A Finlay (9) | 53,527 | - | 3,736 | - | - | 57,263 | - |
| | 555,158 | - | 42,558 | - | 95,968 | 693,684 | |
| Key Management Personnel | | | | | | | |
| A Santos | 223,450 | - | - | - | - | 223,450 | - |
| K Grose (10) | 177,692 | - | 16,437 | - | - | 194,129 | - |
| J Sharp (11) | 87,692 | - | 8,112 | - | - | 95,804 | - |
| A Tomsett (12) | 105,834 | - | 4,959 | - | - | 110,793 | - |
| | 594,668 | - | 29,508 | - | - | 624,176 | |
| | 1,149,826 | - | 72,066 | - | 95,968 | 1,317,860 | |

- (5) Mr Campbell became a director on 4 September 2013. Remuneration shown above is for the period since appointment as a director.
- (6) Mr Stroud became a director on 8 October 2013. Remuneration shown above is for the period since appointment as a director.
- (7) Mr Williams ceased as a director on 1 November 2013
- (8) Mr Bailey ceased as a director on 28 August 2013
- (9) Mr Finlay ceased as a director on 12 July 2013
- (10) Ms Grose became a member of the key management personnel with effect from 12 July 2013
- (11) Mr Sharp commenced employment with the Group on 6 January 2014
- (12) Mr Tomsett ceased employment with the Group on 25 September 2013

Bonuses and share-based payments granted as compensation for the current financial year

Bonuses

During the years ended 30 June 2015 and 30 June 2014, no bonuses were granted as remuneration.

Employee share option plan

Directors' Report

Cleveland Mining Company Limited

An employee share option plan has been established where directors and employees of the Company may be issued with options over the ordinary shares of Cleveland Mining Company Limited. Shareholders approved the plan at a meeting of shareholders held on 14 November 2012. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of Cleveland Mining Company Limited.

Each employee share option converts into one ordinary share in Cleveland Mining Company Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the financial year, the following share-based payment arrangements were in existence:

| Option series | Grant date | Expiry date | Grant date fair value | Vesting date |
|----------------------|-------------------|--------------------|------------------------------|--|
| 1a | 23 Sep 2010 | 31 Dec 2015 | \$0.000 | Vest subject to performance conditions |
| 1b | 23 Sep 2010 | 31 Dec 2015 | \$0.000 | 22 November 2012 * |
| 1c | 23 Sep 2010 | 31 Dec 2015 | \$0.000 | 22 November 2012 * |
| 2a | 17 Aug 2011 | 31 Dec 2015 | \$0.121 | 22 November 2012 * |
| 2b | 17 Aug 2011 | 31 Dec 2015 | \$0.138 | 22 November 2012 * |
| 2c | 17 Aug 2011 | 31 Dec 2015 | \$0.138 | Vest subject to performance conditions |
| 3a | 2 May 2013 | 30 Jun 2017 | \$0.008 | 8 May 2013 * |
| 3b | 2 May 2013 | 30 Jun 2017 | \$0.042 | Vest subject to performance conditions |
| 3c | 2 May 2013 | 30 Jun 2017 | \$0.057 | Vest subject to performance conditions |
| 4a | 3 Jul 2013 | 31 Mar 2017 | \$0.031 | Vest subject to performance conditions |
| 4b | 3 Jul 2013 | 31 Mar 2017 | \$0.031 | Vest subject to performance conditions |
| 4c | 3 Jul 2013 | 31 Mar 2017 | \$0.043 | Vest subject to performance conditions |
| 5a | 2 Dec 2013 | 31 Dec 2018 | \$0.022 | Vest subject to performance conditions |
| 5b | 2 Dec 2013 | 31 Dec 2018 | \$0.022 | Vest subject to performance conditions |
| 5c | 2 Dec 2013 | 31 Dec 2018 | \$0.012 | Vest subject to performance conditions |
| 6a | 2 Dec 2013 | 31 Dec 2018 | \$0.022 | Vest subject to performance conditions |
| 6b | 2 Dec 2013 | 31 Dec 2018 | \$0.012 | Vest subject to performance conditions |
| 6c | 2 Dec 2013 | 31 Dec 2018 | \$0.018 | Vest subject to performance conditions |

* Vested due to satisfaction of related performance conditions

Recipients of the above option series are entitled to the beneficial interest under the option when various performance conditions are satisfied and only if they continue to be employed with the Company at the time. The performance conditions attached to these option series are as follows:

- 1a Identification of the 1 millionth ounce of Inferred Resource
- 1b Completion of the first Definitive Feasibility Study
- 1c Completion of wet commissioning of the first full scale process plant
- 2a Completion of the first Definitive Feasibility Study
- 2b Completion of wet commissioning of the first full scale process plant
- 2c Completion of a transaction involving the Group's Hong Kong holding company or other agreed structure, including the necessary funding at the level required to initiate the first 18 months of operations
- 3a Introduction and successful operation for a period of six months, to the satisfaction of the Board, of a safety and risk management system across all business sites
- 3b Completion of a positive feasibility study on a project apart from Premier / O Capitão (as per 2012 plans) (could include a significant scale increase on Premier / O Capitão or any other project defined or acquired by Cleveland)
- 3c Operations for the project (project apart from Premier / O Capitão) reaching nameplate production for six months
- 4a Initial Premier operation (including CIL and O Capitão) reaching nameplate production rate for one month
- 4b Completion of a positive feasibility study on a project apart from Premier / O Capitão (as per 2012 plans) (could include a significant scale increase on Premier / O Capitão or any other project defined or acquired by Cleveland)
- 4c Operations for the project (project apart from Premier / O Capitão) reaching nameplate production for six months
- 5a Meeting of the 12 month mine plan gold production (+/-10%)
- 5b Publication of institutional research on the Company by at least two financial organisations
- 5c Completion of 12 months' continuous service with Cleveland Mining Limited from the date of option issue

Directors' Report

- 6a Meeting of the 12 month mine plan gold production (+/-10%)
- 6b Completion of 12 months' continuous service with Cleveland Mining Limited from the date of option issue
- 6c Completion of 24 months' continuous service with Cleveland Mining Limited from the date of option issue

There were no new share-based payment grants to key management personnel during the current financial year.

During the year no key management personnel exercised options that were granted to them as part of their compensation.

No key management personnel options were granted, exercised or lapsed during the year.

Cleveland Mining HK Limited

An employee share option plan has been established where directors and employees of the Group may be issued with options over the ordinary shares of Cleveland Mining HK Limited. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of Cleveland Mining Company Limited.

Each employee share option converts into one ordinary share in Cleveland Mining HK Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the financial year, the following share-based payment arrangements were in existence:

| Option series | Grant date | Expiry date | Grant date fair value | Vesting date |
|----------------------|-------------------|--------------------|------------------------------|--|
| 1a | 16 Apr 2012 | 15 Apr 2019 | \$0.0002 | Vest subject to performance conditions |
| 1b | 16 Apr 2012 | 15 Apr 2019 | \$0.0008 | Vest subject to performance conditions |
| 1c | 16 Apr 2012 | 15 Apr 2019 | \$0.0023 | Vest subject to performance conditions |
| 2a | 16 Apr 2012 | 15 Apr 2019 | \$0.0004 | Vest subject to performance conditions |
| 2b | 16 Apr 2012 | 15 Apr 2019 | \$0.0018 | Vest subject to performance conditions |
| 2c | 16 Apr 2012 | 15 Apr 2019 | \$0.0033 | Vest subject to performance conditions |

Recipients of the above option series are entitled to the beneficial interest under the option when various performance conditions are satisfied and only if they continue to be employed with the Company at the time. The performance conditions attached to these option series are as follows:

- 1a Funding of feasibility
- 1b Funding of plant
- 1c Sale of first three years' production
- 2a Completion of first iron ore feasibility study
- 2b First shipment or milling of iron ore
- 2c Twelve month name plate iron ore production

During the year no share options were granted, vested or were exercised by the directors or members of senior management of Cleveland Mining HK Limited.

Equity instrument disclosures relating to key management personnel

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Cleveland Mining Company Limited and other key management personnel of the Company, including their personally related parties, is set out below.

Directors' Report

| Name | Balance at start of year | Granted during year | Exercised during year | Other changes during year | Balance at end of year | Options vested and exercisable at end of year |
|------------------|-----------------------------|------------------------|--------------------------|---------------------------------|---------------------------|---|
| | Number | Number | Number | Number | Number | Number |
| 2015 | | | | | | |
| Directors | | | | | | |
| Mr R Scrimshaw | 3,250,000 | - | - | - | 3,250,000 | 2,250,000 |
| Mr D Mendelawitz | 2,340,000 | - | - | (100,000) | 2,240,000 | 106,667 |
| Mr R Campbell | 3,000,000 | - | - | (3,000,000) | - | - |
| Mr R Stroud | 3,000,000 | - | - | - | 3,000,000 | 1,000,000 |
| | <u>11,590,000</u> | <u>-</u> | <u>-</u> | <u>(3,100,000)</u> | <u>8,490,000</u> | <u>3,356,667</u> |

Key Management Personnel

| | | | | | | |
|----------------|-------------------|----------|----------|--------------------|-------------------|------------------|
| Mr A Santos | 3,000,000 | - | - | - | 3,000,000 | - |
| Mr J Sharp | - | - | - | - | - | - |
| Ms K Grose (2) | - | - | - | - | - | - |
| Mr A Longo | - | - | - | - | - | - |
| | <u>3,000,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,000,000</u> | <u>-</u> |
| Total | <u>14,590,000</u> | <u>-</u> | <u>-</u> | <u>(3,100,000)</u> | <u>11,490,000</u> | <u>3,356,667</u> |

| Name | Balance at start of year | Granted during year | Exercised during year | Other changes during year | Balance at end of year | Options vested and exercisable at end of year |
|---------------------------------|-----------------------------|------------------------|--------------------------|---------------------------------|---------------------------|---|
| | Number | Number | Number | Number | Number | Number |
| 2014 | | | | | | |
| Directors | | | | | | |
| Mr R Scrimshaw | 3,250,000 | - | - | - | 3,250,000 | 2,250,000 |
| Mr D Mendelawitz | 2,340,000 | - | - | - | 2,340,000 | 106,667 |
| Mr R Campbell (1) | - | 3,000,000 | - | - | 3,000,000 | - |
| Mr R Stroud (1) | - | 3,000,000 | - | - | 3,000,000 | - |
| Mr J Williams (2) | 1,000,000 | - | - | - | 1,000,000 | - |
| Mr D Bailey (2) | 3,800,000 | - | - | - | 3,800,000 | - |
| Mr A Finlay (2) | 5,500,000 | - | - | - | 5,500,000 | - |
| | <u>15,890,000</u> | <u>6,000,000</u> | <u>-</u> | <u>-</u> | <u>21,890,000</u> | <u>2,356,667</u> |
| Key Management Personnel | | | | | | |
| Mr A Santos | 3,000,000 | - | - | - | 3,000,000 | 2,000,000 |
| Mr J Sharp (1) | - | - | - | - | - | - |
| Ms K Grose | - | - | - | - | - | - |
| Mr A Tomsett (2) | 3,050,000 | - | - | - | 3,050,000 | - |
| | <u>6,050,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,050,000</u> | <u>2,000,000</u> |
| Total | <u>21,940,000</u> | <u>6,000,000</u> | <u>-</u> | <u>-</u> | <u>27,940,000</u> | <u>4,356,667</u> |

(1) Held at date of appointment

(2) Held at date of resignation

Directors' Report

The number of options over ordinary shares in Cleveland Mining HK Limited held during the financial year by each director of Cleveland Mining Company Limited and other key management personnel of the Company, including their personally related parties, is set out below.

| Name | Balance at start of year | Granted during year | Other changes during year | Balance at end of year | Options vested and exercisable at end of year |
|---------------------------------|--------------------------|---------------------|---------------------------|------------------------|---|
| | Number | Number | Number | Number | Number |
| 2015 | | | | | |
| Directors | | | | | |
| Mr R Scrimshaw | 2,000,000 | - | - | 2,000,000 | - |
| Mr D Mendelawitz | 1,750,000 | - | - | 1,750,000 | - |
| Mr R Campbell (2) | - | - | - | - | - |
| Mr R Stroud | - | - | - | - | - |
| | 7,250,000 | - | - | 7,250,000 | - |
| Key management personnel | | | | | |
| Mr A Santos | 500,000 | - | - | 500,000 | - |
| Mr J Sharp | - | - | - | - | - |
| Ms K Grose (2) | - | - | - | - | - |
| Mr A Longo | - | - | - | - | - |
| | 500,000 | - | - | 500,000 | - |
| Total | 7,750,000 | - | - | 7,750,000 | - |

| Name | Balance at start of year | Granted during year | Other changes during year | Balance at end of year | Options vested and exercisable at end of year |
|---------------------------------|--------------------------|---------------------|---------------------------|------------------------|---|
| | Number | Number | Number | Number | Number |
| 2014 | | | | | |
| Directors | | | | | |
| Mr R Scrimshaw | 2,000,000 | - | - | 2,000,000 | - |
| Mr D Mendelawitz | 1,750,000 | - | - | 1,750,000 | - |
| Mr R Campbell (1) | - | - | - | - | - |
| Mr R Stroud (1) | - | - | - | - | - |
| Mr J Williams (2) | 1,000,000 | - | - | 1,000,000 | - |
| Mr D Bailey (2) | 1,000,000 | - | - | 1,000,000 | - |
| Mr A Finlay (2) | 1,500,000 | - | - | 1,500,000 | - |
| | 7,250,000 | - | - | 7,250,000 | - |
| Key management personnel | | | | | |
| Mr A Santos | 500,000 | - | - | 500,000 | - |
| Mr J Sharp (1) | - | - | - | - | - |
| Ms K Grose | - | - | - | - | - |
| Mr A Tomsett (2) | - | - | - | - | - |
| | 500,000 | - | - | 500,000 | - |
| Total | 7,750,000 | - | - | 7,750,000 | - |

(1) Held at date of appointment

(2) Held at date of resignation

Directors' Report

Share holdings

The number of shares in the Company held during the financial year by each director of Cleveland Mining Company Limited and other key management personnel of the Company, including their personally related parties, is set out below. There were no shares issued during the year as remuneration.

| Name | Balance at start of year | Received during year on exercise of options | Other changes during year | Balance at end of year |
|---------------------------------|--------------------------|---|---------------------------|------------------------|
| | Number | Number | Number | Number |
| 2015 | | | | |
| Directors | | | | |
| Mr R Scrimshaw | 1,193,681 | - | 1,735,277 | 2,928,958 |
| Mr D Mendelawitz | 41,908,015 | - | - | 41,908,015 |
| Mr R Campbell (2) | 416,667 | - | - | 416,667 |
| Mr R Stroud | 205,000 | - | 250,000 | 455,000 |
| W Zekulich (1) | - | - | 500,000 | 500,000 |
| | 43,723,363 | - | 2,485,277 | 46,208,640 |
| Key Management Personnel | | | | |
| Mr A Santos | 750,000 | - | 277,778 | 1,027,778 |
| Mr J Sharp | - | - | 804,000 | 804,000 |
| Ms K Grose (2) | - | - | - | - |
| Mr A Longo | - | - | 250,000 | 250,000 |
| | 750,000 | - | 1,331,778 | 2,081,778 |
| Total | 44,473,363 | - | 3,817,055 | 48,290,418 |

| Name | Balance at start of year | Received during year on exercise of options | Other changes during year | Balance at end of year |
|---------------------------------|--------------------------|---|---------------------------|------------------------|
| | Number | Number | Number | Number |
| 2014 | | | | |
| Directors | | | | |
| Mr R Scrimshaw | 360,348 | - | 833,333 | 1,193,681 |
| Mr D Mendelawitz | 41,908,015 | - | - | 41,908,015 |
| Mr R Campbell (1) | 416,667 | - | - | 416,667 |
| Mr R Stroud (1) | 205,000 | - | - | 205,000 |
| Mr J Williams (2) | 5,123,131 | - | - | 5,123,131 |
| Mr D Bailey (2) | 1,510,017 | - | - | 1,510,017 |
| Mr A Finlay (2) | 1,572,086 | - | - | 1,572,086 |
| | 51,095,264 | - | 833,333 | 51,928,597 |
| Key Management Personnel | | | | |
| Mr A Santos | 750,000 | - | - | 750,000 |
| Mr J Sharp (1) | - | - | - | - |
| Ms K Grose | - | - | - | - |
| Mr A Tomsett (2) | 10,000 | - | - | 10,000 |
| | 760,000 | - | - | 760,000 |
| Total | 51,855,264 | - | 833,333 | 52,688,597 |

(1) Held at date of appointment

(2) Held at date of resignation

Directors' Report

Other transactions with key management personnel

During the year ended 30 June 2015 the Company maintained loan facilities related to two directors, as follows:

| <i>Director</i> | <i>Loan funds advanced by related party</i> | <i>Interest charged</i> | <i>Facility fee</i> | <i>Balance owing at 30 June 2015</i> |
|-------------------|---|-------------------------|---------------------|--------------------------------------|
| Russell Scrimshaw | \$400,000 | 12.5% per annum | 2% | \$472,381 |
| Rod Campbell | \$100,000 | 12.5% per annum | 2% | \$102,197 |

During the year the following consulting fees were paid to directors in addition to their directors' fees for consulting services provided. Amounts paid during the period of each director's directorship (column (2) below) have been included in the amounts paid to directors in the Remuneration Report:

| <i>Director</i> | <i>Paid prior to appointment as director</i> | <i>Paid after appointment as director</i> | <i>Total consulting fees paid for year</i> |
|-----------------|--|---|--|
| Rick Stroud | - | \$96,300 | \$96,300 |

There were no other transactions with key management personnel during the years ended 30 June 2015 or 30 June 2014.

Employment contracts of directors and senior executives

The Company has entered into standard employment agreements (fixed remuneration and equity-based incentives, whereby all future grants are at the discretion of the Board) with all executive directors and senior management. These agreements provide for an indefinite period of appointment, and may be terminated by either party at one month's notice, except in the case of Andrei Santos, whose contract has a 3 month termination period. No termination payments are payable on termination of employment.

None of the non-executive directors have employment contracts with the Company.

This directors' report is signed in accordance with a resolution of directors made pursuant to s298(2) of the Corporations Act 2001.



DAVID MENDELAWITZ
Managing Director

Dated at Perth this 12th day of December 2015

Corporate Governance Statement

The Company is committed to implementing high standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* and has adopted practices that are largely consistent with those ASX guidelines.

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2015.

Principle 1: Lay solid foundations for management and oversight

1.1 Companies should establish and disclose the respective roles and responsibilities of board and management.

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations and strives to meet those expectations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The role of the Board is to oversee and guide the management of the Company with the aim of protecting and enhancing the interests of its shareholders and taking into account the interests of other stakeholders including employees and the wider community.

The Board has adopted a formal Board Charter, which clearly establishes the relationship between the Board and management and describes their functions and responsibilities. This document is available on the Company's website at www.clevelandmining.com.au.

The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals.

1.2 Companies should disclose the process for evaluating the performance of senior executives.

The Company is in the process of developing a more formal process for the review of the performance of senior executives; however an informal assessment process currently exists, facilitated by the Managing Director. The performance of Directors is discussed at 2.5 below.

Principle 2: Structure the board to add value

As at 30 June 2015 the Board comprised four directors, two of whom were executive directors and two of whom were independent non-executive directors. As at the date of signing, following the resignation of Mr Rod Campbell, the Board currently comprises one executive director and two independent non-executive directors.

The directors are appointed in accordance with the Constitution of Cleveland Mining Company Limited which provides for a term of three years, at the conclusion of which re-appointment may be sought. Earlier re-appointment may be required as at least one director must stand for re-election at each Annual General Meeting.

The Board regularly reviews the skills and experience which it requires to fulfil its obligations, and appoints as directors persons who possess and can apply those skills and experience. The skills and experience of Directors is detailed in the Directors' Report.

2.1 A majority of the board should be independent directors.

The Company has reviewed the position of all current directors in light of the ASX Corporate Governance Council's guidelines on independence, and believes that Mr Russell Scrimshaw and Mr Rick Stroud are independent directors. Throughout most of the financial year, the Board comprised of half independent Directors and therefore not a majority. Subsequent to year end, following the resignation of Mr Rod Campbell, the Board currently consists of a majority of independent directors. The Directors will continue to consider the most appropriate structure for the Board going forward.

Corporate Governance Statement

Each Director is required to disclose any interest which might create a potential conflict of interest with their duties as a director of Cleveland Mining Company Limited or would affect their independence.

2.2 The chair should be an independent director.

The Company appointed Mr Russell Scrimshaw as an independent Chairman on 28 August 2013 and prior to this Mr Don Bailey held the role of independent Chairman of the Company. Accordingly, the Chair of the Company was an independent director for the entire financial year ended 30 June 2015.

2.3 The roles of chair and chief executive officer should not be exercised by the same individual.

The role of chair during the financial year ended 30 June 2015 was held by Mr Russell Scrimshaw and the role of Managing Director held by Mr David Mendelawitz.

2.4 The board should establish a nomination committee.

Given the small size of the Board and its comprising of only two independent non-executive directors, the Board has decided that all matters that would be handled by a nomination committee should be handled by the full Board. Such matters include ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance by:

- Assessing the skills required on the Board.
- From time to time assessing the extent to which the required skills are represented on the Board.
- Establishing processes for the review of the performance of individual directors and the Board as a whole.
- Establishing processes for the identification of suitable candidates for appointment to the Board.

2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.

The Company is in the process of developing a more formal process for the review of the performance of the Board and the individual directors.

Principle 3: Promote ethical and responsible decision-making

3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:

- the practices necessary to maintain confidence in the company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Company has adopted a Code of Conduct, which is available on the Company's website at www.clevelandmining.com.au. The Code covers a broad range of issues and refers to those practices necessary to maintain confidence in the Company's integrity, including procedures in relation to:

- compliance with the law;
- financial records;
- contributions to political parties, candidates or campaigns;
- occupational health and safety;
- confidential information;
- conflict of interest;
- efficiency;
- equal opportunity;
- corporate bribery; and
- membership to industry and professional associations.

Corporate Governance Statement

The Code directs individuals to report any contraventions of the Code to their superior or the Managing Director.

3.2 *Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.*

The Company has established a Diversity Policy, which is available on the Company's website at www.clevelandmining.com.au. The Diversity Policy sets out the Company's commitment to:

- An inclusive workplace that embraces individual differences and recognises the contribution of those who are different in background, experience and perspective
- A workplace free of discriminatory behaviours and business practices
- Equal employment opportunities based on capability and performance
- Awareness of the different work-life needs of employees and maintaining practices to support these
- Sensitivity to the needs, behaviours, preferences and style of others

3.3 *Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.*

At this stage the Company has not established measurable objectives for achieving gender diversity. The Company has a comparably small workforce within Australia and a mostly in country workforce for its operations. As the Company progresses towards full and stable production targets efforts will be made to introduce measurable objectives that will be communicated to all employees.

3.4 *Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.*

The following information relates to employees of the Group as at 30 June 2015:

| | Female Number | Male Number | Total Number | Female % | Male % |
|--------------------|--------------------------|------------------------|-------------------------|---------------------|-------------------|
| Board | - | 4 | 4 | - | 100 |
| Senior management | - | 6 | 6 | - | 100 |
| Whole organisation | | | | | |
| - Brazil | 11 | 107 | 118 | 9 | 91 |
| - Australia | 2 | 7 | 9 | 22 | 88 |
| - Total | 13 | 111 | 127 | 10 | 90 |

Principle 4: Safeguard integrity in financial reporting

4.1 *The board should establish an audit committee.*

The Board has established an Audit and Risk Committee and adopted an Audit and Risk Committee Charter. The primary purpose of the Audit and Risk Committee, as set out in its Charter, is to facilitate:

- the effective operation of systems and controls which minimise financial and operational risk;
- reliable financial and management reporting policies and procedures;
- compliance with laws and regulations;
- maintenance of an effective and efficient internal and external audit process; and
- oversight of the accounting and financial reporting processes of the company and the audits of the company's financial statements.

Corporate Governance Statement

A copy of the Audit and Risk Committee Charter is available on the Company's website at www.clevelandmining.com.au.

4.2 *The board committee should be structured so that it:*

- *consists only of non-executive directors*
- *consists of a majority of independent directors*
- *is chaired by an independent chair, who is not chair of the board*
- *has at least three members*

Members of the committee during the year ended 30 June 2015 comprised the following independent directors:

- Mr Russell Scrimshaw (Chair)
- Mr Rick Stroud
- Mr Wayne Zekulich (appointed 9 February 2015)

Accordingly, the composition of the Audit and Risk Committee did not meet the requirements of Recommendation 4.2 for the whole of the year ended 30 June 2015 as the chair of the committee is also the chair of the Board. The Directors will continue to consider the most appropriate structure for the Board going forward.

4.3 *The audit committee should have a formal charter.*

A copy of the Audit and Risk Committee Charter is available on the Company's website at www.clevelandmining.com.au.

Principle 5: Make timely and balanced disclosure

5.1 *Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.*

The Company has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the *Corporations Act 2001* (Commonwealth) and the ASX Listing Rules. The Board has adopted a formal Continuous Disclosure Policy, a copy of which is available on the Company's website at www.clevelandmining.com.au.

Principle 6: Respect the rights of shareholders

6.1 *Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.*

The Board's formal policy on communicating with shareholders is its Communications Strategy Policy. The aim of the Communications Strategy Policy is to promote effective communications with shareholders and stakeholders. A copy of the Communications Strategy Policy is available on the Company's website at www.clevelandmining.com.au. The Company's website forms an important part of its communications strategy.

Principle 7: Recognise and manage risk

7.1 *Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

The Company has established a Risk Management Policy, which is available on the Company's website at www.clevelandmining.com.au. The Policy defines material business risk and sets out a process for managing risk.

- 7.2 *The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.*

The Board accepts that taking and managing risk is central to building shareholder value and the Board is responsible for the Company's risk management strategy. Management is responsible for implementing the Board's strategy and for developing policies and procedures to assist the Board to identify, manage and mitigate the risks across the Company's operations.

The Company employs executives and where necessary retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company.

- 7.3 *The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

The Company has received declarations from the Managing Director and the Chief Financial Officer in accordance with section 295A of the Corporations Act.

Principle 8: Remunerate fairly and responsibly

- 8.1 *The board should establish a remuneration committee.*

Given the small size of the Board and its comprising of only two independent non-executive directors, the Board has decided that all matters that would be handled by a remuneration committee should be handled by the full Board. Such matters include ensuring that appropriate and effective remuneration packages and policies are implemented within Cleveland Mining Company Limited and its subsidiaries (the Group) for the Managing Director, Executive Directors and direct reports to the Managing Director, and the review of non-executive directors' fees.

- 8.2 *The remuneration committee should be structured so that it:*
- *consists of a majority of independent directors*
 - *is chaired by an independent chair*
 - *has at least three members*

As noted above, the Board has decided that all matters that would be handled by a remuneration committee should be handled by the full Board.

- 8.3 *Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

A brief discussion on the Company's remuneration policies in respect of directors and executives is set out on pages 12 and 13 of this annual report.

The Board of Directors
Cleveland Mining Company Limited
Suite 1, 41 Walters Drive
Osborne Park WA 6017

12 December 2015

Dear Directors

Auditor's Independence Declaration to Cleveland Mining Company Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Cleveland Mining Company Limited.

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

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 30 June 2015

| | Note | 2015 \$ | 2014 \$ |
|---|------|--------------|--------------|
| Interest income | | 21,399 | 26,697 |
| Other revenue | | 97,058 | 194,401 |
| Debt forgiven | | 588,070 | - |
| Gain / (Loss) on sale of asset | | 14,297 | - |
| Administrative expenses | | (1,336,733) | (91,778) |
| Compliance and regulatory expenses | | (70,296) | (81,158) |
| Consultancy and legal expenses | | (731,598) | (581,182) |
| Depreciation and amortisation expense | | (35,632) | (46,783) |
| Director and employee-related expenses | | (2,419,185) | (1,853,026) |
| Occupancy expenses | | (534,854) | (535,596) |
| Promotion and communication expenses | | (102,193) | (140,265) |
| Travel expenses | | (126,362) | (172,325) |
| Finance costs | 19 | (3,494,342) | (1,490,344) |
| Write down of exploration expenditure | 17 | (12,327) | (174,082) |
| Impairment of non-current assets | 17 | - | (6,632,312) |
| Write down of assets held for sale | | (89,709) | (438,018) |
| Share of joint venture loss | 15 | - | (15,065) |
| Foreign exchange loss | | (3,702,443) | - |
| Other expenses | | (60,534) | (114,319) |
| Loss from ordinary activities before income tax expense | | (11,995,384) | (12,145,155) |
| Income tax expense | 7 | - | - |
| Loss for the year | | (11,995,384) | (12,145,155) |
| <i>Other comprehensive income / (loss), net of income tax</i> | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translating foreign operations | | (2,781,479) | (435,526) |
| Other comprehensive income / (loss) for the year, net of tax | | (2,781,479) | (435,526) |
| Total comprehensive income / (loss) for the year attributable to members of the Company | | (14,776,863) | (12,580,681) |
| Loss attributable to: | | | |
| Owners of the parent | | (8,002,382) | (11,638,504) |
| Non-controlling interests | | (3,993,002) | (506,651) |
| | | (11,995,384) | (12,145,155) |
| Total comprehensive income / (loss) attributable to: | | | |
| Owners of the parent | | (10,783,861) | (12,074,030) |
| Non-controlling interests | | (3,993,002) | (506,651) |
| | | (14,776,863) | (12,580,681) |
| Basic loss per share (cents) | 8 | (3.34) | (4.93) |
| Diluted loss per share (cents) | | (3.34) | (4.93) |

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position
as at 30 June 2015

| | Note | 2015 \$ | 2014 \$ |
|---|-------------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 25(a) | 457,565 | 1,479,227 |
| Trade and other receivables | 11 | 222,518 | 126,706 |
| Inventory | 12 | 469,619 | 249,849 |
| Other assets | 13 | 25,709 | 261,865 |
| | | <u>1,175,411</u> | <u>2,117,647</u> |
| Assets classified as held for sale | 14 | - | 288,309 |
| Total current assets | | <u>1,175,411</u> | <u>2,405,956</u> |
| Non-current assets | | | |
| Receivables | 11 | 6,112,536 | 6,398,610 |
| Investments in joint ventures | 15 | - | 459,019 |
| Plant and equipment | 16 | 6,029,223 | 6,092,918 |
| Exploration and development | 17 | 12,788,261 | 11,495,954 |
| Total non-current assets | | <u>24,930,020</u> | <u>24,446,501</u> |
| Total assets | | <u>26,105,431</u> | <u>26,852,457</u> |
| Current liabilities | | | |
| Trade and other payables | 18 | 5,440,630 | 981,730 |
| Borrowings | 19 | 18,957,501 | 2,160,608 |
| Provisions | 20 | 79,199 | 87,802 |
| Total current liabilities | | <u>24,477,330</u> | <u>3,230,140</u> |
| Non-current liabilities | | | |
| Borrowings | 19 | - | 7,329,898 |
| Provisions | 20 | 148,883 | 149,478 |
| Total non-current liabilities | | <u>148,883</u> | <u>7,479,376</u> |
| Total liabilities | | <u>24,626,213</u> | <u>10,709,516</u> |
| Net assets | | <u>1,479,218</u> | <u>16,142,941</u> |
| Equity | | | |
| Issued capital | 21 | 44,268,792 | 44,166,473 |
| Reserves | 22 | (4,754,258) | (1,872,293) |
| Accumulated losses | 23 | (39,753,797) | (31,751,416) |
| Equity attributable to owners of the parent | | <u>(239,263)</u> | <u>10,542,764</u> |
| Non-controlling interests | 24 | 1,718,481 | 5,600,177 |
| Total equity | | <u>1,479,218</u> | <u>16,142,941</u> |

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2015

| | Note | 2015 \$ | 2014 \$ |
|--|-------|--------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 4,082,641 | 811,016 |
| Payments to suppliers and employees | | (7,543,293) | (7,016,538) |
| Interest received | | 21,396 | 26,697 |
| Interest paid | | (386,404) | (642,280) |
| Net cash used in operating activities | 25(b) | <u>(3,825,660)</u> | <u>(6,821,105)</u> |
| Cash flows from investing activities | | | |
| Payments for plant and equipment | | (1,342,927) | (1,612,381) |
| Proceeds on disposal of plant and equipment | | 27,092 | 42,758 |
| Payments for exploration expenditure | | (95,503) | (1,002,680) |
| Payments for development expenditure | | (118,376) | (718,462) |
| Advances to joint ventures | | - | (474,657) |
| Other loans | | 263,002 | - |
| Net cash used in investing activities | | <u>(1,266,712)</u> | <u>(3,765,422)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 4,281,927 |
| Share issue costs | | - | (281,417) |
| Proceeds from borrowings | | 4,861,272 | 8,766,171 |
| Repayment of borrowings | | (541,735) | (1,537,059) |
| Net cash provided by financing activities | | <u>4,319,537</u> | <u>11,229,622</u> |
| Net increase/(decrease) in cash and cash equivalents held | | (772,835) | 643,095 |
| Cash and cash equivalents at the beginning of the year | | 1,479,227 | 873,294 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | | (248,827) | (37,162) |
| Cash and cash equivalents at the end of the year | 25(a) | <u>457,565</u> | <u>1,479,227</u> |

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 30 June 2015

| | Issued capital | Foreign currency translation reserve | Option and convertible note reserve | Accumulated losses | Non - controlling interest | Total |
|---|----------------|--------------------------------------|-------------------------------------|--------------------|----------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2013 | 40,367,781 | (2,442,303) | 834,699 | (20,112,911) | 5,885,729 | 24,532,995 |
| Loss for the year | - | - | - | (11,638,504) | (506,651) | (12,145,155) |
| Other comprehensive income for the year | - | (435,526) | - | - | - | (435,526) |
| Total comprehensive loss for the year | - | (435,526) | - | (11,638,504) | (506,651) | (12,580,681) |
| Shares issued | 4,069,487 | - | - | - | - | 4,069,487 |
| Share issue costs | (270,795) | - | - | - | - | (270,795) |
| Share option expense | - | - | 170,837 | - | - | 170,837 |
| Increase in non-controlling interest | - | - | - | - | 221,098 | 221,098 |
| Balance at 30 June 2014 | 44,166,473 | (2,877,829) | 1,005,536 | (31,751,416) | 5,600,177 | 16,142,941 |
| Balance at 1 July 2014 | 44,166,473 | (2,877,829) | 1,005,536 | (31,751,416) | 5,600,177 | 16,142,941 |
| Loss for the year | - | - | - | (8,002,382) | (3,993,002) | (11,995,384) |
| Other comprehensive income for the year | - | (2,781,479) | - | - | - | (2,781,479) |
| Total comprehensive loss for the year | - | (2,781,479) | - | (8,002,382) | (3,993,002) | (14,776,863) |
| Shares issued | 102,319 | - | - | - | - | 102,319 |
| Share issue costs | - | - | - | - | - | - |
| Share option expense/(write back) | - | - | (100,486) | - | - | (100,486) |
| Increase in non-controlling interest | - | - | - | - | 111,306 | 111,306 |
| Balance at 30 June 2015 | 44,268,792 | (5,659,308) | 905,050 | (39,753,798) | 1,718,481 | 1,479,218 |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

for the year ended 30 June 2015

1. General information

Cleveland Mining Company Limited is a limited company incorporated in Australia and operating in Brazil. Cleveland Mining Company Limited's registered office and its principal place of business are as follows:

Registered office and principal place of business

Suite 1, 41 Walters Drive
Osborne Park WA 6017

The Group's principal activities are the mining and exploration of gold and exploration of iron-ore.

2. Adoption of new and revised Accounting Standards

(a) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

| <i>Standards and Interpretations</i> | <i>Effective for annual reporting periods beginning on or after</i> | <i>Expected to be initially applied in financial year ending</i> |
|---|---|--|
| AASB 9 'Financial Instruments', and the relevant amending standards | 1 Jan 2018 | 30 Jun 2019 |
| AASB 2014-3 "Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations" | 1 Jan 2016 | 30 Jun 2016 |
| AASB 15 'Revenue from Contracts with Customers' and AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15 | 1 Jan 2017 | 30 Jun 2018 |
| AASB 2014-4 "Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation | 1 Jan 2016 | 30 Jun 2016 |

3. Significant accounting policies

a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group. For the purpose of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 12 December 2015.

3. Significant accounting policies (continued)

b) Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

c) Going concern

The consolidated financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the year ended 30 June 2015, the Group has incurred a net loss after tax of \$11,995,384 (30 June 2014: loss \$12,145,155) and experienced net cash outflows from operating and investing activities of \$3,825,660 and \$1,266,712 respectively (30 June 2014: outflows of \$6,821,105 and \$3,765,422 respectively). At 30 June 2015 the Group has net current liabilities of \$23,301,919 (2014: \$824,184).

The net current liability position as at 30 June 2015 is primarily a result of borrowings (including principal amounts and accrued interest) of \$18,957,501 (2014: 2,160,608) which are due for repayment within 12 months from the reporting date, combined with trade and other payables of \$5,440,630 (2014: \$981,730). As at 30 June 2015, all of the Group's borrowings, except for the royalty-backed notes, were in default.

Cleveland continues to optimise mining and processing of gold ore at the Company's Premier gold mine. Challenges experienced in achieving a reliable water supply to the processing facility and feed grade dilution have resulted in lower than anticipated gold production and cash flow generation at Premier.

At the date of this report management, with a targeted capital expenditure program, is working to overcome these issues.

Management and the Board are confident in the ability of Premier to achieve planned production levels, earnings and cash flows sufficient to meet budget, once the above capital expenditure program has been implemented and issues rectified.

However, in both Australia and Brazil the Group has a significant number of creditors outside normal payment terms. Consequently, the Group requires the continued support of its creditors as the production issues noted above are rectified, and commercial production is achieved, thereby allowing the Group to generate sufficient cash flows to settle existing liabilities.

c) Going concern (continued)

Subsequent to year end, the Group has undertaken a number of steps to refinance and improve its liquidity position, to allow completion of the targeted capital expenditure program at Premier.

As further disclosed in note 32, this includes consolidating debts held with Platinum Partners into a single secured convertible note. This note has a principal value of US\$10,974,861 and a redemption value at 120% of its principal value, resulting in a required repayment of US\$13,169,833 at its maturity date of 19 September 2016.

The new consolidated note accrues interest at 12% per annum, with quarterly interest payments commencing on 1 April 2016. In addition to the quarterly interest payments, the Group is required to make four consecutive monthly payments of US\$250,000, commencing 1 April 2016, as partial repayment of principal on the note.

Subject to shareholder approval, a conversion feature available during the note term allows for Platinum Partners to convert at its discretion any or all of the outstanding note balance into equity at a conversion price of seven cents per share (A\$0.07).

As part of this debt consolidation, Platinum Partners has also agreed to waive all previous defaults on its note facilities in return for a 50% ownership in the Group's iron ore subsidiary, Cleveland Iron Holdings Pty Ltd, 29,371,525 new shares in Cleveland (equivalent to US\$1,174,861 at an issue price of four US cents per share (US\$0.04) and 5,000,000 warrants with an exercise price of five cents per warrant (A\$0.05). The issuance of the 29,371,525 shares in Cleveland is subject to shareholder approval.

Additionally, as disclosed in note 32, the Group has recently announced a two tranche equity placement of \$1.6 million and a Share Purchase Plan (SPP) of up to \$500,000 (with \$400,000 underwritten) to generate additional funds to complete the targeted capital expenditure program noted above, pay certain overdue creditors, and for general working capital requirements.

At the date of this report funds totalling \$1,328,876 are held in Trust subject to the recommencement of trading of the Company's securities on the Australian Securities Exchange, with the balance of the placement available following shareholder approval at the Company's Annual General Meeting which is expected to be held on or around 22 January 2016, with the SPP to commence following the shareholder approval.

Notwithstanding the abovementioned fund raising / liquidity initiatives, the Group remains in a net current liability position and therefore the ability of the Group and Company to continue as going concerns remains principally dependent on the following:

- Achieving forecast monthly gold production and gold sales to meet ongoing cash flow requirements of Premier,
- The Premier project delivering sufficient operating cash flows to fulfil the scheduled principal and interest repayments under the revised Platinum Partners facility and other borrowings that were due and payable as at 30 June 2015, as disclosed in note 19 to the financial statements,
- Existing creditors in Brazil and Australia continuing to support the Group in not demanding payment of outstanding amounts where it may cause undue hardship to the Group,
- Continued support of financiers other than Platinum Partners, as disclosed in note 19, in not demanding repayment of outstanding amounts where it may cause undue hardship to the Group,
- The Company being able to raise further funds, through the issuance of equity and/or debt instruments to meet the repayment of its borrowings, including the US\$13,169,833 associated with the Platinum Partners facility which is due for repayment on 19 September 2016.

c) Going concern (continued)

In the event that the Group's Premier Project does not achieve its planned ramp-up in production and cash flows, the Company would be required to raise no less than A\$2.0 million before April 2016, through the issuance of equity and/or debt instruments to meet its committed repayment obligations, including the interest and principal reduction payments under the Platinum Partners facility.

Further, should the Group elect to exercise its option to acquire the remaining 50% interest in the Premier project as disclosed in note 32, the Group will need to raise up to an additional US\$4.0 million in the form of debt or equity prior to the option expiry date of 21 April 2016.

The Directors have reviewed the Group's overall position and outlook in respect of the matters identified above and are of the opinion that there are reasonable grounds to believe that the operational and financial plans in place are achievable and accordingly that the Group and Company will be able to continue as going concerns and meet their debts as and when they fall due.

Should the Directors not be successful in achieving the matters set out above, there is a material uncertainty whether the Group and Company will be able to continue as going concerns and therefore whether they will be able to realise their assets and extinguish their liabilities in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Group and Company not be able to continue as going concerns.

d) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant accounting policies (continued)

d) Basis of consolidation (continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and

any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

A list of controlled entities is contained in Note 26(a).

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

3. Significant accounting policies (continued)

d) Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial Instruments: Recognition and Measurement' or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

e) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes' and AASB 119 'Employee Benefits' respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share based Payment' at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations' are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

3. Significant accounting policies (continued)

f) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

g) Income tax

The charge for current income tax expense is based on the accounting result for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the reporting date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

3. Significant accounting policies (continued)

g) Income tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

h) Provision for restoration and rehabilitation

A provision for restoration and rehabilitation is recognised when there is a present obligation as a result of development activities undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning sites and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

The initial estimate of the restoration and rehabilitation provision relating to facilities is capitalised into the cost of the related asset and depreciated on the same basis as the related asset, unless the present obligation arises from the production of inventory in the period, in which case the amount is included in the cost of production for the period. Changes in the estimate of the provision for restoration and rehabilitation are treated in the same manner, except that the unwinding of the effect of discounting on the provision is recognised as a finance cost rather than being capitalised into the cost of the related asset.

i) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

3. Significant accounting policies (continued)

j) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

l) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

m) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation rates and methods shall be reviewed at least annually and, where changed, shall be accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. Depreciation recognised in prior financial years shall not be changed, that is, the change in depreciation rate or method shall be accounted for on a 'prospective' basis.

The annual depreciation rates used for each class of assets are as follows:

| | |
|------------------------|--------------------|
| Mine related assets | Unit of production |
| Plant and equipment | 33% |
| Leasehold improvements | 20% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

3. Significant accounting policies (continued)

m) Plant and equipment (continued)

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

n) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through successful development on the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserve.

Accumulated costs in relation to an abandoned area are written off in full against profit 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 carry forward costs in relation to that area of interest.

o) Impairment

At the end of each period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit and loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

3. Significant accounting policies (continued)

p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Where a decision is made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and reclassified to development.

q) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

r) 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 Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

s) Financial instruments

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets at initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date (i.e. the date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

Subsequent to initial recognition, investments in subsidiaries and associates are measured at cost in the company financial statements.

3. Significant accounting policies (continued)

s) Financial instruments (continued)

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost less impairment. This amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale assets are measured at fair value with gains or losses being recognised as a separate component of equity until the asset is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of assets that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

3. Significant accounting policies (continued)

s) Financial instruments (continued)

(v) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(vi) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3. Significant accounting policies (continued)

t) Financial liabilities and equity instruments

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

(iii) Compound financial instruments

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Conversion options that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recognised as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to issued capital. Where the conversion option remains unexercised at the maturity date of the convertible note, the balance recognised in equity will be transferred to retained profits.

No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option. Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible notes using the effective interest method.

u) Comparative figures

Certain comparative figures have been reclassified to conform to changes in presentation for the current financial year.

4. Financial risk management objectives and policies

The Group manages its exposure to key financial risks, including liquidity risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The main risk arising from the Group's financial instruments is liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing liquidity risk.

Risk exposures and responses

Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the group, comprising issued capital, reserves and retained earnings as disclosed in Notes 21, 22 and 23.

The Group is not subject to any externally imposed capital requirements.

Management and the Board review the capital structure regularly. As a part of these reviews management considers the cost of capital and the risks associated with each class of capital. The Board does not have a specific optimum gearing target other than to maintain a competitive weighted average cost of capital.

Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers and suppliers. The group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the directors annually.

Categories of financial instruments

| | 2015 | 2014 |
|------------------------------|-------------|-------------|
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents | 457,565 | 1,479,227 |
| Trade and other receivables | 222,518 | 6,525,316 |
| Financial liabilities | | |
| Trade and other payables | 5,440,630 | 981,730 |
| Borrowings | 18,957,501 | 9,490,506 |

4. Financial risk management objectives and policies (continued)

Financial risk management objectives

The Group's Board co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group. The Group does not enter into or trade financial instruments, including derivative financial instruments for speculative purposes. There are no derivative instruments in operation at year end.

Market Risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and liquidity. The Group monitors its exposure to these risks on a regular basis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to foreign exchange rate fluctuations arise. Spot rates are normally used and management will continually monitor the management of this risk as the scale of the Group's foreign operations grow.

Monetary assets and liabilities are typically maintained in the functional currency of the entity in question, with funds transferred within the Group as required.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Liabilities | | Assets | |
|-----------------------|--------------------|------------------|------------------|------------------|
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Brazilian Reals | 4,996,305 | 697,260 | 6,333,889 | 7,477,243 |
| Hong Kong Dollars | - | - | 2,006 | 1,626 |
| United States Dollars | 16,092,183 | 8,468,776 | 435 | 5,082 |
| | 21,088,488 | 9,166,036 | 6,336,330 | 7,483,951 |

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of equity funding and cash and short-term deposits sufficient to meet the Group's current cash requirements.

The Group manages its liquidity risk by monitoring the total cash inflows and outflows expected on a monthly basis. Refer to Note 3 'Going Concern' for further discussion on the current liquidity position of the Group.

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

4. Financial risk management objectives and policies (continued)

| | Less than 6 months \$ | 6 to 12 months \$ | 1 to 5 years \$ | Total \$ |
|-----------------------------|-----------------------------|----------------------|--------------------|--------------|
| As at 30 June 2015 | | | | |
| Liquid financial assets | | | | |
| Cash and cash equivalents | 457,565 | - | - | 457,565 |
| Trade and other receivables | 222,518 | - | - | 222,518 |
| | 680,083 | | - | 680,083 |
| Financial liabilities | | | | |
| Trade and other payables | 5,440,629 | - | - | 5,440,629 |
| Borrowings | 18,957,501 | - | - | 18,957,501 |
| | 24,398,130 | - | - | 24,398,130 |
| Net outflow | (23,718,047) | - | - | (23,718,047) |
| | | | | |
| | Less than 6 months \$ | 6 to 12 months \$ | 1 to 5 years \$ | Total \$ |
| As at 30 June 2014 | | | | |
| Liquid financial assets | | | | |
| Cash and cash equivalents | 1,479,227 | - | - | 1,479,227 |
| Trade and other receivables | 126,706 | - | 6,398,610 | 6,525,316 |
| | 1,605,933 | - | 6,398,610 | 8,004,543 |
| Financial liabilities | | | | |
| Trade and other payables | 981,730 | - | - | 981,730 |
| Borrowings | 1,021,731 | 1,138,877 | 7,329,898 | 9,490,506 |
| | 2,003,461 | 1,138,877 | 7,758,011 | 10,472,236 |
| Net outflow | (397,528) | (1,138,877) | (1,359,401) | (2,467,693) |

Fair value of financial instruments

The fair value of the Group's financial assets and liabilities are determined on the following basis.

Financial Assets and Financial Liabilities that are measured at fair value on a recurring basis

Subsequent to initial recognition, at fair value financial instruments are grouped into Levels 1 to 3 based on the degree to which the fair value is observable. Levels are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Financial risk management objectives and policies (continued)

At 30 June 2015 and 30 June 2014 the Group has no material financial assets and liabilities that are measured on a recurring basis.

Financial Assets and Financial Liabilities that are not measured at fair value on a recurring basis (but where fair value disclosures are required)

At 30 June 2015 and 30 June 2014, the carrying amount of financial assets and financial liabilities for the Group is considered to approximate their fair values.

The fair value of the monetary financial assets and financial liabilities is based upon market prices where a market price exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

5. Critical accounting estimates and judgments

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the entity's accounting policies

The following are the critical judgments including those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- (i) The Group has capitalised significant exploration and evaluation expenditure on the basis either that this is expected to be recouped through future successful development or alternatively sale of the areas of interest. If ultimately the areas of interest are abandoned or are not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would need to be written down to its recoverable amount.
- (ii) The Group has carried forward tax losses which have not been recognised as deferred tax assets because it is not considered sufficiently probable at this point in time, that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

Note 26 describes that Cleveland Premier Mineracao Ltda is a subsidiary of the Group even though the group only has a 50% ownership interest, and has only 50% of the voting rights in Cleveland Premier Mineracao Ltda.

The directors of the Company assessed whether or not the Group has control over Cleveland Premier Mineracao Ltda, based on whether the Group has the practical ability to direct the relevant activities of Cleveland Premier Mineracao Ltda, and also share in variable returns in excess of the legal ownership interest.

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

5. Critical accounting estimates and judgments (continued)

In making their judgement, the directors considered the nature of the Joint Venture Agreement, provision of senior management, and funding and concluded that the Group had the practical ability to direct the relevant activities of Cleveland Premier Mineracao Ltda unilaterally, and therefore that the Group has control over Cleveland Premier Mineracao Ltda.

6. Auditor's remuneration

| | 2015 | 2014 |
|--|----------------|---------------|
| | \$ | \$ |
| Auditor of the parent entity | | |
| Remuneration of the auditor for: | | |
| - Auditing or reviewing the financial report | 96,981 | 54,447 |
| Network firm of the parent entity auditor | | |
| - Auditing or reviewing the financial report | 16,805 | 7,577 |
| | <u>113,786</u> | <u>62,024</u> |

The auditor of Cleveland Mining Company Limited is Deloitte Touche Tohmatsu.

7. Income tax

(a) Income tax recognised in profit or loss

| | | |
|---|----------|----------|
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| Total income tax expense recognised in the current year relating to continuing operations | <u>-</u> | <u>-</u> |

The income tax expense for the year can be reconciled to the accounting profit as follows:

| | | |
|---|---------------------|---------------------|
| Loss before tax from continuing operations | <u>(11,995,384)</u> | <u>(12,145,155)</u> |
| Income tax benefit calculated at 30% (2014: 30%) | (3,598,615) | (3,643,546) |
| Foreign taxes paid | | |
| Effect of unused tax losses and tax offsets not recognised as deferred tax assets | <u>3,598,615</u> | <u>3,643,546</u> |
| | - | - |
| Adjustments recognised in the current year in relation to the current tax of prior years | <u>-</u> | <u>-</u> |
| Total income tax expense recognised in the current year relating to continuing operations | <u>-</u> | <u>-</u> |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period. Corporate tax rates applied in relation to Brazil and Chile are 34% and 17% respectively.

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

7. Income tax (continued)

(b) Income taxes recognised directly in equity

No income tax has been recognised directly in equity during the current or prior period.

| | 2015 | 2014 |
|--|------|------|
| | \$ | \$ |

(c) Current tax assets and liabilities

| | | |
|--------------------|---|---|
| Income tax payable | - | - |
|--------------------|---|---|

(d) Deferred tax balances

Deferred tax liabilities comprise:

| | | |
|-------------------------|------------------|------------------|
| Capitalised expenditure | 3,931,288 | 3,857,813 |
| | <u>3,931,288</u> | <u>3,857,813</u> |

Deferred tax assets comprise:

| | | |
|-----------------------|------------------|------------------|
| Accrued expenditure | 1,273,659 | 23,937 |
| Provisions | 68,425 | 26,341 |
| Tax losses recognised | 2,589,204 | 3,807,535 |
| | <u>3,931,288</u> | <u>3,857,813</u> |

In addition to the deferred tax assets above, the unrecognised deferred tax assets attributable to tax losses carried forward amounting to approximately \$13,740,486 (2014: \$8,886,642) have not been brought to account at 30 June 2015 because the directors do not believe it is appropriate to regard realisation of the deferred tax assets as probable at this point in time. These benefits will only be obtained if:

- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss and exploration expenditure to be realised;
- the Company continues to comply with the conditions for deductibility imposed by law; and
- no changes in tax legislation adversely affect the company in realising the benefit from the deductions for the loss and exploration expenditure.

(e) Tax consolidation

The Company and its wholly-owned Australian resident entity Cleveland Mining Limited have formed a tax-consolidated group with effect from 23 September 2010 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Cleveland Mining Company Limited. The members of the tax-consolidated group are Cleveland Mining Company Limited and Cleveland Mining Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

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

7. Income tax (continued)

(e) Tax consolidation (continued)

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the Company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

8. Earnings / (loss) per share

Classification of securities as ordinary shares

The Company has only one category of ordinary shares included in basic loss per share.

Classification of securities as potential ordinary shares

There are currently no securities to be classified as dilutive potential ordinary shares on issue.

| | 2015 Number | 2014 Number |
|--|------------------------|------------------------|
| Weighted average number of ordinary shares used in the calculation of basic loss per share | 242,050,579 | 236,068,299 |

| | 2015 \$ | 2014 \$ |
|---|--------------------|--------------------|
| Loss for the year attributable to owners of the Company | (8,002,382) | (11,638,504) |

The earnings / (loss) per share calculation as disclosed on the statement of profit or loss and other comprehensive income does not include instruments that could potentially dilute basic earnings per share in the future as these instruments were anti-dilutive in the periods presented. A summary of such instruments is as follows:

| Equity securities | 2015 Number of securities | 2014 Number of securities |
|------------------------------|--|--|
| Options over ordinary shares | 45,071,665 | 44,598,665 |

9. Income

| | 2015 \$ | 2014 \$ |
|---|--------------------|--------------------|
| Interest income | 21,400 | 26,697 |
| Foreign exchange gain | - | 131,579 |
| Debt forgiven | 588,069 | - |
| Gain on disposal of plant and equipment | 14,297 | - |
| Other revenue | 97,058 | 62,822 |
| | 720,824 | 221,098 |

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

10. Expenses

| | 2015 | 2014 |
|---|------------------|------------------|
| | \$ | \$ |
| Employee benefits expense | | |
| Wages and salaries | 1,434,046 | 1,404,693 |
| Defined contribution superannuation expense | 81,638 | 116,669 |
| Share-based payments | (100,486) | 170,837 |
| Other employee benefits expenses (i) | 1,003,986 | 160,827 |
| | <u>2,419,184</u> | <u>1,853,026</u> |
| <i>(i) Includes accrual for Premier potential labour claims</i> | | |
| Depreciation expense | <u>35,632</u> | <u>46,783</u> |
| Other gains and losses | | |
| Loss on sale or write down of plant and equipment (net) | - | 438,018 |
| Impairment of non-current assets (note 17) | <u>-</u> | <u>6,632,312</u> |

11. Trade and other receivables

Current

| | | |
|-------------------|----------------|----------------|
| Other receivables | <u>222,518</u> | <u>126,706</u> |
|-------------------|----------------|----------------|

Other current receivables include amounts outstanding for Goods and Services Tax ("GST") and other taxes. These amounts are non-interest bearing and have repayment terms applicable under the relevant government authority.

Non-Current

| | | |
|-------------------------------|------------------|------------------|
| Loan to joint venture partner | <u>6,112,536</u> | <u>6,398,610</u> |
|-------------------------------|------------------|------------------|

In accordance with the joint venture agreement with Cleveland Mineração Limitada's joint venture partner, this amount is repayable from the joint venture out of future profits, and interest is charged on the outstanding balance at the 5 year American bond rate plus 3%.

As at 30 June 2015 and 2014 no receivables are past due or impaired.

12. Inventory

Current

| | | |
|------------------------|----------------|----------------|
| Consumables | 194,842 | 52,804 |
| Ore stockpiles | 258,670 | 187,664 |
| Dore / gold in circuit | 16,107 | 9,381 |
| | <u>469,619</u> | <u>249,849</u> |

13. Other current assets

| | | |
|-------------|---------------|----------------|
| Prepayments | <u>25,709</u> | <u>261,865</u> |
|-------------|---------------|----------------|

14. Assets classified as held for sale

| | | |
|---------------------|----------|----------------|
| Asset held for sale | <u>-</u> | <u>288,309</u> |
|---------------------|----------|----------------|

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

15. Investments in joint ventures

Details of the Group's material joint ventures at the end of the reporting period are as follows:

| Name | Country of Incorporation and operation | Principal activity | Ownership interest | |
|------------------------------------|--|----------------------|--------------------|------|
| | | | 2015 | 2014 |
| | | | % | % |
| Bahia Iron Alliance Mineração Ltda | Brazil | Iron ore exploration | 60 | 50 |
| Minas Iron Alliance Mineração Ltda | Brazil | Iron ore exploration | 60 | 50 |

Summarised financial information in respect of the Group's joint ventures is set out below.

| | 2015 | 2014 |
|-------------------------|------|-----------|
| | \$ | \$ |
| Current assets | - | 55,134 |
| Non-current assets | - | 1,066,155 |
| Current liabilities | - | 203,251 |
| Non-current liabilities | - | - |

On 29 January 2015, the Company's 60% owned subsidiary Cleveland Iron Holdings Pty Ltd acquired the remaining 50% interests in the above joint ventures and obtained control effective from this date. Accordingly, these joint ventures are accounted for as subsidiaries as at 30 June 2015 and their results are consolidated into the Group's result in these financial statements. In the comparative period, these joint ventures were accounted for using the equity method.

The acquisition of the residual interests in these joint ventures has been accounted for as an asset acquisition. The transaction also stipulated the forgiveness of loans owing to the joint venture partner, resulting in a gain recognised in profit or loss.

| | 2015 | 2014 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| 16. Plant and equipment | | |
| Buildings – at cost | 2,539,237 | 3,492,396 |
| Accumulated depreciation | - | - |
| | <u>2,539,237</u> | <u>3,492,396</u> |
| Plant and machinery – at cost | 3,135,307 | 2,409,696 |
| Accumulated depreciation | - | - |
| | <u>3,135,307</u> | <u>2,409,696</u> |
| Furniture and equipment – at cost | 298,131 | 307,702 |
| Accumulated depreciation | (246,499) | (214,910) |
| | <u>51,632</u> | <u>92,792</u> |
| Motor vehicles – at cost | - | 43,017 |
| Accumulated depreciation | - | (25,047) |
| | <u>-</u> | <u>17,970</u> |
| Leasehold improvements – at cost | 312,841 | 86,050 |
| Accumulated depreciation | (9,794) | (5,986) |
| | <u>303,047</u> | <u>80,064</u> |
| | <u>6,029,223</u> | <u>6,092,918</u> |

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

| | 2015 \$ | 2014 \$ |
|---|------------------|------------------|
| 16. Plant and equipment (continued) | | |
| <i>Movement in carrying values</i> | | |
| <i>Buildings</i> | | |
| Carrying value at beginning of year | 3,492,396 | 2,673,422 |
| Additions | 215,970 | 855,568 |
| Transfer to plant and machinery | (737,826) | - |
| Effects of foreign currency differences | (431,303) | (36,594) |
| Carrying value at end of year | <u>2,539,237</u> | <u>3,492,396</u> |
| <i>Plant and machinery</i> | | |
| Carrying value at beginning of year | 2,409,696 | 2,519,929 |
| Additions | 1,151,309 | 695,349 |
| Disposals | (288,796) | (983) |
| Transfer (to)/from asset held for sale | 288,309 | (288,309) |
| Impairment of asset classified as held for sale | - | (475,084) |
| Effects of foreign currency differences | (425,211) | (41,206) |
| Carrying value at end of year | <u>3,135,307</u> | <u>2,409,696</u> |
| <i>Furniture and equipment</i> | | |
| Carrying value at beginning of year | 92,792 | 143,673 |
| Additions | 11,882 | 6,865 |
| Disposals | - | (857) |
| Depreciation | (44,507) | (54,940) |
| Effects of foreign currency differences | (8,535) | (1,949) |
| Carrying value at end of year | <u>51,632</u> | <u>92,792</u> |
| <i>Motor vehicles</i> | | |
| Carrying value at beginning of year | 17,970 | 27,042 |
| Disposals | (12,795) | - |
| Depreciation | (3,979) | (8,506) |
| Effects of foreign currency differences | (1,196) | (566) |
| Carrying value at end of year | <u>-</u> | <u>17,970</u> |
| <i>Leasehold improvements</i> | | |
| Carrying value at beginning of year | 80,064 | 37,975 |
| Additions | 255,731 | 50,055 |
| Disposals | - | (3,851) |
| Depreciation | (4,403) | (4,093) |
| Effects of foreign currency differences | (28,345) | (22) |
| Carrying value at end of year | <u>303,047</u> | <u>80,064</u> |
| | <u>6,029,223</u> | <u>6,092,918</u> |

As at 30 June 2015 the Premier Project was in the development phase, with commercial production having not been achieved as at the end of the financial year. Production related plant and machinery will commence depreciation when commercial production is achieved and will be depreciated on a unit of production basis over the shorter of the assets useful life, or the life of mine.

2015 **2014**

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

| | \$ | \$ |
|--|-------------------|-------------------|
| 17. Exploration and development | | |
| Exploration properties | 2,782,341 | 1,419,575 |
| Development properties | 10,005,920 | 10,076,379 |
| | <u>12,788,261</u> | <u>11,495,954</u> |

The exploration and evaluation expenditure relates to the consolidated entity's projects in Brazil and including that of Bahia Iron Alliance (\$782,758) and Minas Iron Alliance (\$442,891) pursuant to the acquisition of joint venture interests on 29 January 2015 (see Note 15) (2014: Brazil).

| | | |
|--------------------------------------|---------------|----------------|
| Write off of exploration expenditure | <u>12,327</u> | <u>174,082</u> |
|--------------------------------------|---------------|----------------|

Development properties relate to the consolidated entity's Premier project in Brazil.

Movement in carrying values

| | | |
|---|-------------------|-------------------|
| Carrying value at beginning of year | 11,495,954 | 14,776,406 |
| Additions | 2,592,011 | 3,750,699 |
| Bahia Iron Alliance & Minas Iron Alliance | 1,389,538 | - |
| Write down of exploration expenditure | (12,327) | (174,082) |
| Impairment of development properties | - | (6,632,312) |
| Effects of foreign currency differences | (2,676,915) | (224,757) |
| Carrying value at end of year | <u>12,788,261</u> | <u>11,495,954</u> |

Refer to Note 5 for significant judgements and estimates made in relation to the recoverability of capitalised exploration expenditure.

17.1 Impairment testing of non-current assets

Results of impairment testing

| | | |
|-----------------------------|---|-----------|
| Premier project CGU, Brazil | - | 6,632,312 |
|-----------------------------|---|-----------|

Development properties

Development properties that relate to unmined resources and their related plant and equipment, mining and processing infrastructure, are constantly assessed in light of current economic conditions. Assumptions on the economic returns and timing of specific production options may impact on the timing of development of assets not already in production. The carrying value of these assets is assessed at balance date based on implied market values as compared with the existing resource base. An assessment is then made on the likelihood of recoverability from the successful development or sale of the asset.

Assessments were conducted at balance date considering the delayed commissioning of the Premier project, current market and sales conditions for gold development projects, and given that the market capitalisation of Cleveland at that time was considered to be an indicator of impairment.

17.1 Impairment testing of non-current assets (continued)

Cash Generating Units

Management of the Group has identified one cash generating unit (CGU), being the Premier project in Brazil.

In assessing whether the carrying value of the project development costs and the related plant and equipment infrastructure had been impaired, the carrying amount of the CGU was compared with its recoverable amount. The recoverable amount is assessed as the higher of fair value less costs to sell and value in use. The Group has adopted fair value less cost to sell which is greater than value in use and hence used this as the recoverable amount for impairment testing purposes.

The fair value less cost to sell is based on a discounted cash flow model over a period of approximately two years which includes the exploitation of the Premier Metago pit.

The key assumptions used in the discounted cash flow valuation are gold production, the gold price, the Australian dollar exchange rates against the US Dollar and Brazilian Real and the discount rate. Gold price assumptions are estimated by management, with reference to external market forecasts, and are updated continuously. For this assessment, the forecast gold price was estimated at US\$1,171/oz and the forecast exchange rate of R\$3.15 per US\$1.00, based on a flat forward curve over the life of the planned mine. Significant changes in either the forecast gold price or the forecast exchange rates may have an impact on the carrying value of the CGU in future periods.

A discount rate of 9.5% was applied to the post-tax cash flows, expressed in real terms. The discount rate was derived from the Group's weighted average cost of capital, with appropriate adjustments made to reflect income taxes and the risks specific to the region and the CGU.

| | 2015 | 2014 |
|-------------------------------------|------------------|----------------|
| | \$ | \$ |
| 18. Trade and other payables | | |
| Current | | |
| Trade payables | 1,600,906 | 361,918 |
| Accruals and other payables | 3,839,723 | 619,812 |
| | <u>5,440,629</u> | <u>981,730</u> |

The standard credit period on purchases is 30 days from statement. No interest is usually chargeable on the trade payables for the first 45 to 60 days from the date of invoice. Thereafter, interest is typically charged on the outstanding balance.

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

| | 2015 | 2014 |
|-----------------------------|-------------------|------------------|
| | \$ | \$ |
| 19. Borrowings | | |
| Current | | |
| Related party loans | 574,578 | 426,356 |
| Convertible notes | 11,832,790 | 1,393,916 |
| Secured notes | 4,254,564 | - |
| Royalty-backed notes | 1,989,550 | - |
| Other loans | 306,019 | 340,467 |
| | <u>18,957,501</u> | <u>2,160,608</u> |
| Non-Current | | |
| Convertible notes - secured | - | 7,329,898 |
| | <u>-</u> | <u>7,329,898</u> |

Loans totaling \$400,000 were entered into by the Company in June 2014 with parties related to directors of the Company (refer to Note 26(b) for further information). The loans accrue interest at rate of 12.5% per annum, unless the loan is in default, in which case interest on outstanding amounts accrues at 14.5% per annum. The term of the loans was initially 12 months; however remain in place on a rolling basis with no agreed repayment date. The principal was increased to \$500,000 during the year. Subsequent to year end the Company has been in ongoing discussions with the lenders, who have indicated their continued support for the Group.

Convertible notes totaling US\$1,000,000 were issued by the Company in November 2013. Notes carry a coupon rate of 12%, with a conversion price, activated only in the event of a default, at a 20% discount to the prevailing Volume Weighted Average Price. The term of the note has expired and the note is currently rolling, with coupon continuing to accrue on the outstanding balance. Subsequent to year end the company has been in ongoing discussions with the lender, who has indicated its continued support for the Group.

Convertible notes totalling US\$6.8 million were issued by the Company in March 2014. Notes carry a coupon rate of 14%, with a conversion price of \$0.14 per share. The redemption amount of the notes is 120% of the face value. The term of the convertible notes was originally 18 months with a further 12 month extension executed during the year, with a subsequent in principle maturity date of 26 September 2016. Subsequent to year end, this note has been restructured into a consolidated note under revised terms. Refer Note 32 for further information.

Secured notes totaling US\$1,000,000 were issued by the Company in August 2014. Notes carry a coupon rate of 15%. The redemption amount of the notes is 110% of the face value. The term of the notes is 18 months, with an in principle maturity date of 25 February 2016. Subsequent to year end, this note has been restructured into a consolidated note under revised terms. Refer Note 32 for further information.

Secured notes totaling US\$2,000,000 were issued by the Company in October 2014. Notes carry a coupon rate of 15%. The redemption amount of the notes is 110% of the face value. The term of the notes is 18 months with an in principle maturity date of 15 April 2016. Subsequent to year end, this note has been restructured into a consolidated note under revised terms. Refer Note 32 for further information.

A production royalty linked note was offered in February 2015 for 12 month duration and carrying a coupon rate of 9% plus a 6.23% production linked royalty on the first 3 months of certified production. Note holders within 6 months of execution are eligible to elect to convert the face value of the note to shares at \$0.06 per share and forego the interest and royalty component. In the event the Company defaults on the repayment at maturity, the note is convertible to equity at a 20% discount to the prevailing Volume Weighted Average Price at the maturity date, 12 months after issue. As at 30 June 2015, a total of \$1,720,000 comprising 28

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notes were issued and bear an accrued interest of \$24,550 and accrued production royalty of \$245,000. In July 2015 an additional \$125,000 was raised based on the original Note. A further \$540,000 in Royalty Linked Note applications was accepted in August 2015.

As at 30 June 2015, the Company had not paid the cash interest payments required under the convertible and secured note facilities, resulting in an event of default. Due to cross default clauses in the financing facilities, all facilities, except for the royalty-backed notes, are in default and repayable on demand, and accordingly have been classified as current liabilities as at 30 June 2015.

| | 2015 \$ | 2014 \$ |
|---|------------|------------|
| 20. Provisions | | |
| Current | | |
| Provisions for employee entitlements | 79,199 | 87,802 |
| Non-Current | | |
| Provision for rehabilitation | 148,883 | 149,478 |
| Carrying value at beginning of year | 149,478 | 152,117 |
| Recognition of provision for rehabilitation | - | - |
| Effects of foreign currency differences | (595) | (2,639) |
| Carrying value at end of year | 148,883 | 149,478 |

21. Contributed equity

(a) Issued capital

| | | |
|--|------------|------------|
| 243,114,224 (2014: 241,308,401) fully paid ordinary shares | 44,268,792 | 44,166,473 |
|--|------------|------------|

The Company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Movements in issued capital

| | 2015 Number | 2014 Number | 2015 \$ | 2014 \$ |
|------------------------------|----------------|----------------|------------|------------|
| Balance at beginning of year | 241,308,401 | 206,486,669 | 44,166,473 | 40,367,781 |
| Issued during the year | | | | |
| Share placements | 1,805,823 | 34,821,732 | 102,319 | 4,069,487 |
| Exercise of options | - | - | - | - |
| Share purchase plan | - | - | - | - |
| Share issue costs | | | - | (270,795) |
| Balance at end of year | 243,114,224 | 241,308,401 | 44,268,792 | 44,166,473 |

(c) Share options

In addition to the share-based payment options disclosed in Note 27, the following share options were on issue during the years ended 30 June 2015 and 30 June 2014.

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

21. Contributed equity (continued)

(c) Share options (continued)

| | Exer- cise price | Expiry | Balance at beginning of year Number | Options issued Number | Options exercised Number | Options Lapsed/Adj usted Number | Balance at end of year Number |
|------------------|------------------------|----------|--|-----------------------------|--------------------------------|--|-------------------------------------|
| 2015 | | | | | | | |
| Unlisted options | \$0.20 | 31/12/14 | 3,527,000 | - | - | 3,527,000 | - |
| Unlisted options | \$0.62 | 31/12/14 | 500,000 | - | - | 500,000 | - |
| Unlisted options | \$0.25 | 31/12/15 | 5,340,000 | - | - | - | 5,340,000 |
| Unlisted options | \$0.36 | 31/12/15 | 3,250,000 | - | - | - | 3,250,000 |
| Unlisted options | \$0.25 | 16/05/16 | 1,000,000 | - | - | - | 1,000,000 |
| Unlisted options | \$0.25 | 31/12/18 | 1,000,000 | - | - | - | 1,000,000 |
| Unlisted options | \$0.40 | 31/12/18 | 2,000,000 | - | - | - | 2,000,000 |
| Unlisted options | \$0.14 | 31/07/19 | - | 7,500,000 | - | - | 7,500,000 |
| Listed options | \$0.65 | 4/7/2016 | 11,364,998 | - | - | - | 11,364,998 |
| | | | 27,981,998 | 7,500,000 | - | 4,027,000 | 31,454,998 |
| 2014 | | | | | | | |
| Unlisted options | \$0.20 | 31/12/14 | 3,527,000 | - | - | - | 3,527,000 |
| Unlisted options | \$0.62 | 31/12/14 | 500,000 | - | - | - | 500,000 |
| Unlisted options | \$0.25 | 31/12/15 | 5,340,000 | - | - | - | 5,340,000 |
| Unlisted options | \$0.36 | 31/12/15 | 3,250,000 | - | - | - | 3,250,000 |
| Unlisted options | \$0.25 | 16/5/16 | 1,000,000 | - | - | - | 1,000,000 |
| Unlisted options | \$0.25 | 31/12/18 | 1,000,000 | - | - | - | 1,000,000 |
| Unlisted options | \$0.40 | 31/12/18 | 2,000,000 | - | - | - | 2,000,000 |
| Listed options | \$0.65 | 4/7/2016 | 11,364,998 | - | - | - | 11,364,998 |
| | | | 27,981,998 | - | - | - | 27,981,998 |

(d) Terms and conditions of issued capital

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

22. Reserves

| | 2015 \$ | 2014 \$ |
|--------------------------------------|--------------------|--------------------|
| Foreign currency translation reserve | (5,659,308) | (2,877,829) |
| Option reserve | 868,390 | 968,877 |
| Convertible note reserve | 36,659 | 36,659 |
| | <u>(4,754,259)</u> | <u>(1,872,293)</u> |

Foreign currency translation reserve

| | | |
|--|--------------------|--------------------|
| Balance at beginning of year | (2,877,829) | (2,442,303) |
| Foreign currency translation differences | (2,781,479) | (435,526) |
| Balance at end of year | <u>(5,659,308)</u> | <u>(2,877,829)</u> |

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Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to profit or loss only on the disposal of the foreign operation.

| | 2015 \$ | 2014 \$ |
|--|---------------------|---------------------|
| 22. Reserves (continued) | | |
| Option reserve | | |
| Balance at beginning of year | 968,877 | 798,040 |
| Share based payment expense/(write back) | (100,486) | 170,837 |
| Balance at end of year | <u>868,390</u> | <u>968,877</u> |
| Share-based payments provided to employees or consultants by way of remuneration or consideration are recorded in the option reserve. | | |
| Convertible note reserve | | |
| Balance at beginning of year | 36,659 | 36,659 |
| Convertible notes issued during the year | - | - |
| Balance at end of year | <u>36,659</u> | <u>36,659</u> |
| The equity component on convertible notes represents the equity component (conversion rights) on the issue of unsecured convertible notes. Refer to Note 19 for further information. | | |
| 23. Accumulated losses | | |
| Balance at beginning of year | (31,751,416) | (20,112,911) |
| Net loss for the year | (8,002,382) | (11,638,504) |
| Balance at end of year | <u>(39,753,798)</u> | <u>(31,751,416)</u> |
| 24. Non-controlling interests | | |
| Balance at beginning of year | 5,600,176 | 5,885,729 |
| Share of loss for the year | (3,993,002) | (506,651) |
| Increase in non-controlling interest | 111,306 | 221,098 |
| Balance at end of year | <u>1,718,481</u> | <u>5,600,176</u> |

Notes to the Financial Statements
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| | 2015 | 2014 |
|--|------|------|
| | \$ | \$ |

25. Notes to the statement of cash flows

(a) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the year as shown in the statement of cash flows are reconciled to the related item in the statement of financial position as follows:

| | | |
|----------------------------|----------------|------------------|
| Cash at bank | 181,608 | 223,109 |
| Cash on short term deposit | 275,957 | 1,256,118 |
| | <u>457,565</u> | <u>1,479,227</u> |

Cash at bank attracts floating interest at current market rates. Short term deposits are made for periods of up to 3 months and earn interest at the respective short term deposit rates.

(b) Reconciliation of operating loss after income tax to net cash used in operating activities

| | | |
|---------------------------------|--------------|--------------|
| Operating loss after income tax | (11,995,384) | (12,145,155) |
|---------------------------------|--------------|--------------|

Adjustments for:

| | | |
|--|-------------|-------------|
| Depreciation | 35,632 | 46,783 |
| Write down of exploration expenditure | 12,327 | 174,082 |
| Impairment of non-current assets | - | 6,632,312 |
| Loss / (gain) on disposal or write down of plant and equipment | 75,411 | 438,018 |
| Share-based payments | (100,486) | 170,837 |
| Share issue in lieu of consultancy fee | 102,320 | - |
| Debt forgiven on acquisition joint venture interest | (588,070) | - |
| Gold sales revenue capitalised | 4,082,642 | 811,016 |
| Operational expenditure capitalised | (1,304,634) | (3,290,446) |
| Interest expense capitalised | - | 816,326 |
| Share of joint venture loss | - | 15,065 |
| Realised foreign exchange loss | 3,739,150 | (312,841) |

Changes in assets and liabilities

(Increase) / decrease in:

| | | |
|---------------------------------------|--------------------|--------------------|
| Trade and other receivables | (95,812) | 41,519 |
| Other current assets | 16,386 | 24,859 |
| Increase / (decrease) in: | | |
| Trade and other payables | 2,204,056 | (135,990) |
| Provisions | (9,198) | (107,492) |
| Net cash used in operating activities | <u>(3,825,660)</u> | <u>(6,821,105)</u> |

(c) Non-cash investing and financing activities

There were no non-cash investing and financing activities during the year ended 30 June 2015 or 2014.

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

26. Related party disclosures

(a) Subsidiary

The consolidated financial statements include the financial statements of Cleveland Mining Company Limited and the subsidiaries listed in the following table:

| Name | Country of Incorporation and operation | Principal activity | Ownership interest | | Investment | |
|--|--|---------------------------|--------------------|-----------|-------------------|-------------------|
| | | | 2015 % | 2014 % | 2015 \$ | 2014 \$ |
| Cleveland Mining Ltd (1) | Australia | Mineral exploration | 100 | 100 | 15,600,000 | 15,600,000 |
| Cleveland Iron Holdings Pty Ltd | Australia | Mineral exploration | 60 | - | - | - |
| Cleveland Mineração Ltda | Brazil | Gold/iron ore exploration | 100 | 100 | - | - |
| Cleveland Mining Chile Limitada | Chile | Gold/copper exploration | 100 | 100 | - | - |
| Cleveland Mining HK Ltd | Hong Kong | Iron ore exploration | 100 | 100 | 700,000 | 700,000 |
| Cleveland Premier Mineração Ltda | Brazil | Gold mining | 50 | 50 | - | - |
| Cleveland Iron Limitada | Brazil | Iron ore exploration | 100 | 100 | - | - |
| Bahia Iron Alliance Mineração Limitada (2) | Brazil | Iron ore exploration | 60 | 50 | - | - |
| Minas Iron Alliance Mineração Limitada (2) | Brazil | Iron ore exploration | 60 | 50 | - | - |
| | | | | | <u>16,300,000</u> | <u>16,300,000</u> |

1. This wholly owned subsidiary has entered into a deed of cross guarantee with Cleveland Mining Company Limited pursuant to ASIC Class Order 98/1418 and is relieved from the requirement to prepare and lodge an audited financial report.
2. These joint venture entities were equity accounted prior to the Company obtaining control on 29 January 2015.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position of the entities party to the deed of cross guarantee for the years ended 30 June 2015 and 30 June 2014 are as follows:

| | 2015 \$ | 2014 \$ |
|--|-------------|-------------|
| Interest income | 2,157,070 | 257,663 |
| Other revenue | 97,058 | 87,832 |
| Administrative expenses | (73,157) | (68,557) |
| Compliance and regulatory expenses | (68,931) | (80,400) |
| Consultancy and legal expenses | (580,924) | (488,785) |
| Depreciation and amortisation expense | (21,588) | (28,082) |
| Director and employee-related expenses | (1,187,215) | (1,673,321) |
| Occupancy expenses | (476,561) | (463,401) |
| Promotion and communication expenses | (90,934) | (128,297) |
| Travel expenses | (115,484) | (142,383) |
| Finance costs | (3,246,185) | (659,198) |
| Write down of inter-company receivables | (660,476) | (3,041,591) |
| Other expenses | (59,141) | (60,571) |
| Loss before income tax expense | (4,326,468) | (6,489,091) |
| Income tax expense | - | - |
| Loss for the year | (4,326,468) | (6,489,091) |
| Total comprehensive income / (loss) for the year attributable to members | (4,326,468) | (6,489,091) |

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

| | 2015 \$ | 2014 \$ |
|--|-------------------|-------------------|
| 26. Related party disclosures (continued) | | |
| (a) Subsidiary (continued) | | |
| Current assets | | |
| Cash and cash equivalents | 419,159 | 494,590 |
| Trade and other receivables | 37,564 | 31,084 |
| Other assets | 25,709 | 261,865 |
| Total current assets | <u>482,432</u> | <u>787,539</u> |
| Non-current assets | | |
| Receivables | 40,570,586 | 21,326,534 |
| Investments in subsidiaries | 19,450,797 | 3,850,797 |
| Plant and equipment | 8,983 | 25,612 |
| Total non-current assets | <u>60,030,366</u> | <u>25,092,943</u> |
| Total assets | <u>60,512,799</u> | <u>25,990,482</u> |
| Current liabilities | | |
| Trade and other payables | 580,342 | 284,470 |
| Borrowings | 18,821,484 | 2,160,608 |
| Provisions | 79,199 | 87,802 |
| Total current liabilities | <u>19,481,025</u> | <u>2,532,880</u> |
| Non-current liabilities | | |
| Borrowings | - | 7,329,898 |
| Total non-current liabilities | <u>-</u> | <u>7,329,898</u> |
| Total liabilities | <u>19,481,025</u> | <u>9,862,778</u> |
| Net assets | <u>41,031,774</u> | <u>16,127,704</u> |

(b) Loans to and from related parties

There were no loans to related parties at 30 June 2015 or 30 June 2014.

During the year ended 30 June 2015 the Company maintained convertible notes related to two directors, as follows:

| Director | Loan funds advanced by related party | Interest charged | Facility fee | Balance owing at 30 June 2015 |
|-------------------|---|-------------------------|---------------------|--|
| Russell Scrimshaw | \$400,000 | 12.5% per annum | 2% | \$472,381 |
| Rod Campbell | \$100,000 | 12.5% per annum | 2% | \$102,197 |

(c) Other related party transactions

During the year the following consulting fees were paid to directors in addition to their directors' fees for consulting services provided. Amounts paid during the period of each director's directorship (column (2) below) have been included in the amounts paid to directors in the Remuneration Report:

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

26. Related party disclosures (continued)

(c) Other related party transactions (continued)

| <i>Director</i> | <i>Paid prior to appointment as director (1)</i> | <i>Paid after appointment as director (2)</i> | <i>Total consulting fees paid for year (3)</i> |
|-----------------|--|---|--|
| Rick Stroud | - | \$96,300 | \$96,300 |
| Rod Campbell | - | - | - |

There were no other related party transactions during the years ended 30 June 2014 or 30 June 2013.

27. Share-based payments

(a) Employee share option plan – Cleveland Mining Company Limited

The Group has an employee share-based compensation scheme where directors and employees of the Company may be issued with options over the ordinary shares of Cleveland Mining Company Limited. Shareholders approved the plan at a meeting of shareholders held on 14 November 2012. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of Cleveland Mining Company Limited.

Each employee share option converts into one ordinary share in Cleveland Mining Company Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the year:

| Option series | Expiry date | Exercise price | Fair value at grant date | Balance at beginning of year | Number of options Granted during year | Exercised, expired or forfeited | Balance at end of year |
|----------------------|--------------------|-----------------------|---------------------------------|-------------------------------------|--|--|-------------------------------|
| Grant date | | | | | | | |
| 2015 | | | | | | | |
| (1) | | | | | | | |
| a 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 8,833,333 | - | (2,833,333) | 6,000,000 |
| b 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 5,603,333 | - | - | 5,603,333 |
| c 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 5,603,334 | - | - | 5,603,334 |
| (2) | | | | | | | |
| a 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.121 | 1,000,000 | - | - | 1,000,000 |
| b 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.138 | 1,000,000 | - | - | 1,000,000 |
| c 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.138 | 1,000,000 | - | - | 1,000,000 |
| (4) | | | | | | | |
| a 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.243 | 166,667 | - | (166,667) | - |
| b 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.328 | 166,667 | - | (166,667) | - |
| c 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.383 | 166,666 | - | (166,666) | - |
| d 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.243 | 333,333 | - | (333,333) | - |
| e 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.289 | 333,333 | - | (333,333) | - |
| f 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.383 | 333,334 | - | (333,334) | - |
| (5) | | | | | | | |
| a 8 May 13 | 30 Jun 17 | \$0.215 | \$0.008 | 333,334 | - | - | 333,334 |
| b 8 May 13 | 30 Jun 17 | \$0.215 | \$0.042 | 333,333 | - | - | 333,333 |
| c 8 May 13 | 30 Jun 17 | \$0.215 | \$0.057 | 333,333 | - | - | 333,333 |
| (6) | | | | | | | |
| a 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.031 | 333,333 | - | - | 333,333 |
| b 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.031 | 333,333 | - | - | 333,333 |
| c 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.043 | 333,333 | - | - | 333,334 |

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

27. Share-based payments (continued)

(a) Employee share option plan – Cleveland Mining Company Limited (continued)

| | | | | | | | | | |
|-------------|-----------|-----------|---------|---------|-----------|-----------|-------------|-----------|---|
| (7) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | 1,000,000 | - | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | 1,000,000 | - | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.012 | - | 1,000,000 | 1,000,000 | - | - |
| (8) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | - | 1,000,000 | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.012 | - | 1,000,000 | - | 1,000,000 | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.018 | - | 1,000,000 | - | 1,000,000 | - |
| (9) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 500,000 | (500,000) | - | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.021 | - | 500,000 | (500,000) | - | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.028 | - | 500,000 | (500,000) | - | - |
| 2014 | | | | | | | | | |
| (1) | | | | | | | | | |
| a | 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 8,833,333 | - | - | 8,833,333 | - |
| b | 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 8,833,333 | - | (3,230,000) | 5,603,333 | - |
| c | 23 Sep 10 | 31 Dec 15 | \$0.20 | \$0.000 | 8,833,334 | - | (3,230,000) | 5,603,334 | - |
| (2) | | | | | | | | | |
| a | 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.121 | 1,000,000 | - | - | 1,000,000 | - |
| b | 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.138 | 1,000,000 | - | - | 1,000,000 | - |
| c | 17 Aug 11 | 31 Dec 15 | \$0.36 | \$0.138 | 1,000,000 | - | - | 1,000,000 | - |
| (4) | | | | | | | | | |
| a | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.243 | 166,667 | - | - | 166,667 | - |
| b | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.328 | 166,667 | - | - | 166,667 | - |
| c | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.383 | 166,666 | - | - | 166,666 | - |
| d | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.243 | 333,333 | - | - | 333,333 | - |
| e | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.289 | 333,333 | - | - | 333,333 | - |
| f | 29 Mar 12 | 31 Mar 17 | \$0.84 | \$0.383 | 333,334 | - | - | 333,334 | - |
| (5) | | | | | | | | | |
| a | 8 May 13 | 30 Jun 17 | \$0.215 | \$0.008 | - | 333,334 | - | 333,334 | - |
| b | 8 May 13 | 30 Jun 17 | \$0.215 | \$0.042 | - | 333,333 | - | 333,333 | - |
| c | 8 May 13 | 30 Jun 17 | \$0.215 | \$0.057 | - | 333,333 | - | 333,333 | - |
| (6) | | | | | | | | | |
| a | 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.031 | - | 333,333 | - | 333,333 | - |
| b | 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.031 | - | 333,333 | - | 333,333 | - |
| c | 3 Jul 13 | 31 Mar 17 | \$0.135 | \$0.043 | - | 333,334 | - | 333,334 | - |
| (7) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | - | 1,000,000 | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | - | 1,000,000 | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.012 | - | 1,000,000 | - | 1,000,000 | - |
| (8) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 1,000,000 | - | 1,000,000 | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.012 | - | 1,000,000 | - | 1,000,000 | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.40 | \$0.018 | - | 1,000,000 | - | 1,000,000 | - |
| (9) | | | | | | | | | |
| a | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.022 | - | 500,000 | (500,000) | - | - |
| b | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.021 | - | 500,000 | (500,000) | - | - |
| c | 2 Dec 13 | 31 Dec 18 | \$0.25 | \$0.028 | - | 500,000 | (500,000) | - | - |

No share options were exercised during the year ended 30 June 2015. No share options were exercised during the year ended 30 June 2014.

27. Share-based payments (continued)

(a) Employee share option plan – Cleveland Mining Company Limited (continued)

Vesting conditions

Recipients of the above option series are entitled to the beneficial interest under the option when various performance conditions are satisfied and only if they continue to be employed with the Company at the time. The performance conditions attached to these option series are as follows:

- 1a Identification of the 1 millionth ounce of Inferred Resource
- 1b Completion of the first Definitive Feasibility Study
- 1c Completion of wet commissioning of the first full scale process plant
- 2a Completion of the first Definitive Feasibility Study
- 2b Completion of wet commissioning of the first full scale process plant
- 2c Completion of a transaction involving the Group's Hong Kong holding company or other agreed structure, including the necessary funding at the level required to initiate the first 18 months of operations
- 3a Inferred resource(s) greater than 1 million ounce equivalent from a Chilean project
- 3b Completion of first DFS (not trial mining) on a Chilean project
- 3c Completion of first wet commissioning of process plant (not trial mining) on a Chilean project
- 4a Completion of first iron ore feasibility study
- 4b First shipment or milling of iron ore
- 4c Twelve month name plate iron ore production
- 4d Initial Premier operation (including CIL and O Capitão) reaching nameplate production rate for one month
- 4e Completion of a positive feasibility study on a project apart from Premier / O Capitão (as per 2012 plans) (could include a significant scale increase on Premier / O Capitão or any other project defined or acquired by Cleveland)
- 4f Operations for the project (project apart from Premier / O Capitão) reaching nameplate production for six months
- 5a Introduction and successful operation for a period of six months, to the satisfaction of the Board, of a safety and risk management system across all business sites
- 5b Completion of a positive feasibility study on a project apart from Premier / O Capitão (as per 2012 plans) (could include a significant scale increase on Premier / O Capitão or any other project defined or acquired by Cleveland)
- 5c Operations for the project (project apart from Premier / O Capitão) reaching nameplate production for six months
- 6a Initial Premier operation (including CIL and O Capitao) reaching nameplate production rate for one month
- 6b Completion of a positive feasibility study on a project apart from Premier / O Capitao (as per 2012 plans) (could include a significant scale increase on Premier / O Capitao or any other project defined or acquired by Cleveland)
- 6c Operations for the project (project apart from Premier / O Capitao) reaching nameplate production for six months
- 7a Meeting of the 12 month mine plan gold production (+/-10%)
- 7b Publication of institutional research on the Company by at least two financial organisations
- 7c Completion of 12 months' continuous service with Cleveland Mining Limited from the date of option issue
- 8a Meeting of the 12 month mine plan gold production (+/-10%)
- 8b Completion of 12 months' continuous service with Cleveland Mining Limited from the date of option issue
- 8c Completion of 24 months' continuous service with Cleveland Mining Limited from the date of option issue
- 9a Meeting of the 12 month mine plan gold production (+/-10%)
- 9b Completion of 12 months' continuous service with Cleveland Mining Limited from the date of option issue
- 9c Completion of 24 months' continuous service with Cleveland Mining Limited from the date of option issue

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

27. Share-based payments (continued)

(a) Employee share option plan – Cleveland Mining Company Limited (continued)

Fair value of options granted in the year

No options were granted during the year ended 30 June 2015.

Options granted in previous years were priced using the Black Scholes option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting vesting conditions attached to the option) and behavioural considerations.

Inputs into the model

| | Series 6 | Series 7 | Series 8 | Series 9 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
| Grant date share price | \$0.095 | \$0.105 | \$0.105 | \$0.105 |
| Exercise price | | | | |
| - a | \$0.135 | \$0.250 | \$0.250 | \$0.250 |
| - b | \$0.135 | \$0.250 | \$0.400 | \$0.250 |
| - c | \$0.135 | \$0.400 | \$0.400 | \$0.250 |
| Expected volatility | | | | |
| - a | 73.0% | 91.9% | 91.9% | 91.9% |
| - b | 73.0% | 91.9% | 93.9% | 93.9% |
| - c | 73.9% | 93.9% | 82.1% | 82.1% |
| Option life | | | | |
| - a | 2.17 years | 1.48 years | 1.48 years | 1.48 years |
| - b | 2.17 years | 1.48 years | 1.41 years | 1.41 years |
| - c | 3.52 years | 1.41 years | 2.31 years | 2.31 years |
| Dividend yield | - | - | - | - |
| Risk-free interest rate | | | | |
| - a | 2.56% | 2.79% | 2.79% | 2.79% |
| - b | 2.56% | 2.79% | 2.79% | 2.79% |
| - c | 2.72% | 2.79% | 2.79% | 2.79% |

(b) Employee share option plan – Cleveland Mining HK Limited

The Group has an employee share-based compensation scheme where directors and employees of the Group may be issued with options over the ordinary shares of Cleveland Mining HK Limited. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of Cleveland Mining Company Limited.

Each employee share option converts into one ordinary share in Cleveland Mining HK Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following share-based payment arrangements were in existence during the current and prior reporting periods:

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

27. Share-based payments (continued)

(b) Employee share option plan – Cleveland Mining HK Limited (continued)

| Option series | Grant date | Expiry date | Exercise price | Fair value at grant date | Balance at beginning of year | Number of options Granted during year | Expired or forfeited during year | Balance at end of year |
|---------------|------------|-------------|----------------|--------------------------|------------------------------|---------------------------------------|----------------------------------|------------------------|
| 2015 | | | | | | | | |
| (1) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.000 | 666,667 | - | - | 666,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.001 | 666,667 | - | - | 666,667 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.002 | 666,666 | - | - | 666,666 |
| (2) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.000 | 1,916,667 | - | - | 1,916,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.002 | 1,916,666 | - | - | 1,916,666 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.003 | 1,916,667 | - | - | 1,916,667 |
| (3) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.001 | 16,667 | - | - | 16,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.004 | 16,667 | - | - | 16,667 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.006 | 16,666 | - | - | 16,666 |
| 2014 | | | | | | | | |
| (1) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.000 | 666,667 | - | - | 666,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.001 | 666,667 | - | - | 666,667 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.002 | 666,666 | - | - | 666,666 |
| (2) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.000 | 1,916,667 | - | - | 1,916,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.002 | 1,916,666 | - | - | 1,916,666 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.003 | 1,916,667 | - | - | 1,916,667 |
| (3) | | | | | | | | |
| a | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.001 | 16,667 | - | - | 16,667 |
| b | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.004 | 16,667 | - | - | 16,667 |
| c | 16 Apr 12 | 15 Apr 19 | \$0.20 | \$0.006 | 16,666 | - | - | 16,666 |

No share options were issued under the employee share option plan during the years ended 30 June 2015 and 30 June 2014. No share options issued under the employee share option plan were exercised during the exercised during the years ended 30 June 2015 or 30 June 2014.

Vesting conditions

Recipients of the above option series are entitled to the beneficial interest under the option when various performance conditions are satisfied and only if they continue to be employed with the Company at the time. The performance conditions attached to these option series are as follows:

- 1a Funding of feasibility
- 1b Funding of plant
- 1c Sale of first three years' production
- 2a Completion of first iron ore feasibility study
- 2b First shipment or milling of iron ore
- 2c Twelve month name plate iron ore production
- 3a Completion of first iron ore feasibility study
- 3b First shipment or milling of iron ore
- 3c Twelve month name plate iron ore production

28. Key management personnel

(a) Directors and other key management personnel

The directors of Cleveland Mining Company Limited during the financial year were:

- Mr David Mendelawitz
- Mr Russell Scrimshaw (resigned 19 October 2015)
- Mr Rick Stroud
- Mr Wayne Zekulich (appointed 9 February 2015)
- Mr Rod Campbell (resigned 29 August 2014)

The key management personnel of the Cleveland Mining Company Limited group during the financial year were:

- Mr A Santos (Brazilian Commercial Manager)
- Mr J Sharp (Manager of Mineral Resources)
- Mr A Longo (Company Secretary) (appointed 5 September 2014)
- Ms K Grose (Company Secretary & Financial Controller) (resigned 5 September 2014)

(b) Compensation of key management personnel

| | 2015 | 2014 |
|-------------------------------|------------------|------------------|
| | \$ | \$ |
| Short-term employment benefit | 1,263,137 | 1,149,827 |
| Post-employment benefits | 51,727 | 72,065 |
| Termination benefits | - | - |
| Share-based payments | 61,067 | 95,968 |
| | <u>1,384,931</u> | <u>1,317,860</u> |

29. Segment reporting

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is focused on the geographical region of operations. The Group's reportable segments under AASB 8 are therefore as follows:

- Brazilian operations
- Chilean operations

Information regarding the Group's reportable segments is presented below.

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

29. Segment reporting (continued)

Segment revenues and results

| | Segment revenue | | Segment result | |
|--|-----------------|------|----------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ |
| Brazil | - | - | (5,480,520) | (8,463,883) |
| Chile | - | - | (9,927) | (2,805) |
| | - | - | (5,490,447) | (8,466,688) |
| Interest income | | | 21,399 | 26,697 |
| Central administration costs and directors' salaries | | | (6,483,538) | (3,705,164) |
| Loss before tax | | | (11,995,384) | (12,145,155) |

Segment loss represents the loss generated by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. The accounting policies of the reportable segment are the same as the Group's accounting policies described in Note 3.

Segment assets and liabilities

| | 2015 | 2014 |
|----------------------------|------------|------------|
| | \$ | \$ |
| Segment assets | | |
| Brazil | 25,614,015 | 26,039,306 |
| Chile | - | - |
| Total segment assets | 25,614,015 | 26,039,306 |
| Unallocated | 491,415 | 813,151 |
| Consolidated assets | 26,105,431 | 26,852,457 |
| Segment liabilities | | |
| Brazil | 15,400,934 | 8,176,637 |
| Chile | - | - |
| Total segment liabilities | 15,400,934 | 8,176,637 |
| Unallocated | 9,225,279 | 2,532,880 |
| Consolidated liabilities | 24,626,213 | 10,709,517 |

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to reportable segments other than those items relating to corporate operations, including but not limited to cash and cash equivalents, trade receivables and payables and employee entitlements.

Other segment information

| | Depreciation and amortisation | | Additions to non-current assets | | Additions to exploration and development | |
|-----------------------|-------------------------------|--------|---------------------------------|-----------|--|-----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Brazil | 14,044 | 18,701 | 1,629,933 | 1,607,838 | 3,981,549 | 2,935,231 |
| Chile | - | - | - | - | - | - |
| Total of all segments | 14,044 | 18,701 | 1,629,933 | 1,607,838 | 3,981,549 | 2,935,231 |
| Unallocated | 21,588 | 28,082 | 4,960 | - | - | - |
| Total | 35,632 | 46,783 | 1,634,893 | 1,607,838 | 3,981,549 | 2,935,231 |

29. Segment reporting (continued)

The additions to exploration and evaluation expenditure relates to the consolidated entity's projects in Brazil and including that of Bahia Iron Alliance (\$782,758) and Minas Iron Alliance (\$442,891) pursuant to the acquisition of joint venture interests on 29 January 2015 (see Notes 15 and 17). There was no impairment (2014: \$6,632,312) in relation to Brazilian exploration and development costs capitalised during the current year.

Geographical information

The Group operates in three principal geographical areas: Australia (country of domicile), Brazil and Chile. Details in relation to the operations in Brazil and Chile are disclosed as reportable segments. Revenues, assets and liabilities relating to Australia are part of corporate operations which are disclosed as *central administrative costs and directors salaries or unallocated* elsewhere within this note.

30. Commitments and contingent assets and liabilities

Leasing commitments

The Group has entered into operating leases on office space and motor vehicles for terms of up to 5 years. Future minimum rentals payable under this operating lease are as follows:

| | 2015 | 2014 |
|--|---------|-----------|
| | \$ | \$ |
| Within one year | 472,957 | 545,118 |
| After one but not more than five years | 472,584 | 1,038,065 |
| | 945,541 | 1,583,183 |

Contingent liabilities

The Company's Brazilian subsidiary has a contingent liability of AUS\$ 495,054 (BRL\$1,190,159) arising from notices of Infraction issued for the alleged noncompliance with a tax-filing obligation, consisting of the non-filing of the Digital Tax Recordkeeping schedules for the periods January-December 2012, January-December 2013, and January-May 2014. The failure to file the mentioned documentation resulted in the imposition of the fine set forth by Article 71, XXII, letter "b", of Law 11651/91. After the issue of the notices of infraction, Premier JV was automatically notified in two occasions, via notifications sent to its Electronic Tax Address which were not sighted by the employee being indisposed.

The company filed the digital tax recordkeeping schedules, via Public Digital Recordkeeping System (SPED) and was acknowledged. This temporary noncompliance with the filing obligation resulted in no loss to the State Treasury, since there are no unpaid taxes.

Accordingly, the company filed an Extraordinary Appeal with the State of Goiás Administrative Tax Board requesting the annulment of said notices of infraction due to the utter lack of any loss for the State Treasury. The case records are currently waiting distribution to the State Administrative Tax Board's members.

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

| | 2015 \$ | 2014 \$ |
|--|---------------------|--------------------|
| 31. Parent company information | | |
| Cleveland Mining Company Limited is the parent company of the consolidated group. The following information is provided for the Company: | | |
| Financial position | | |
| Assets | | |
| Current assets | 450,273 | 512,739 |
| Non-current assets | 20,183,459 | 25,127,147 |
| Total assets | <u>20,633,732</u> | <u>25,639,886</u> |
| Liabilities | | |
| Current liabilities | 19,154,514 | 2,182,284 |
| Non-current liabilities | - | 7,329,898 |
| Total liabilities | <u>19,154,514</u> | <u>9,512,182</u> |
| Net assets | <u>1,479,218</u> | <u>16,127,704</u> |
| Financial performance | | |
| Profit / (loss) for the year | (2,754,318) | (6,708,357) |
| Impairment of inter-company investment | (10,962,274) | - |
| Other comprehensive income | - | - |
| Total comprehensive income | <u>(13,716,592)</u> | <u>(6,708,357)</u> |

Contingent liabilities

The parent company had no contingent liabilities as at 30 June 2015.

Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity had no commitments to buy property, plant and equipment as at 30 June 2015.

32. Events subsequent to balance date

On 13 July 2015 the Company announced that it had signed a Gold prepayment take-off agreement with a refiner subject to 8% interest pro-rated for period of the prepaid amount. The agreement allows for the Company to receive prepayments of USD500,000 for gold shipments for the next 11 months. The agreement is valid for a 3 year term. A prepayment of US\$500,000 (equivalent to 14 kg gold dore) has been received.

On 13 July 2015 the Company announced closure of the Royalty Linked Note. A total of \$125,000 was raised post balance date. During August 2015 the Company accepted applications for a further \$540,000 in Royalty Linked Notes. (see Note 19).

On 13 July 2015 the Company announced an update on the initial JORC resource and mine plans for the high-grade gold mineralisation at the Cleveland Premier Joint Venture's Lavra Project, part of the O Capitão Project, located 9km from the Premier process plant in Goiás State, Brazil.

On 10 September 2015 the Company announced that it had mobilized a drill rig to complement the 2 existing grade control rigs for initial advance grade control drilling 100 tph of ore and future drilling extension holes in the highly prospective Vanuza south of the Premier open pit.

Notes to the Financial Statements

for the year ended 30 June 2015

On 30 September 2015, the Company suspended its securities pending an announcement relating to the ownership and financing structure of the Premier Gold mine.

On the 19 October 2015, Mr. Russell Scrimshaw announced his intention to step down from the Non-Executive Chairman role and the Board of the Company. Mr Wayne Zekulich accepted the role as Acting Non-Executive Chairman

On 24 October 2015 the Company formalised an option agreement to acquire the remaining 50% interest in the Premier Project from Edifica for 3 staged payments of \$US4 million and a 5% gold royalty. The option is valid for 6 months and is at the discretion of the Company. 100% ownership is formalised on the receipt of the first payment. Subsequent payments are each 12 months apart.

On 12 November 2015 the Company announced a Waiver Agreement with Platinum Partners, regarding outstanding interest payments, which was executed on 11 December 2015. The agreement consolidated the \$US6.8m note with the \$US1m note and \$US2m note, providing a consolidated US\$10,974,861 note with a maturity date of 19 September 2016. The interest rate on the consolidated note was reduced to 12%, and interest is payable quarterly in arrears, commencing 1 April 2016. In addition, four consecutive monthly repayments of US\$250,000 will commence on 1 April 2016. The Company will issue Platinum Partners 29,371,525 shares in consideration for the waiver subject to shareholder approval, 5,000,000 warrants at an exercise price of AU\$0.05, and the Company will transfer 50% of the fully paid shares in Cleveland Iron Holdings Pty Ltd to Platinum Partners. The redemption amount of the consolidated note at maturity is US\$13,169,833. The note holder has, subject to shareholder approval, the option of converting any portion of the note together with any accrued and unpaid interest thereon into shares in the Company at a conversion price of AU\$0.07.

On 10 December 2015, the Company announced an equity placement for approximately \$1.6 million and a Share Purchase Plan (SPP) of up to \$500,000 (with \$400,000 underwritten). Of the \$1.6 million placement, \$1,328,876 is available following the Company's securities recommencing trading on the Australian Securities Exchange, with the balance of \$300,000 being subject to shareholder approval. Shareholder approval for the \$300,000 and the SPP will be sought in January 2016 and funds raised by the SPP from existing shareholders or Underwriters will be made available post shareholder approval. The Company also announced Mr Alex Sundich and Mr Glenn Simpson are to join the Board of Cleveland as non-executive Directors, following the completion of this capital raising.

Directors' Declaration

The directors declare that:

- (a) 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;
- (b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3(a) to the financial statements;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by s295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 27 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors



DAVID MENDELAWITZ
Managing Director

Dated at Perth this 12th day of December 2015

Independent Auditor's Report to the members of Cleveland Mining Company Limited

Report on the Financial Report

We have audited the accompanying financial report of Cleveland Mining Company Limited, which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 75.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Cleveland Mining Company Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Cleveland Mining Company Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 3 in the financial report, which indicates that the consolidated entity incurred a net loss of \$11,995,384 (2014: \$12,145,155) and experienced net cash outflows from operating and investing activities of \$3,825,660 and \$1,266,712 respectively during the year ended 30 June 2015 (2014: \$6,821,105 and \$3,765,422 respectively) and, as of that date, the consolidated entity's current liabilities exceeded its current assets by \$23,301,919 (2014: \$824,184). These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's and company's ability to continue as going concerns and therefore, the consolidated entity and company may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 21 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with 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.

Opinion

In our opinion the Remuneration Report of Cleveland Mining Company Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



David Newman

Partner

Chartered Accountants

Perth, 12 December 2015