Cleveland Mining Company Limited

ABN 85 122 711 880

Half-Year Financial Report

For the half-year ended

31 December 2011

Corporate Directory

Directors

Mr David Mendelawitz	Managing Director
Mr Don Bailey	Non-Executive Chairman
Mr Aaron Finlay	Finance Director
Mr Jim Williams	Non-Executive Director
Mr Russell Scrimshaw	Non-Executive Director

Company Secretary

Mr Aaron Finlay

Registered Office

c/- Mendelawitz Morton Corporate Lawyers
Gryphon House
39 Richardson Street
West Perth WA 6005

Principal Place of Business

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Subiaco WA 6008

Contact Details

Tel: +61 8 9381 3391
Fax: +61 8 9382 1186

Solicitors to the Company

Mendelawitz Morton Corporate Lawyers
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West Perth WA 6005

Share Registry

Computershare Investor Services Pty Ltd
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Perth WA 6000

Tel: +61 8 9323 2000
Fax: +61 8 9323 2033

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

The directors of Cleveland Mining Company Limited ("the Company") present the financial report of Cleveland Mining Company Limited and its subsidiaries ("the Group") for the half-year ended 31 December 2011. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names of the directors of the Company during or since the end of the half-year are:

Mr David Mendelawitz
Mr Don Bailey
Mr Aaron Finlay
Mr Jim Williams
Mr Russell Scrimshaw (appointed 5 July 2011)

All directors have been in office for this entire period unless otherwise stated.

Review of results and operations

The Group's net loss attributable to members of the Company for the half year ended 31 December 2011 was $2,713,781 (half-year ended 31 December 2010 loss of $1,232,694).

As at 31 December 2011 the cash position was $8,269,761 (30 June 2011 $2,747,804) and the Company had 157,373,171 shares on issue.

No dividends were declared or paid during the half-year ended 31 December 2011.

On 5 July 2011 the Company announced that Mr Russell Scrimshaw had joined the Board as a Non-Executive Director, bringing extensive experience in both mining and finance.

On 21 September 2011 the Company issued 17.7 million ordinary shares at an issue price of $0.34 per share, and on 10 November 2011, after receiving shareholder approval, the Company issued a further 12 million ordinary shares at $0.34 per share to Aosen Steel, a private Chinese steel mill group. The purpose of these issues was to provide capital to fund the development of the Company's Premier Gold Mine and to augment working capital.

Exploration

<u>Premier Gold Mine, Crixás Hub, Brazil</u>

At the Premier Gold Mine, the Company is going through the change from exploration to production. At the end of December, the Company was ready to commence plant construction at the Premier Gold Mine in preparation for the final Installation Permit to be issued by the Department of Mines. Construction of the 500KW ball mill and the gravity concentrators was completed and the last remaining components for the plant such as pumps, piping, electrical, and safety equipment were being secured.

Infill drilling was conducted during the period to verify the current mine design and add confidence to the first year's pit shell. Geological mapping and sampling has been performed to define the footwall contact in the area where mining will start.

Positive exploration results were also returned in drilling near the Dona Maria garimpo mine at O Capitão. Four shallow, stacked, mineralised zones were discovered over a 250m strike and the mineralisation remains open along strike and down dip. Drilling aimed at extending and quantifying the mineralisation with a JORC-compliant resource will begin in 2012 to potentially provide a new source of ounces for the Premier plant.

Porto Grande Iron Ore Project, Amapá Hub, Brazil

Cleveland announced the results of rock-chip sampling in October. Iron mineralisation was observed and sampled during preliminary fieldwork over a 3km^2 area. During the first stage of exploration, from August to December 2011, work focused on mapping, geological reconnaissance and sampling of rocks and sediments. In this period, 509 samples were taken, including samples from outcrops, soil and trenches. Of the initial 55 samples that were processed from two-metre deep trenches, 26 have iron oxide (Fe_2O_3%) content greater than 40%.

An "Operation License for Iron Ore Research" application was granted, allowing the Company to conduct deeper exploration and some clearing. Mechanical trenching replaced trenching by shovel, significantly accelerating the progress of exploration.

An airborne geophysical survey was flown over the project area to define further exploration targets to investigate. Results of this survey are currently being interpreted by Cleveland and its Geophysical consultants.

Canela Hub, Chile

During the period, the Company's Chilean tenement portfolio was restructured, with new projects acquired and others relinquished, in preparation for a greater exploration focus in 2012. Four copper/gold projects, named Agua Fria, Las Tazas, Matancilla and Antonia, were acquired. The Agua Fria and Las Tazas projects are held under Option Contract Agreements; whilst the Matancilla and Antonia projects are 100% owned by Cleveland Mining. Early exploration results for the new projects have thus far been excellent.

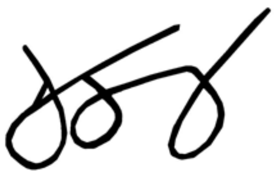
Until recently, Chilean exploration has been confined to small programs performed as part of Cleveland due diligence process. Larger exploration programs were held off until both the project and the commercial terms supported moving forward. Accordingly, the Letter of Intent held over the San Antonio project was not converted into an Option Contract Agreement because commercial terms could not be reached with the project vendor, and, the Option Contract held over El Chapo project was not exercised after the first round of exploration. Accordingly the exploration expenditure relating to the El Chapo and San Antonio projects have been expensed during the period.

Work will continue on the new projects and drilling is targeted for later in the year.

Auditor's independence declaration

The auditor's independence declaration for the half-year ended 31 December 2011 is included on page 6 of the half-year report.

Signed in accordance with a resolution of the directors made pursuant to s306(3) of the *Corporations Act 2001*.



DAVID MENDELAWITZ
Managing Director

Dated at Perth this 9th day of March 2012

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
Cleveland Mining Company Limited
Level 1
387 Hay Street
Subiaco WA 6008

9 March 2012

Dear Board Members

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 review of the financial statements of Cleveland Mining Company Limited for the half-year ended 31 December 2011, 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants

Condensed Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2011

	Consolidated Half-year ended 31 December 2011 $	31 December 2010 $
Interest income	56,215	45,053
Administrative expenses	(48,855)	(25,507)
Compliance and regulatory expenses	(100,189)	(28,833)
Consultancy and legal expenses	(144,012)	(87,826)
Depreciation expense	(26,407)	(25,870)
Director and employee-related expenses	(1,051,953)	(268,494)
Insurance	(66,364)	(5,334)
Occupancy expenses	(90,980)	(39,052)
Promotion and communication costs	(94,510)	(45,401)
Travel and accommodation expenses	(327,506)	(49,604)
Finance costs	(19,380)	(5,682)
Write down of exploration expenditure	(795,875)	-
Expenses relating to Deed of Company Arrangement	-	(150,000)
Facilitator share expense	-	(500,000)
Other expenses	(3,965)	(46,144)
Loss before income tax expense	(2,713,781)	(1,232,694)
Income tax expense	-	-
Loss after income tax expense	(2,713,781)	(1,232,694)
Other Comprehensive Income		
Exchange differences on translating foreign operations	(1,136,685)	(366,301)
Total comprehensive income for the period	(3,850,466)	(1,598,995)
Total comprehensive income attributable to members of the Company	(3,850,466)	(1,598,995)
Basic loss per share (cents)	(1.93)	(1.40)
Diluted loss per share (cents)	(1.93)	(1.40)

The accompanying notes form part of these condensed consolidated financial statements.

	Note	Consolidated 31 December 2011 $	30 June 2011 $
Current assets			
Cash and cash equivalents	2	8,269,761	2,747,804
Trade and other receivables		45,798	170,617
Other assets		49,443	28,974
Total current assets		8,365,002	2,947,395
Non-current assets			
Other financial assets		204,962	-
Plant and equipment		521,835	82,542
Capitalised exploration expenditure		7,390,186	7,206,065
Total non-current assets		8,116,983	7,288,607
Total assets		16,481,985	10,236,002
Current liabilities			
Trade and other payables		173,047	235,714
Borrowings		36,634	-
Provisions		69,408	58,121
Total current liabilities		279,089	293,835
Non-current liabilities			
Borrowings		25,295	-
Total non-current liabilities		25,295	-
Total liabilities		304,384	293,835
Net assets		16,177,601	9,942,167
Equity			
Issued capital	4	23,466,857	13,586,452
Reserves		(1,154,665)	(223,475)
Accumulated losses		(6,134,591)	(3,420,810)
Total equity		16,177,601	9,942,167

The accompanying notes form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Cash Flows
for the half-year ended 31 December 2011

	Consolidated Half-year ended	
	31 December 2011 $	31 December 2010 $
Cash flows from operating activities		
Payments to suppliers and employees	(1,682,569)	(804,994)
Interest received	54,751	45,052
Interest paid	(6,827)	(2,066)
Net cash (used in) operating activities	(1,634,645)	(762,008)
Cash flows from investing activities		
Payments for plant and equipment	(490,793)	(60,125)
Proceeds from sale of plant and equipment	3,418	-
Payments for exploration and development	(1,928,144)	(4,006,861)
Loans to other parties	(219,204)	-
Net cash (used in) investing activities	(2,634,723)	(4,066,986)
Cash flows from financing activities		
Proceeds from issue of shares	10,118,000	6,343,991
Share issue costs	(237,595)	(959,162)
Proceeds from borrowings	80,554	-
Repayment of borrowings	(14,003)	-
Net cash provided by financing activities	9,946,956	5,384,829
Net increase in cash and cash equivalents held	5,677,588	555,835
Cash and cash equivalents at the beginning of the period	2,747,804	1,350,990
Effects of exchange rate changes on the balance of cash held in foreign currencies	(155,631)	74,116
Cash and cash equivalents at the end of the period	8,269,761	1,980,941

The accompanying notes form part of these condensed consolidated financial statements.

Condensed Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2011

	Consolidated			
	Issued capital	Reserves	Accumulated losses	Total
	$	$	$	$
Balance at 1 July 2010	3,377,523	47,374	(514,403)	2,910,494
Loss for the period	-	-	(1,232,694)	(1,232,694)
Other comprehensive loss for the period	-	(366,301)	-	(366,301)
Total comprehensive loss for the period	-	(366,301)	(1,232,694)	(1,598,995)
Shares issued	6,843,991	-	-	6,843,991
Share issue costs	(959,162)	-	-	(959,162)
Balance at 31 December 2010	9,262,352	(318,927)	(1,747,097)	7,196,328
Balance at 1 July 2011	13,586,452	(223,475)	(3,420,810)	9,942,167
Loss for the period	-	-	(2,713,781)	(2,713,781)
Other comprehensive loss for the period	-	(1,136,685)	-	(1,136,685)
Total comprehensive loss for the period	-	(1,136,685)	(2,713,781)	(3,850,466)
Shares issued	10,118,000	-	-	10,118,000
Share issue costs	(237,595)	-	-	(237,595)
Share-based payments	-	205,495	-	205,495
Balance at 31 December 2011	23,466,857	(1,154,665)	(6,134,591)	16,177,601

The accompanying notes form part of these condensed consolidated financial statements.

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2011 annual financial report for the financial year ended 30 June 2011. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half-year statements.

Certain comparative information in the Statement of Comprehensive Income has been reclassified to aid comparability with the current period.

2. Cash and cash equivalents

For the purposes of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:

	Consolidated	
	31 December 2011 $	**30 June 2011 $**
Cash at bank	8,121,169	2,540,056
Cash on short term deposit	148,592	207,748
	8,269,761	2,747,804

3. Dividends

No dividend has been declared or paid during the half-year or the previous corresponding period.

The Company does not have any franking credits available for current or future years as it is not in a tax paying position.

4. Issued capital

	Consolidated	
	31 December 2011 $	**30 June 2011 $**
Fully paid ordinary shares	23,466,857	13,586,452

The following movements in issued capital occurred during the half-year:

	Number	**$**
Balance at 1 July 2011	127,573,171	13,586,452
Movements during the period		
Issues of shares		
- Placement	29,700,000	10,098,000
- Exercise of options	100,000	20,000
Capital raising expenses	-	(237,595)
Balance at 31 December 2011	157,373,171	23,466,857

5. 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 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.

5. Segment reporting (continued)

Segment revenues and results

	Segment revenue Half-year ended		Segment result Half-year ended	
	31 December 2011 $	**31 December 2010 $**	**31 December 2011 $**	**31 December 2010 $**
Brazil	-	-	(814,368)	(109,978)
Chile	-	-	(568,180)	(631)
	-	-	(1,382,548)	(110,609)
Interest income			56,215	45,053
Central administration costs and directors' salaries			(1,387,448)	(1,167,138)
Loss before tax			(2,713,781)	(1,232,694)
Income tax expense			-	-
Consolidated loss for the period after tax			(2,713,781)	(1,232,694)

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.

Segment assets and liabilities

	31 December 2011 $	**30 June 2011 $**
Segment assets		
Brazil	8,660,503	7,142,943
Chile	74,245	236,009
Total segment assets	8,734,748	7,378,952
Unallocated	7,747,237	2,857,050
Consolidated assets	16,481,985	10,236,002
Segment liabilities		
Brazil	99,380	16,984
Chile	23,992	16,383
Total segment liabilities	123,372	33,367
Unallocated	181,012	260,468
Consolidated liabilities	304,384	293,835

6. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

7. Share-based payments

During the half-year ended 31 December 2011 the Company issued options to a director of the Company. A total of 3,000,000 options exercisable at $0.36 and expiring on 31 December 2015 were granted. Vesting of the options is subject to performance milestones. These options were valued using the Black Scholes option pricing model and are being expensed over the estimated vesting period of the option. Inputs into the model were as follows:

Grant date share price	$0.335
Exercise price	$0.36
Expected volatility	79%
Option life	3.62 years
Dividend yield	0%
Fair value per option at grant date	$0.188

8. Contingencies and commitments

The consolidated entity does not have any material contingent assets or liabilities.

9. Subsequent events

On 24 January 2012 the Company provided an update on the exploration results of its newly acquired Chilean projects. Four copper/gold projects, named Agua Fria, Las Tazas, Matancilla and Antonia, were acquired. The Agua Fria and Las Tazas projects are held under Option Contract Agreements; whilst the Matancilla and Antonia projects are 100% owned by Cleveland Mining. Early exploration results for the new projects have thus far been excellent.

On 23 February 2012 the Company announced that it had signed a Memorandum of Understanding to acquire and develop a potentially significant Iron Ore Project in Amapá State, Brazil. The agreement is non-binding and subject to due diligence currently being undertaken by the Company. Exploration drilling and geophysics confirm that the project has the potential to support a Resource of several hundred million tonnes, which could, in turn, support the construction of a major iron ore mine. Exploration potential for greater than a billion tonnes of mineralisation is also apparent within the project, based on the vendor's exploration results.

The Resource is currently being re-modelled by independent consultants to a JORC standard, whilst Cleveland finalises a Binding Option to Purchase Agreement with the vendors.

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; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporation Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the *Corporations Act 2001*.

On behalf of the Board.

DAVID MENDELAWITZ
Managing Director

Dated at Perth this 9th day of March 2012

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

We have reviewed the accompanying half-year financial report of Cleveland Mining Company Limited, which comprises the condensed statement of financial position as at 31 December 2011, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 15.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 201 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cleveland Mining Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, 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 review report.

Deloitte.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter Rupp
Partner
Chartered Accountants
Perth, 9 March 2012