Cleveland Mining Company Limited

ABN 85 122 711 880

Half-Year Report

For the half-year ended

31 December 2013

Contents

Corporate Directory

Directors

Mr David Mendelawitz	Managing Director
Mr Russell Scrimshaw	Non-Executive Chairman
Mr Rod Campbell	Commercial Director
Mr Rick Stroud	Non-Executive Director

Company Secretary

Ms Katrina Grose

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Perth WA 6000

Stock Exchange

Australian Securities Exchange
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Perth WA 6000

ASX Code: CDG

The directors of Cleveland Mining Company Limited ("the Company") submit herewith the financial report of Cleveland Mining Company Limited and its subsidiaries ("the Group") for the half-year ended 31 December 2013. 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 Russell Scrimshaw
Mr Rod Campbell (appointed 4 September 2013)
Mr Rick Stroud (appointed 8 October 2013)
Mr Don Bailey (retired 28 August 2013)
Mr Aaron Finlay (resigned 12 July 2013)
Mr Jim Williams (retired 1 November 2013)

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 2013 was $2,562,239 (half-year ended 31 December 2012 loss of $4,258,740).

As at 31 December 2013 the cash position was $576,224 (30 June 2013 $873,294) and the Company had 241,308,401 shares on issue.

No dividends were declared or paid during the half-year ended 31 December 2013 (2012: Nil).

On 3 July 2013 the Company issued 1,000,000 options exercisable at $0.135 and expiring 31 March 2017, subject to performance milestones, to an employee in replacement for options previously issued to the employee in March 2012.

On 4 July 2013 the Company issued 11,364,998 options exercisable at $0.65 and expiring 4 July 2016 to investors who had participated the a previous capital raising (in February 2013) and the share purchase plan (in April 2013) and the Geordie offer, as approved by shareholders at a general meeting held on 13 June 2013.

On 8 July 2013 the Company announced that it had received an Installation Licence for a Carbon in Leach (CIL) processing plant at the Premier Gold Mine.

On 10 July 2013 the Company issued 5 million ordinary shares pursuant to its financing facility with Baycrest Capital.

On 12 July 2013 the Company announced that Aaron Finlay had resigned as Finance Director and Company Secretary of the Company and that it had appointed Katrina Grose as Company Secretary.

On 29 July 2013 the Company announced that production had resumed at the Premier Gold Mine after a major cost reduction program.

On 21 August 2013 the Company announced that Chairman, Mr Don Bailey would be retiring as a Director of the Company at the Company's next Board Meeting. Mr Russell Scrimshaw took on the role of Chairman on Mr Bailey's resignation on 28 August 2013.

On 26 August 2013 the Company announced that it had completed a capital raising. The Company issued 28,988,399 ordinary shares at a price of $0.12 per share, raising approximately $3.48 million before costs, with 833,333 ordinary shares to be issued to a director pending shareholder approval.

On 4 September 2013 the Company announced that Rod Campbell had been appointed to the role of Executive Director – Commercial.

On 19 September 2013 the Company announced that it had converted the Memoranda of Understanding held over three iron ore projects in Brazil into binding Option Agreements. The Option Agreements allow the newly-formed Alliance between the Company and BC Iron Limited to acquire up to 80% of the projects from private Brazilian company, Bahmex, through earn-in agreements based on staged payments and key project milestones. The transaction does not require upfront payments prior to drilling.

On 8 October 2013 the Company announced that Rick Stroud had been appointed as a Non-Executive Director of the Company.

On 18 October 2013 the Company announced that it was moving to an owner-operator business model rather than the contractor-based model the Company had been using. The Company announced the purchase of an In-Line Leach Reactor ("ILR") to enhance Cleveland's gold recovery, as well as a new jaw crusher and hammer mill, and that deposits had been paid to acquire an excavator, three trucks and a front end loader.

On 1 November 2013 Mr Jim Williams retired as a Director of the Company.

On 4 December 2013 the Company announced that it had entered into a convertible debt facility for US$1 million for a term of 12 months and at a coupon interest rate of 12%, which was to be partially used to repay $500,000 plus accrued interest of the Company's A$1 million convertible note entered into by the Company in May 2013.

On 13 December 2013 the Company announced that it had signed a Toll Treatment Agreement with Orinoco Gold Limited under which Cleveland will process gold-bearing material from Orinoco's Brazilian projects at its Premier Gold Mine, with an initial 500 tonne parcel planned to be processed in the first quarter of the 2014 calendar year.

Exploration

Crixás Hub

<u>Premier</u>

The six months to 31 December 2013 resulted in substantial development toward getting the Premier mine back into operation and achieving commercial production. The entire front end circuit combining a new jaw crusher and a new hammer mill have been installed and commissioned. This development is consistent with Cleveland's objective of having the mine run under an "owner operator" model rather than outsourcing part of the production process to contractors. The ultimate benefit is improved control over the particle size and uniformity of ore moving through the processing circuit and in particular through the ball mill. In turn this results in improved production yield and efficiency of operation.

In line with a return to production, extensive work was conducted in the refinement of the Metago mine plan. As announced in October, Cleveland worked closely with AMC Consultants to define a mine program over the area within the Metago Pit. This resulted in a first stage 20 month life of mine which provided for the production of around 19,000 ounces of gold. It is intended that the mine life and the output volumes will be extended with further infill and exploration drilling. Aligned to the AMC work was further Resource definition work conducted by Castle Consulting which enabled a re-estimation of the Mineral Resource portfolio to include an amount of Indicated Resource (18,900 ounces @ 2.14g/t) along with an amount of Inferred Resource (27,500 ounces @ 1.29g/t). This up-scaling in JORC categorisation was designed to add further substance to the AMC mine plan.

A further enhancement to the planned production program was confirmed during the period with the announcement of the successful Inline Leach Reactor "ILR" trials conducted by Gekko Systems. The ILR is an integrated unit that bolts on to the existing processing plant and provides for the chemical extraction of gold from the "gravity table" concentrate. Samples of Cleveland material were shipped from Brazil to Gekko's Australian facility and the results showed that this material was highly amenable to this type of extraction process. The objective for Cleveland is to lift its overall gold recovery from the current 60% level to a target of 75%. Following the successful trial, the ILR unit was subsequently ordered and has now arrived into Brazil ready for transportation and installation at the Premier site.

BC Iron Alliance

Good progress was also made on Cleveland's Iron Ore alliance with the Australian listed producer BC Iron. In September 2013, the JV with BC Iron was formalised with the interest in a number of prospective exploration targets converted into Binding Option Agreements. The effect of this is to enable the JV to acquire up to an 80% interest in the tenements subject to certain milestone events and related payments. This enhanced level of participation has provided for the development of a first pass exploration program that is currently underway. The results of this program should be available for release over the remainder of the 2014 financial year.

Auditor's independence declaration

The auditor's independence declaration for the half-year ended 31 December 2013 is included on page 7 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 15th day of March 2014

Deloitte Touche Tohmatsu
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The Board of Directors
Cleveland Mining Company Limited
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15 March 2014

Dear Board Members

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 review of the financial statements of Cleveland Mining Company Limited for the half-year ended 31 December 2013, 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

D Newman.

David Newman
Partner
Chartered Accountants

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the half-year ended 31 December 2013

	Consolidated Half-year ended 31 December 2013 $	31 December 2012 (restated) $
Interest income	1,828	82,145
Other revenue	-	24,389
Administrative expenses	(57,748)	(90,864)
Compliance and regulatory expenses	(50,416)	(95,061)
Consultancy and legal expenses	(336,497)	(160,060)
Depreciation expense	(24,239)	(38,557)
Director and employee-related expenses	(887,401)	(1,781,843)
Insurance	(26,494)	(28,532)
Occupancy expenses	(271,439)	(286,315)
Promotion and communication costs	(101,656)	(105,806)
Travel and accommodation expenses	(74,663)	(418,558)
Finance costs	(136,833)	(99,953)
Write down of exploration expenditure	(75,863)	(1,273,978)
Write down of assets held for sale	(474,624)	-
Other expenses	(51,435)	(9,845)
Loss before income tax expense	(2,567,480)	(4,282,838)
Income tax expense	-	-
Loss after income tax expense	(2,567,480)	(4,282,838)
Other Comprehensive Income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(512,720)	(354,806)
Total comprehensive income / (loss) for the period	(3,080,200)	(4,637,644)
Loss attributable to:		
Owners of the parent	(2,562,239)	(4,258,741)
Non-controlling interests	(5,241)	(24,097)
	(2,567,480)	(4,282,838)
Total comprehensive income / (loss) attributable to:		
Owners of the parent	(3,074,959)	(4,613,546)
Non-controlling interests	(5,241)	(24,098)
	(3,080,200)	(4,637,644)
Basic loss per share (cents)	(1.11)	(2.50)
Diluted loss per share (cents)	(1.11)	(2.50)

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

Condensed Consolidated Statement of Financial Position
as at 31 December 2013

	Note	Consolidated 31 December 2013 $	30 June 2013 (restated) $
Current assets			
Cash and cash equivalents	2	576,224	873,294
Trade and other receivables		660,152	293,777
Other assets		97,755	51,202
		1,334,131	1,218,273
Assets classified as held for sale		286,110	-
Total current assets		1,620,241	1,218,273
Non-current assets			
Receivables	4	6,628,722	6,176,768
Plant and equipment		4,669,161	5,402,041
Exploration and development	5	16,006,817	14,776,406
Total non-current assets		27,304,701	26,355,215
Total assets		28,924,942	27,573,488
Current liabilities			
Trade and other payables		1,281,635	1,237,663
Borrowings	6	1,642,933	1,455,419
Provisions	7	94,722	195,294
Total current liabilities		3,019,290	2,888,376
Non-current liabilities			
Provisions	7	148,338	152,117
Total non-current liabilities		148,338	152,117
Total liabilities		3,167,628	3,040,493
Net assets		25,757,314	24,532,995
Equity			
Issued capital	8	44,166,473	40,367,781
Reserves		(2,071,165)	(1,607,880)
Accumulated losses		(22,675,150)	(20,112,911)
Equity attributable to owners of the parent		19,420,158	18,646,990
Non-controlling interest		6,337,156	5,886,005
Total equity		25,757,314	24,532,995

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

Condensed Consolidated Statement of Cash Flows

for the half-year ended 31 December 2013

	Consolidated Half-year ended 31 December 2013 $	31 December 2012 (restated) $
Cash flows from operating activities		
Receipts from customers	587,347	-
Payments to suppliers and employees	(2,265,331)	(2,670,632)
Interest received	1,828	11,643
Interest paid	(54,988)	(1,575)
Net cash (used in) operating activities	(1,731,144)	(2,660,564)
Cash flows from investing activities		
Payments for plant and equipment	(710,603)	(756,983)
Proceeds from sale of plant and equipment	-	31,912
Payments for exploration and development	(1,911,314)	(7,606,227)
Net cash (used in) investing activities	(2,621,917)	(8,331,298)
Cash flows from financing activities		
Proceeds from issue of shares	4,281,927	11,175,867
Share issue costs	(281,417)	(277,148)
Proceeds from borrowings	1,084,598	500,000
Borrowing costs	-	(12,500)
Repayment of borrowings	(1,002,006)	(10,524)
Proceeds from shares to be issued	-	892,000
Net cash provided by financing activities	4,083,102	12,267,695
Net (decrease) / increase in cash and cash equivalents held	(269,959)	1,275,833
Cash and cash equivalents at the beginning of the period	873,294	1,570,349
Effects of exchange rate changes on the balance of cash held in foreign currencies	(27,111)	(284,122)
Cash and cash equivalents at the end of the period	576,224	2,562,060

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

	Consolidated					
	Issued capital	Foreign currency translation reserve	Option & convertible note reserve	Accumulated losses	Non-controlling interest	Total
	$	$	$	$	$	$
Balance at 1 Jul 2012	23,741,857	(2,659,450)	301,087	(7,993,957)	-	13,389,537
Adjustments (note 1)	-	2,590	-	-	1,674,263	1,676,853
Balance at 1 Jul 2012 (restated)	23,741,857	(2,656,860)	301,087	(7,993,957)	1,674,263	15,066,390
Loss for the period	-	-	-	(4,258,741)	(24,097)	(4,282,838)
Other comprehensive loss for the period	-	(354,806)	-	-	-	(354,806)
Total comprehensive loss for the period	-	(354,806)	-	(4,258,741)	(24,097)	(4,637,644)
Shares issued	11,175,867	-	-	-	-	11,175,867
Share issue costs	(277,148)	-	-	-	-	(277,148)
Share-based payments	-	-	223,347	-	-	223,347
Issue of convertible notes	-	-	12,378	-	-	12,378
Contribution by non-controlling interest	-	-	-	-	2,672,928	2,672,928
Balance at 31 Dec 2012	34,640,576	(3,011,666)	536,812	(12,252,698)	4,323,094	24,236,118
Balance at 1 Jul 2013	40,367,781	(2,442,303)	834,699	(20,112,911)	-	18,647,266
Adjustments (note 1)	-	(276)	-	-	5,886,005	5,885,729
Balance at 1 Jul 2013 (restated)	40,367,781	(2,442,579)	834,699	(20,112,911)	5,886,005	24,532,995
Loss for the period	-	-	-	(2,562,239)	(5,241)	(2,567,480)
Other comprehensive loss for the period	-	(512,720)	-	-	-	(512,720)
Total comprehensive loss for the period	-	(512,720)	-	(2,562,239)	(5,241)	(3,080,200)
Shares issued	4,069,487	-	-	-	-	4,069,487
Share issue costs	(270,795)	-	-	-	-	(270,795)
Share-based payments	-	-	49,435	-	-	49,435
Contribution by non-controlling interest	-	-	-	-	456,392	456,392
Balance at 31 Dec 2013	44,166,473	(2,955,299)	884,134	(22,675,150)	6,337,156	25,757,314

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 annual financial report for the financial year ended 30 June 2013, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Going concern

The half-year 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 half-year ended 31 December 2013, the Group has incurred a net loss after tax of $2,567,480 (31 December 2012: loss $4,282,838) and experienced net cash outflows from operating and investing activities of $1,731,144 and $2,621,917 respectively for the six months ended 31 December 2013 (31 December 2012: outflows of $2,660,564 and $8,331,298 respectively). As at 31 December 2013 the Group had a working capital deficiency of $1,399,049 (30 June 2013: deficiency of $1,670,103).

As disclosed further in note 14, subsequent to 31 December 2013, the Company executed an agreement to raise US$6.8 million (before transaction costs) by way of a secured convertible note facility, however, this agreement has not yet been signed by the counterparty, but is expected to be signed over the coming days.

The proposed facility can be converted into equity at a fixed price within a conversion window, otherwise it is repayable 18 months from issue date, and attracts interest at 14% per annum. The proceeds, which are expected to be received during March 2014, will be used to fund finalisation of the commissioning of the Premier project and other ongoing working capital requirements.

The proposed facility agreement prescribes a number of conditions precedent which must be completed to the satisfaction of the noteholder prior to the noteholder advancing funds under a drawdown notice. The Directors are of the view that the conditions precedent are not substantive in nature and are expected to be satisfied during March 2014.

The Group is confident in Premier achieving commercial production prior to 30 June 2014. At the present time, the Group is awaiting the release of an Inline Leach Reactor from Brazilian customs at which point it will be transported to site for installation and commissioning. The Group expects that following this process, the Premier operation will achieve commercial production prior to 30 June 2014.

1. Significant accounting policies (continued)

The ability of the Group to continue as a going concern is dependent on the raising of appropriate debt or equity funds such as through the execution of the proposed facility agreement by way of the counterparty executing the proposed facility agreement, the noteholder accepting the satisfactory completion of all conditions precedent under the proposed facility agreement, the Group receiving the funds during March 2014, and the Premier operations achieving commercial production prior to 30 June 2014.

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 will be able to continue as a going concern 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 will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

The half-year 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 not be able to continue as a going concern.

Adoption of new and revised 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.

New and revised Standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include AASB 10, 11, 12, 13, 119, 127, 128, 2012-5 and 2012-10.

The adoption of new and revised standards and interpretations has not materially affected the amounts reported for the current or prior corresponding period, other than in relation to the adoption of AASB 11 which is discussed in further detail below. Further information relating to the new and revised standards and interpretations is included below.

Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 ‘Consolidated and Separate Financial Statements’ that deal with consolidated financial statements and Interpretation 112 ‘Consolidation – Special Purpose Entities’. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee.

The directors of the Company reviewed and assessed the classification of the Group’s 50% ownership interest in Cleveland Premier Mineração Ltda in accordance with the requirements of AASB 10. The directors concluded that the Group’s investment in Cleveland Premier Mineração Ltda, which was classified as a jointly controlled entity under AASB 131 and accounted for using the proportionate consolidation method, should be consolidated as a subsidiary from its date of incorporation as a result of having control as defined in AASB 10.

1. Significant accounting policies (continued)

The change in accounting of the Group's investment in Cleveland Premier Mineração Ltda has been applied in accordance with the relevant provisions set out in AASB 10. Comparative amounts for 2012 have been restated to reflect the change in accounting for the Group's investment in Cleveland Premier Mineração Ltda.

Impact of the application of AASB 11

AASB 11 replaces AASB 131 'Interests in Joint Ventures' and the guidance contained in a related interpretation, Interpretation 113 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers', has been incorporated in AASB 128 (as revised in 2011). AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under AASB 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under AASB 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (ie joint venturers) have rights to the net assets of the arrangement. Previously, AASB 131 'Interests in Joint Ventures' contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under AASB 131 was primarily determined based on the legal form of the arrangement (eg a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed).

Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expense incurred jointly). Each joint operation accounts for the assets and liabilities, as well as revenue and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The adoption of AASB 11 did not have any impact on the group's current or prior period financial information.

Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the half-year financial report.

1. Significant accounting policies (continued)

Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (eg net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period, the application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 119

In the current year, the Group has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time. Specific transitional provisions are applicable to first-time application of AASB 119 (as revised in 2011). AASB 119 (as revised in 2011) changes the definition of short-term employee benefits. Short-term employee benefits under the superseded AASB 119 were benefits that are due to be settled within 12 months after the end of the period in which the employees render the related service. In contrast, under the revised AASB 119, only benefits that are expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service are classified as short-term employee benefits. The inclusion of 'expected' and 'wholly' in the definition of short-term employee benefits might lead to a change of classification. For the company, this is demonstrated in the accrued annual leave in Australia that is generally not required (or 'expected') to be wholly used (settled) before the end of the next annual reporting period. Due to the adjusted definition, similar benefits classified as short-term employee benefits under the superseded standard would be classified as long-term employee benefits under the revised AASB 119. The impact of this would be that annual leave classified as long term would need to be discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

The adoption of AASB 119 did not result in any changes to the half year financial report.

1. Significant accounting policies (continued)

	Consolidated Half-year ended 31 December 2012 $
Impact on profit / loss for the period of application of AASB 10	
Increase in administrative expenses	1,742
Increase in compliance and regulatory expenses	107
Increase in consultancy and legal expenses	12,052
Increase in depreciation expense	4,922
Increase in director and employee-related expenses	2,363
Increase in travel and accommodation expenses	59
Increase in finance costs	2,852
Increase in loss for the half-year	24,097

	As at 1 July 2012 as previously reported $	Consolidated AASB 10 adjustments $	As at 1 July 2012 as restated $
Impact on assets, liabilities and equity as at 1 July 2012 of the application of the above new and revised Standards			
Cash and cash equivalents	1,565,896	4,453	1,570,349
Non-current receivables	1,706,293	1,745	1,708,038
Plant and equipment	753,563	422,792	1,176,355
Exploration and development	9,597,247	1,247,863	10,845,110
Total effect on net assets	13,622,999	1,676,853	15,299,853
Reserves	(2,358,363)	2,590	(2,355,773)
Non-controlling interest	-	1,674,263	1,674,263
Total effect on equity	(2,358,363)	1,676,853	(681,510)

	As at 30 June 2013 as previously reported $	Consolidated AASB 10 adjustments $	As at 30 June 2013 as restated $
Impact on assets, liabilities and equity as at 1 July 2013 of the application of the above new and revised Standards			
Cash and cash equivalents	845,321	27,973	873,294
Trade and other receivables	288,372	5,405	293,777
Other current assets	50,835	367	51,202
Non-current receivables	6,174,964	1,804	6,176,768
Plant and equipment	3,262,124	2,139,917	5,402,041
Exploration and development	10,803,566	3,972,840	14,776,406
Trade and other payables	(1,051,145)	(186,518)	(1,237,663)
Provisions (non-current)	(76,058)	(76,059)	(152,117)
Total effect on net assets	20,297,979	5,885,729	26,183,708

1. Significant accounting policies (continued)

	As at 30 June 2013 as previously reported	Consolidated AASB 10 adjustments	As at 30 June 2013 as restated
	$	$	$
Impact on assets, liabilities and equity as at 1 July 2013 of the application of the above new and revised Standards			
Reserves	(1,607,604)	(276)	(1,607,880)
Non-controlling interest	-	5,886,005	5,886,005
Total effect on equity	(1,607,604)	5,885,729	4,278,125

	Consolidated Year ended 30 June 2013
	$
Impact on cash flows for the year ended 30 June 2013 on the application of AASB 10	
Net cash inflow / (outflow) from operating activities	(475,541)
Net cash inflow / (outflow) from investing activities	452,735
Net cash inflow / (outflow) from financing activities	-
Net cash inflow / (outflow)	(22,806)

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 2013	30 June 2013
	$	$
Cash at bank	283,795	544,480
Cash on short term deposit	292,429	328,814
	576,224	873,294

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. Non-current receivables

Loan to joint venture partner	6,628,722	6,176,768

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

5. Exploration and development

	Consolidated	
	31 December 2013	**30 June 2013**
	$	**$**
Exploration properties	1,390,100	1,381,099
Development properties	14,616,717	13,395,307
	16,006,817	14,776,406

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

6. Borrowings

Current		
Convertible notes	1,642,933	1,453,352
Finance lease	-	2,067
	1,642,933	1,455,419

Convertible notes totaling $500,000 were issued by the Company in December 2012, carrying a coupon rate of 7.5%, with a conversion price of $0.27 for each dollar of debt. These notes were repaid in full during the half-year period.

Convertible notes totaling $1,000,000 were issued by the Company in May 2013. These notes carry a coupon rate of 7.5%, with a conversion price of $0.27 for each dollar of debt. During the half-year $500,000 of these notes were repaid, with the balance being due in May 2014.

Convertible notes totaling US$1,000,000 were issued by the Company in November 2013 for a period of 12 months. These notes carry a coupon rate of 12% and are convertible only in an event of default, allowing for the loan amount to be converted into fully paid ordinary shares in the Company at a 20% discount to the prevailing volume weighted average price.

The financial liability component has been calculated by discounting the face value of the convertible notes together with the interest payable thereon over the maturity period, followed by an allocation of the debt issue costs between the debt and equity components on a pro-rata basis. The discount rate used was 13%, representing the directors' estimate of the interest rate applicable to a debt instrument issued under similar terms with a similar maturity period. The unwinding of the discount is charged to the statement of profit or loss as an accretion expense within finance costs.

7. Provisions

Current		
Provision for employee entitlements	94,722	195,294
Non-current		
Provision for rehabilitation	148,338	152,117

8. Issued capital

	Consolidated	
	31 December 2013 $	30 June 2013 $
Fully paid ordinary shares	44,166,473	40,367,781

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

	Number	$
Balance at 1 July 2013	206,486,669	40,367,781
Movements during the period		
Issues of shares		
- Placement	34,821,732	4,069,487
Capital raising expenses	-	(270,795)
Balance at 31 December 2013	241,308,401	44,166,473

9. 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.

Segment revenues and results

	Segment revenue Half-year ended		Segment result Half-year ended	
	31 December 2013 $	31 December 2012 $	31 December 2013 $	31 December 2012 $
Brazil	-	-	(745,962)	(1,349,255)
Chile	-	-	(3,963)	(316,275)
	-	-	(749,925)	(1,665,530)
Interest income			1,828	82,145
Central administration costs and directors' salaries			(1,819,383)	(2,699,453)
Loss before tax			(2,567,480)	(4,282,838)
Income tax expense			-	-
Consolidated loss for the period after tax			(2,567,480)	(4,282,838)

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.

9. Segment reporting (continued)

Segment assets and liabilities

	Consolidated	
	31 December 2013 $	**30 June 2013 $**
Segment assets		
Brazil	28,146,882	26,532,547
Chile	-	4,029
Total segment assets	28,146,882	26,536,576
Unallocated	778,060	1,036,912
Consolidated assets	28,924,942	27,573,488
Segment liabilities		
Brazil	992,937	510,999
Chile	-	-
Total segment liabilities	992,937	510,999
Unallocated	2,174,691	2,529,494
Consolidated liabilities	3,167,628	3,040,493

10. Key management personnel

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

11. Share-based payments

During the half-year ended 31 December 2013 the Company issued a total of 8,500,000 options to employees and directors of the Company. 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:

	Number granted	*Grant date share price*	*Exercise price*	*Expected volatility*	*Option life*	*Fair value per option at grant date*
Grant 1	333,333	$0.095	$0.135	79.2%	1.27 years	$0.023
Grant 2	333,333	$0.095	$0.135	73.0%	2.17 years	$0.031
Grant 3	333,334	$0.095	$0.135	73.9%	3.52 years	$0.043
Grant 4	1,000,000	$0.105	$0.25	91.9%	1.48 years	$0.022
Grant 5	1,000,000	$0.105	$0.25	103.3%	1.03 years	$0.018
Grant 6	1,000,000	$0.105	$0.40	93.9%	1.41 years	$0.012
Grant 7	1,000,000	$0.105	$0.25	91.9%	1.48 years	$0.022
Grant 8	1,000,000	$0.105	$0.40	93.9%	1.41 years	$0.012
Grant 9	1,000,000	$0.105	$0.40	82.1%	2.31 years	$0.018
Grant 10	500,000	$0.105	$0.25	91.9%	1.48 years	$0.022
Grant 11	500,000	$0.105	$0.25	93.9%	1.41 years	$0.021
Grant 12	500,000	$0.105	$0.25	82.1%	2.31 years	$0.028

All grants were assumed to have a dividend yield of 0%.

12. Financial instruments

The fair values 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).

At 31 December 2013 and 31 December 2012, 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 31 December 2013 and 31 December 2012, the carrying amounts of financial assets and financial liabilities for the Group are considered to approximate their fair values.

13. Contingencies and commitments

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

14. Subsequent events

On 15 March 2014 the Company announced that it had signed a loan agreement for a convertible loan note of US$6.8 million, with finalisation subject to the satisfaction of a number of conditions precedent. The note is for a term of 18 months, with a coupon of 14% and convertible at a set price of 14 cents per share. The Company expects that completion of the conditions precedent will be forthcoming within the next week and upon completion, Cleveland will make a more fulsome disclosure of the relevant terms and conditions of the facility. Upon this release the Company will request a lifting of the self-imposed trading suspension.

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 Directors.

DAVID MENDELAWITZ
Managing Director

Dated at Perth this 15th day of March 2014

Deloitte.

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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 2013, and the condensed statement of profit or loss and other 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 8 to 22.

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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.

Deloitte.

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.

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 2013 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*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that the consolidated entity incurred a net loss of $2,567,480 and experienced net cash outflows from operating and investing activities of $1,731,144 and $2,621,917 respectively for the half-year ended 31 December 2013, and as of that date, the consolidated entity's current liabilities exceeded its current assets by $1,399,049. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and extinguish its liabilities in the normal course of business.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D Newman

David Newman
Partner
Chartered Accountants
Perth, 15 March 2014