

WESTERN CLUSTER LIMITED

**AUDIT REPORT
AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED

MARCH 31, 2017

CONTENTS:

Page

1. CORPORATE INFORMATION
2. INDEPENDENT AUDITOR'S REPORT
3. STATEMENT OF FINANCIAL POSITION
4. INCOME STATEMENT
5. STATEMENT OF CASH FLOWS
7. NOTES TO THE FINANCIAL STATEMENTS

Western Cluster Limited
Board of Directors
As at March 31, 2017

The Board of Directors of Western Cluster Limited comprises two (2) members as listed below.

| Directors | Title |
|--------------------|---|
| 1. Kishore Kumar | Director |
| 2. Frank Morais | Director |
| Registered Office: | Amir Building 18 th Street, Sinkor Tubman Boulevard Sinkor, Monrovia Liberia, West Africa |
| Bankers: | Standard Chartered UK Banking Standard Chartered Bank 1 Basinghall Avenue London EC2V 5DD Tel. No.: 02078858700 International Bank (Liberia) Ltd. 64 Broad Street P. O. Box 10-0292 1000 Monrovia 10, Liberia Ecobank Liberia Ashmun and Randall Street P.O. Box 4825 1000 Monrovia, 10 Liberia |
| Legal Counsel: | Sherman & Sherman Law Firm R. Foley Sherman Law Building 17 th Street & Cheeseman Avenue Sinkor, Monrovia |
| Auditors: | PKF Liberia Lara Building, 4 th Floor Randall Street P. O. Box 10-3635 1000 Monrovia 10, Liberia |

Western Cluster Limited
Statement of responsibilities of the Board of Directors

1. The Board has general powers to manage the business of the Company.
2. The Board of Directors is responsible to ensure that the books of accounts of the Company are kept in a manner considered suitable for reporting and other relevant purposes.

In particular, the Board is responsible to:

- a. ensure that the accounting records of the Company are satisfactorily maintained and its financial statements presented in accordance with authoritative standards and other governing policies applicable in such regard.
 - b. select suitable accounting policies and apply them consistently;
 - c. state whether applicable accounting standards have been followed, subject to any material departures to be disclosed or explained in the financial statements;
 - d. ensure that the financial statements are prepared on the going-concern basis unless it is inappropriate to presume that the Company will continue in business;
3. In summary, the Board is responsible to ensure that proper accounting records are kept, which disclose with reasonable accuracy, at any time, the financial position of the Company. The Board is responsible to put in place the relevant mechanism for safeguarding the assets of the Company and to take reasonable steps for the prevention of fraud and other forms of irregularities, and the prompt detection of those that might nonetheless occur.
 4. The Board is also responsible to annually appoint competent auditors to examine the books of the Company, subject to ratification be ratified by an affirmative vote of the shareholders at their annual meeting. The Board shall cause to be printed a copy of the auditor's report, together with the relevant statements accompanying such report.
 5. The Board may appoint members of management committees as it may deem necessary; and may delegate to the committees such powers as the Board considers relevant and necessary.

The above statement of responsibilities of the Board with respect to the financial statements of the Company shall be read in conjunction with the statement of the Auditor's responsibilities set out on the next page of this document. This is necessary and is being done with the view to distinguishing for the benefit of shareholders and other users of the financial statements the respective responsibilities of the Board of Directors and the Auditors in relation to the audited financial statements of Western Cluster Limited (WCL).



Frank Morais
Director

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western Cluster Limited

We have audited the accompanying financial statements of **Western Cluster Limited**, which comprise the statement of financial position as at March 31, 2017, the statement of income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Western Cluster Limited as at March 31, 2017, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Report on other Legal and Regulatory Requirements

The accounting records of Western Cluster Liberia provide no information on the minimum required capital with which it commenced operations. The accompanying balance sheet does not reflect that requirement and the amount reported for share capital in these financial statements is nil.

April 26, 2017
Monrovia


PKF- Liberia
Accountants &
business advisers

Western Cluster Limited
 Statement of Financial Position
 As at March 31, 2017

| | Note | March 2017 US\$ | March 2016 US\$ |
|---|------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and bank balances | 4 | 75,632 | 25,475 |
| Other receivables | | 577 | 729 |
| Prepayments | 5 | <u>36,153</u> | <u>41,441</u> |
| Total current assets | | <u>112,362</u> | <u>67,646</u> |
| Non-current assets | | | |
| Intangible assets | 6 | - | - |
| Project expenditure capitalized | 7 | <u>-</u> | <u>-</u> |
| Total non-current assets | | <u>-</u> | <u>-</u> |
| Total assets | | <u>112,362</u> | <u>67,646</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Accounts payable | | 5,955,159 | 3,330,871 |
| Inter-company payable | | 537,232 | 478,864 |
| Salaries payable | | 4,645 | 8,037 |
| Taxes payable | 8 | 8,821 | 3,782 |
| Other liabilities | | <u>71,680</u> | <u>49,950</u> |
| Total current liabilities | | <u>6,577,537</u> | <u>3,871,503</u> |
| Long-term liabilities: | | | |
| Inter-company payable | 9 | <u>102,350,000</u> | <u>101,875,000</u> |
| Total long-term liabilities | | <u>102,350,000</u> | <u>101,875,000</u> |
| Total liabilities | | <u>108,927,537</u> | <u>105,746,503</u> |
| Shareholders' equity: | | | |
| Accumulated losses brought forward | | (105,678,858) | (858,957) |
| Loss for the year | | <u>(3,136,317)</u> | <u>(104,819,900)</u> |
| Total shareholders equity | | <u>(108,815,175)</u> | <u>(105,678,858)</u> |
| Total liabilities and shareholders' equity | | <u>112,362</u> | <u>67,646</u> |

The accompanying notes are an integral part of the financial statements


 Frank Morais
 Director

25 / 04 / 2017

Western Cluster Limited
 Income Statement
 For year ended March 31, 2017

| | | March 2017 | March 2016 |
|--|------|---------------------------|-----------------------------|
| | Note | US\$ | US\$ |
| Expenses | | | |
| Employee benefit expenses | | 7,672 | 209,939 |
| Financial charges | | 7,576 | 14,956 |
| Other expenses | 10 | <u>3,121,069</u> | <u>457,066</u> |
| Loss from normal operation | | <u>(3,136,317)</u> | <u>(681,961)</u> |
| Impairment charges for project capex and fixed assets | | <u>-</u> | <u>(104,137,939)</u> |
| Loss for the year | | <u>(3,136,317)</u> | <u>(104,819,900)</u> |

Western Cluster Limited
 Statement of cash flows
 For year ended March 31, 2017

| | March 2017 US\$ | March 2016 US\$ |
|--|-------------------------|---------------------------|
| Operating activities: | | |
| Net operating profit(loss) for the period | (3,136,317) | (681,961) |
| Amortization - Intangible assets | - | 43,148 |
| Depreciation | - | 598,508 |
| Adjustments required to present cash flow from operating activities (Appendix A): | | |
| Changes in operating assets and liabilities | <u>2,653,108</u> | <u>2,543,650</u> |
| Net cash flows from operating activities | <u>(483,209)</u> | <u>2,503,345</u> |
| Investing activities: | | |
| Capital work in progress | - | (3,485,837) |
| (Purchase)/sale of long-term assets | <u>-</u> | <u>6,712</u> |
| Net cash flows from investing activities | <u>-</u> | <u>(3,479,125)</u> |
| Financing activities: | | |
| Intercompany payable | 58,367 | 11,457 |
| Loan from Bloom Fountain Limited | <u>475,000</u> | <u>745,000</u> |
| Net cash flows from financing activities | <u>533,367</u> | <u>756,457</u> |
| Net change in cash and cash equivalent | 50,157 | (219,321) |
| Cash and cash equivalent beginning of year | <u>25,475</u> | <u>244,796</u> |
| Cash and cash equivalents at the end of the year | <u>75,632</u> | <u>25,475</u> |

Western Cluster Limited
Statement of cash flows - Appendix A
For year ended March 31, 2017

| | March 2017 US\$ | March 2016 US\$ |
|---|-------------------------|-------------------------|
| Changes in operating assets and liabilities: | | |
| Other receivables | 152 | 8,384 |
| Prepayments | 5,288 | (4,295) |
| Accounts payable | 2,624,289 | 2,661,018 |
| Salaries payable | (3,391) | (37,485) |
| Taxes payable | 5,039 | (58,473) |
| Other liabilities | 21,730 | (25,500) |
| Net cash used in operating activities | <u>2,653,108</u> | <u>2,543,650</u> |

Western Cluster Limited
Notes to the financial statements
For the year ended March 31, 2017

1. Establishment

Western Cluster Limited is a 100% owned subsidiary of Bloom Fountain Limited, a company formed under the laws of Mauritius. The Company was incorporated in Liberia on October 18, 2010 to explore investment opportunities in the iron ore sector in the Western Region of Liberia. Its Mineral Development Agreement with the Government of Liberia was ratified by the National Legislature of Liberia on August 3, 2011.

The principal activities of Western Cluster Limited are to prospect, explore, mine and market iron ore and to manage investments in other companies. The Company is also engaged in importing and exporting goods and services related to the exploitation and processing of iron ore in Liberia.

The Company's concession agreement with the Government of Liberia gives Western Cluster Limited exclusive rights to iron ore deposits in the Western Region of Liberia, specifically Bomi Hills, Bea Mountain and Mano River.

2. Significant accounting policies

2.1 a. Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention.

b. Going Concern basis of accounting

The financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operational existence for the foreseeable future.

As at March 31, 2017, the Company recognized net loss of US\$ 3,136,317 and as at that date, current liabilities exceeded current assets by US\$ 6,465,175. However, management believe that settlement of the Company's obligation to its creditors will occur as and when they become due. Management further acknowledge that there are no uncertainty over its ability to meet these obligations and will continue in operational existence in the foreseeable future. The Parent Company of Western Cluster Limited is committed to ensure that all liabilities of the Company are met fully and satisfactorily as when they fall due.

There is therefore is no going-concern threat to the continued operational existence of the Company.

Western Cluster Limited
Notes to the financial statements
For the year ended March 31, 2017

2.2 Currency of reporting

These financial statements are expressed in United States dollars. Cash and near cash assets as well as all liabilities denominated in other currencies are translated to United States dollars at the applicable year-end rates of exchange. Transactions occurring in other currencies during the period are brought into the books at the prevailing rates of exchange on the dates of the respective transactions.

The United States dollar is legal tender in Liberia and circulates freely in the Liberian economy alongside the Liberian dollar. Rates of exchange between these two currencies are market determined.

2.3 Related party disclosure

Entities are considered to be related when one entity exercises control over the other or the entities are under common control. Transactions from related parties are recognized at amortized cost using the effective interest rate method.

2.4 Use of estimates and Judgments

The preparation of financial statements in conformity with IFRS requires the Directors to make judgments, estimates and assumptions that affect the application of policies and the valuation of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected. However, estimates and associated assumptions are not applicable for these financial statements.

2.5 Impairment of assets

An assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets and that loss events had an impairment on the estimated future cash flows of that asset and that it can be estimated reliably.

Objective evidence that assets are impaired include, for example adverse changes in economic conditions that correlate with the loss in the value of the related assets.

Western Cluster Limited
Notes to the financial statements
For the year ended March 31, 2017

| | March 2017 US\$ | March 2016 US\$ |
|--|-----------------------|-----------------------|
| 4 Cash and bank balances | | |
| Cash on hand | 11 | 11 |
| Cash in banks | <u>75,621</u> | <u>25,464</u> |
| | <u>75,632</u> | <u>25,475</u> |
| 5 Prepayments | | |
| Rent | 36,153 | 19,600 |
| Exploration license fees | <u>-</u> | <u>21,841</u> |
| | <u>36,153</u> | <u>41,441</u> |
| 6 Intangible Assets | | |
| Cost of software acquired | - | 210,537 |
| Less: Accumulated amortization | <u>-</u> | <u>193,562</u> |
| | - | 16,975 |
| Less: Impairment charges | <u>-</u> | <u>(16,975)</u> |
| Ending balance | <u>-</u> | <u>-</u> |
| 7 Project expenditure capitalized | | |
| Beginning balance | - | 97,089,081 |
| Additions during the year | <u>-</u> | <u>3,485,837</u> |
| | - | 100,574,918 |
| Less: Impairment charges | <u>-</u> | <u>(100,574,918)</u> |
| Ending balance | <u>-</u> | <u>-</u> |

Western Cluster Limited
 Notes to the financial statements
 For the year ended March 31, 2017

| | March 2017 US\$ | March 2016 US\$ |
|---|--------------------------------|--------------------------------|
| 8 Taxes payables | | |
| Employees withholding taxes payable | 2,266 | 2,242 |
| Other withholding taxes payable | 5,777 | 727 |
| Social security payable | 778 | 813 |
| | <u>8,821</u> | <u>3,782</u> |
| 9 Inter-company payable | 102,350,000 | 101,875,000 |
| <p>The Board of Directors of the company ratified an agreement with Bloom Fountain Limited, the Holding Company, through a resolution in which Bloom Fountain Limited is to avail loan up to US \$ 110 Million to Western Cluster Limited. The total amount of loan availed so far is US\$ 102.35 million. The loan is non interest bearing and is repayable in five years when the Company commences commercial exploration with an option to review repayment schedule.</p> | | |
| 10 Other expenses | | |
| Security charges | 52,896 | 83,959 |
| Travelling | 2,255 | 10,358 |
| GoL fees | 49,419 | 41,316 |
| Insurance | 24,127 | 28,430 |
| Rent | 78,400 | 135,173 |
| Consultancy charges | 96,500 | 140,457 |
| MDA fees & dues | 2,800,000 | - |
| Miscellaneous expenses | 17,471 | 17,373 |
| | <u>3,121,068</u> | <u>457,066</u> |
| 11 Impairment losses | | |
| <p>In 2016, due to the reduction in iron ore prices on the world market, the Management of the Company tested all significant assets including Long-term assets, intangible assets and capitalized expenditures for impairment and recognized impairment loss of US\$ 104,137,939 consisting of US\$ 4,151,267 for long-term assets, US\$ 97,089,081, for capitalized expenditures and US\$ 60,123 for intangible assets respectively.</p> | | |
| 12 Commitments | | |
| <p>There were no commitments as at March 31, 2017.</p> | | |
| 13 Contingencies | | |
| <p>There were no Contingent liabilities as at March 31, 2017.</p> | | |