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Cluff Natural Resources Plc
Annual Report 2013

Cluff Natural Resources

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To find out further information, please visit
our website
www.cluffnaturalresources.com

Strategic Report

Chairman and Chief Executive's Statement

Since my last statement your Company's management set itself four objectives; to add more licences for Underground Coal Gasification (UCG) in the United Kingdom; to raise the awareness of the important implications which the production of offshore UCG has for the United Kingdom; to build up a team with the appropriate disciplines to move your Company's licences forward through the planning phase and into the exploratory drilling phase; and finally to investigate conventional onshore oil and gas opportunities in the United Kingdom and North and West Africa.

Unconventional offshore coal gasification

We now have a balanced portfolio of five UCG licences inshore the United Kingdom all of which we own 100% and accordingly are the operators. While we also have additional licence applications pending, we consider that the land position we hold is representative of the most prospective inshore areas in the UK and that our priority henceforth is to advance the planning process to enable us to commence drilling our first demonstrator holes. By reason of our knowledge of the location of the coal in our licence areas, we believe only limited exploration work is required and it is our hope that we will achieve this objective in due course.

Our UCG licences already granted have been chosen for their well-known coal attributes and, equally importantly, for their location in close proximity to industrial activity with large energy demand. The Firth of Forth licences are particularly important in this respect and we are also attracted by the Cumbrian coastline, also known as Britain's "Energy Coast", where our licenced inshore coal is situated alongside the industrial areas of Workington and Whitehaven.

UCG in these inshore coal areas offer the UK the potential of a secure and long lasting source of gas for industrial and power generation use, which on all the third party estimates reviewed to date, will be cheaper than imported natural gas.

The characteristics of UCG provide many technical and economic advantages compared with other forms of conventional and unconventional energy. In particular, UCG is considered to be a cleaner and safer process in that it does not involve the injection of chemicals or the extraction of large quantities of fresh water. The exploration risks are deemed small, because the coal is already well explored, and deep UCG (more than 600 metres), which we plan to do inshore, is extremely unlikely to contaminate water supplies.

Conventional Oil & Gas

Whilst the Company's primary focus is on the evolution of UCG, there can be no certainty of the time scales of the planning approvals which would herald the drilling of the first holes into our licence areas. In the meantime, we believe our duty to investors includes securing the Company's future by developing near term access to cash flow.

Your management has considerable experience of Africa and particularly West African geology and judge that there are certain countries such as Morocco, Senegal and the Ivory Coast which have increasing GDP's and populations but which import nearly all of their energy. With the improvements in the gas to electricity technology, onshore gas accumulations can be rapidly connected to the electricity grid. Accordingly, we intend to continue to evaluate oil and gas opportunities in this region as we seek to enhance value for shareholders.

Board additions

In October 2013 I was delighted to announce the appointment to the Board of Graham Swindells and Chris Matchette-Downes. Graham was promoted to Finance Director having joined the Company as Chief Financial Officer earlier in the year. Chris Matchette-Downes has joined us as a non-executive director and brings a wealth of experience in oil and gas exploration as a chartered geologist and petroleum geochemist. Having worked previously at BP and BG, Chris has gone on to form a number of successful oil and gas companies which have made significant discoveries around the world. He is currently the CEO of CaribX (UK) Limited and Director of Adamantine Energy (Kenya). He also co-founded Black Marlin Energy which was acquired by Afren Plc in 2010.

Outlook

Whilst I write this statement, the situation in Ukraine is far from resolved. If any good has now emerged from this troubled issue it has been to focus attention on the vulnerability of Europe, and Germany in particular, to the interruption of gas supplies and of course to the price of gas. It is, in my humble judgment, imperative that the UK should re-examine its energy policy in the context of this crisis.

Unlike Germany, and the rest of Europe, the United Kingdom is blessed by the presence of billions of tonnes of offshore coal which is amenable to conversion into gas. We should address this as a matter of urgency and determine, by drilling, the extent to which coal gasification could contribute to our energy requirements and to our energy security.

Over the next few months, your Company expects to have selected one or more potential sites from its portfolio for its first UCG project, held discussions with possible syngas users and planned the exploration drilling to confirm the viability of the site.

It is entirely possible that your Company is in the vanguard of a game changing scenario in our coastal waters.

J G Cluff

Chairman and Chief Executive
24 April 2014

Strategic Report continued

Operational Review

In 2013 the Company made significant progress in building a portfolio of UCG licences in the UK. In the course of the year the Coal Authority awarded Cluff Natural Resources a total of five offshore UCG licences as follows:

Licence area	Date awarded	Area (hectares)
Dee Estuary	January 2013	6,953
Loughor Estuary	January 2013	4,207
Kincardine	June 2013	3,687
Largo Bay	July 2013	7,796
North Cumbria	July 2013	8,238
Total		30,881

These five licences provide the Company with a critical mass in terms of its portfolio of UCG assets and brings the total offshore area available for UCG development in the UK by the Company to 30,881 hectares. The five licences are strategically spread between Scotland, (11,483 hectares), Wales (4,207 hectares) and England (15,191) hectares.

A further review of mainly offshore UK coal fields was undertaken recently by the Company's technical team. A number of additional promising deposits were identified and further UCG applications are pending. The Company believes its portfolio is now very robust as it moves towards the development of one or more of its licence areas.

Attention is now firmly focused on developing the licence areas for UCG. The Company is assembling a team of specialists to identify the most suitable sites for the first UCG project, with a view to ultimately making the confirmatory test and exploration drill holes.

Geological mapping of the sites are underway, environmental requirements are being assessed, and industrial customers for the gas are being identified. Economic models have also shown that gas at highly competitive prices can be supplied to industry around the UCG production wellheads, and the business model being actively pursued is that of an alternative gas supplier.

Planning of the first demonstration of UCG cavity operation (approximately 40MW thermal output) and any necessary exploratory wells is underway in preparation for planning application. The onshore facilities to support the undersea

UCG operation are being identified, in readiness for planning applications to be submitted. Carbon Capture and Storage will be a consideration at all stages of the planning process. The Company has also invested heavily in stakeholder engagement, having met with local and national government, planning authorities, environment agencies and held its first public meetings for local residents in both Wales and Scotland. CNR monitors technical and commercial developments in UCG around the world. Commercial UCG developments are accelerating in South Africa, Poland and in the USA they have been restarted as an alternative form of unconventional gas supply free of pressure drilling and disturbance to the water supply. In addition, the EU has recognized the importance of indigenous coal to the security of energy supplies and is supporting at least four major research projects on UCG.

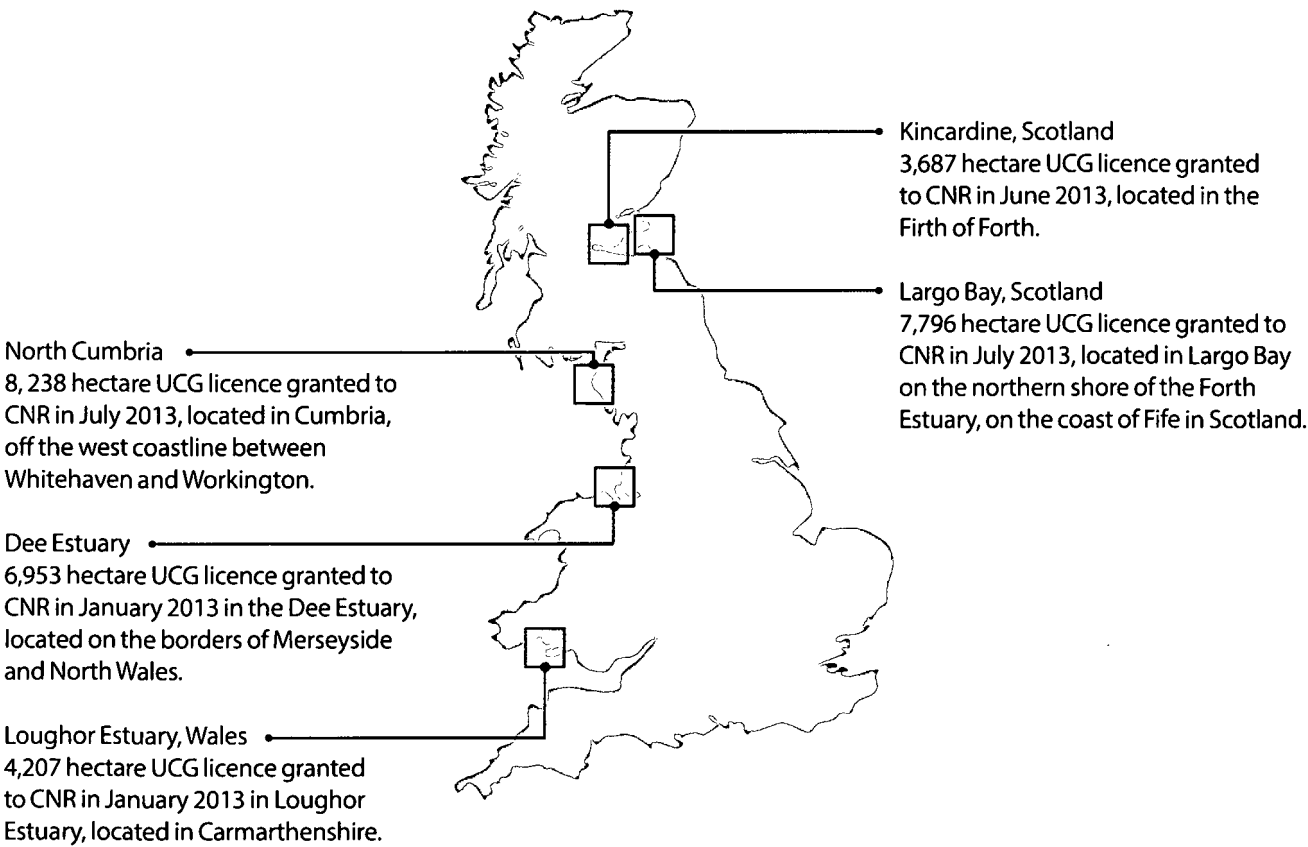
J G Cluff

Chairman and Chief Executive
24 April 2014

Locations

Our Licences

The Company currently has 100% working interest in five Underground Coal Gasification ('UCG') Licences in the UK covering a total of 30,881 hectares.



30,881

Total number of hectares

Strategic Report continued

Financial Review

In the period to 31 December 2013, the Company incurred expenditure in the assessment and appraisal of a number of natural resources opportunities and in the application for and development of its UCG licences, in accordance with the Company's investment strategy, in addition to on-going administrative expenditure.

As at 31 December 2013, the Company had cash of £2.93 million.

Loss for the period

The Company incurred a loss for the year to 31 December 2013 of £1,928,199 (period to 31 December 2012: £821,730).

Cash flow

In the year to 31 December 2013, the Company experienced a net cash inflow of £329,145 (period to 31 December 2012: £2.60 million).

Net cash outflow from operating and investing activities was £1,537,766 (period to 31 December 2012: £794,944) and net cash inflow from financing activities was £1,866,911 (period to 31 December 2012: £3,397,071).

Equity fundraising

On 12 November 2013 the Company announced that it had raised £2.0 million (£1.87 million after costs) by way of a placing of 66,666,667 new ordinary shares of 0.5 pence each, at a price of 3 pence per share with new and existing institutional investors together with a number of private investors.

The placing was approved at a general meeting of the Company on 28 November 2013.

The placing shares were allotted and issued immediately thereafter and admitted to trading on AIM on 29 November 2013.

Closing cash

As at 31 December 2013, the Company held cash balances of £2.93 million (2012: £2.60 million).

Shareholders' equity

As at 31 December 2013 there were 155,000,000 ordinary shares of 0.5 pence each in issue.

Additionally, a total of up to 52,840,000 new ordinary shares may be issued pursuant to the exercise of share options or warrants.

Key performance indicators

At this stage in its development, the Company is focusing on the development of its existing UCG licences as well as the evaluation of various conventional oil and gas opportunities. As and when the Company moves into production, financial, operational, health and safety and environmental KPIs will become relevant and will be measured and reported as appropriate. The Directors do however closely monitor financial information on a monthly basis, in particular overheads and cash balances as set out in the Financial Review.

Graham Swindells

Finance Director
24 April 2014

Business Risks

Principal business risks

The Directors have identified the following current principal risks in relation to the Company's future performance. The relative importance of risks faced by the Company can, and is likely to change with progress in the Company's strategy and developments in the external business environment.

Strategic

Strategy risk

The Company's strategy may not deliver the results expected by shareholders. The Directors regularly monitor the appropriateness of the strategy, taking into account both internal and external factors, and the progress in implementing the strategy, and modify the strategy as may be required based on developments. Key elements of this process are annual strategy reviews, monthly reporting, and regular Board meetings.

Concentration risk

The Company's portfolio of licences remains relatively concentrated on UCG licences. The Board has identified further broadening the size and nature of its portfolio of exploration assets, using the existing financial resources of the Company, as an important element of the Company's strategy.

Competition risk

The addition of exploration licences to the Company's portfolio is subject to competition from other companies. Many of the Company's larger competitors have greater financial and technical resources and are able to devote more to the development of their business. The Company mitigates this risk by focussing on where and when to deploy its business development resources.

Operational

Development risk

Activities within the Company's licences may not result in commercial development. There is no certainty of success from the existing portfolio of licences. The Company seeks to mitigate the exploration risk through the experience and expertise of the Company's specialists, and the selection criteria used by the Company when identifying prospective areas for licence applications. The Company also has an objective to seek additional exploration assets, in order to diversify the Company's portfolio of assets and hence risk.

Other business risks

In addition to the current principal risks identified above and general business risks, the Group's business is subject to risks inherent in hydrocarbon exploration, development and production activities. There are a number of potential risks and uncertainties which could have a material impact on the Company's long-term performance and could cause actual results to differ materially from expected and historical results.

The Company has identified certain risks pertinent to its business including:

Strategic and Economic

- Inappropriate or poorly conceived strategy and plans
- Failure to deliver on strategy and plans
- Business environment changes
- Competition and barriers to entry
- Limited diversification

Operational

- Failure to add value through exploration and development
- Licences, permits and/or approvals may be difficult to sustain
- Delays in planning approvals

Commercial

- Failure to access new opportunities
- Failure to maximise value from existing interests
- Loss of control of key assets
- Dissatisfied stakeholders
- Regulatory compliance and legal

Human Resources and

Management Processes

- Failure to recruit and retain key personnel
- Human error or deliberate negative action
- Inadequate management processes
- Insufficient timely information available to the management and the Board

Strategic Report

Governance

Financial Statements

Strategic Report continued

Business Risks continued

Financial

- Restrictions in capital markets impacting available financial resource
- Cost escalation and budget overruns
- Fraud and corruption

The Directors regularly monitor such risks, using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these. Effective risk mitigation may be critical to the Company in achieving its strategic objectives and protecting its assets, personnel and reputation. The Company assesses its risk on an ongoing basis to ensure it identifies key business risks and takes measures to mitigate these. Other steps include regular Board review of the business, monthly management reporting, financial operating procedures and anti-bribery management systems. The Company reviews its business risks and management systems on a regular basis and, through this process, the Directors have identified the principal risks.

Investing Policy

Investing policy

In addition to the development of the UCG licences the Company has acquired to date, the Company proposes to continue to evaluate other potential oil and gas projects in line with its investing policy, as it aims to build a portfolio of resource assets and create value for shareholders.

As disclosed in the Company's AIM Admission Document in May 2012 the Company's full investing policy is as follows:

The proposed investments to be made by the Company may be either quoted or unquoted; made by direct acquisition or through farm-ins; either in companies, partnerships or joint ventures; or direct interests in oil & gas and mining projects. It is not intended to invest or trade in physical commodities except where such physical commodities form part of a producing asset. The Company's equity interest in a proposed investment may range from a minority position to 100 per cent. ownership.

The Board initially intends to focus on pursuing projects in the oil & gas and mining sectors, where the Directors believe that a number of opportunities exist to acquire interests in attractive projects. Particular consideration will be given to identifying investments which are, in the opinion of the Directors, underperforming, undeveloped and/or undervalued, and where the Directors believe that their expertise and experience can be deployed to facilitate growth and unlock inherent value.

The Company will conduct initial due diligence appraisals of potential projects and, where it is believed further investigation is warranted, will appoint appropriately qualified persons to assist with this process. The Directors are currently assessing various opportunities which may prove suitable although, at this stage, only preliminary due diligence has been undertaken.

It is likely that the Company's financial resources will be invested in either a small number of projects or one large investment which may be deemed to be a reverse takeover under the AIM Rules. In every case, the Directors intend to mitigate risk by undertaking the appropriate due diligence and transaction analysis. Any transaction constituting a reverse takeover under the AIM Rules will also require Shareholder approval.

Investments in early stage and exploration assets are expected to be mainly in the form of equity, with debt being raised later to fund the development of such assets. Investments in later stage projects are more likely to include an element of debt to equity gearing. Where the Company builds a portfolio of related assets, it is possible that there may be cross holdings between such assets.

The Company intends to be an involved and active investor. Accordingly, where necessary, the Company may seek participation in the management or representation on the Board of an entity in which the Company invests with a view to improving the performance and use of its assets in such ways as should result in an upward re-rating of the value of those assets.

Given the timeframe the Directors believe is required to fully maximise the value of an exploration project or early stage development asset, it is expected that the investment will be held for the medium to long term, although disposal of assets in the short term cannot be ruled out in exceptional circumstances.

The Company intends to deliver Shareholder returns principally through capital growth rather than capital distribution via dividends, although it may become appropriate to distribute funds to Shareholders once the investment portfolio matures and production revenues are established.

The Directors believe that the Investing Policy can be substantially implemented within 18 months of Admission. If this is not achieved, the Company will seek Shareholder consent for its Investing Policy or any changes thereto at the next annual general meeting of the Company and on an annual basis thereafter, until such time that its Investing Policy has been implemented. If it appears unlikely that the Investing Policy will be achieved, the Directors may consider returning the remaining funds to Shareholders.

Given the nature of the Investing Policy, the Company does not intend to make regular periodic disclosures or calculations of its net asset value.

The Directors consider that as investments are made, and new investment opportunities arise, further funding of the Company will be required.

This strategic report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. While the Directors believe the expectation reflected herein to be reasonable in light of the information available up to the time of their approval of this report, the actual outcome may be materially different owing to factors either beyond the Company's control or otherwise within the Company's control but, for example, owing to a change of plan or strategy. Accordingly, no reliance may be placed on the forward-looking statements.

By order of the Board

J G Cluff
Chairman and
Chief Executive
24 April 2014

G C Swindells
Finance Director
24 April 2014

Governance

Board of Directors

Algy Cluff

Chairman and Chief Executive

In 1972 Algy Cluff formed CCP North Sea Associates to bid for North Sea oil licences in the UK sector and subsequently Cluff Oil Ltd, which acted as the management company for CCP. CCP discovered the Buchan Field, the 14th commercial oil field in the UK North Sea, in 1975. He then founded and became Chairman of Cluff Resources Plc. From the early 1980s, Cluff Resources Plc began to focus on mineral exploration in Africa and made several significant discoveries including the largest gold discovery in Africa since the Second World War (subsequently the Geita Mine in Tanzania), the Freda Rebecca Mine in Zimbabwe and the Ayanfuri Mine in Ghana, prior to the acquisition of Cluff Resources Plc by Ashanti Goldfields Company Limited in 1996. In the same year, backed by Anglo American Corporation, Algy Cluff founded Cluff Mining Limited (subsequently re-named Ridge Mining Limited), which was admitted to AIM in May 2000. Ridge Mining Plc was acquired by Aquarius Platinum Limited in 2009. Algy Cluff was the Founder, Chairman and Chief Executive of Cluff Gold plc from 2004 to December 2010, Executive Chairman until July 2011 and subsequently Non-Executive Chairman up to April 2012, when he stepped down to concentrate on Cluff Natural Resources.

Graham Swindells

Finance Director

Graham Swindells joined the Company in May 2013, having previously been a Director in Mergers and Acquisitions at Ernst & Young LLP. Graham has worked in corporate finance for 12 years, during which time he specialised in advising mid and small-cap public companies. Previously, Graham was a Director in Corporate Finance at Arbutnot Securities where he gained significant natural resources experience acting as nominated adviser and broker to various companies in this sector. He qualified as a Chartered Accountant in Scotland with BDO Stoy Hayward and subsequently spent two years at PricewaterhouseCoopers specialising in corporate recovery and restructuring.

Nicholas William Berry

Non-Executive Director and Deputy Chairman

Nicholas Berry is the controlling shareholder and Chairman of Stancroft Trust Limited and Intersport Switzerland, PsC, and a Director and founder of Mintel International Group Limited, a family business. Nicholas Berry is also a Non-executive Director of The Daily Mail and General Trust plc.

Peter Nigel Cowley

Non-Executive Director

Peter Cowley is a geologist with 40 years of international experience in the minerals industry and has been involved in the discovery and development of a number of gold mines in Africa. Peter Cowley is also President and CEO of Loncor Resources Inc and a Director of Banro Corporation and Amara Mining plc and was previously Managing Director of Ashanti Exploration Limited and Group Technical Director of Cluff Resources Plc. He holds M.Sc and MBA degrees and is a Fellow of I.M.M.M.

Dr Robert Victor Danchin

Non-Executive Director

Robert Danchin has over 40 years' experience in the exploration industry. He was Chief Executive Officer of Anglo American plc's Exploration and Acquisition Division and the Anglo American Group's Deputy Technical Director (Geology). From 1997 to 2002, he was an Executive Director of Anglo American Corporation of South Africa Limited. In 1980, he joined Stockdale Prospecting Limited (an Australian subsidiary of De Beers) as Chief Geologist based in Australia. He remained with that company for 15 years, eventually becoming Exploration Manager heading up its Australian based diamond exploration programme. He is currently a Non-executive Deputy Chairman of Mineral Deposits Limited.

The Earl De La Warr DL

Non-Executive Director

William De La Warr has 35 years' experience in the securities industry. He was Director of Credit Lyonnais Securities (Broking) Ltd, formerly Laing & Cruickshank, both in institutional sales and corporate broking. He was a director at Shore Capital Stockbrokers Limited from 2005 until 2012 when he became a Director of Cluff Natural Resources Plc.

Brian Anthony FitzGerald**Non-Executive Director**

Brian FitzGerald has over 30 years experience as a banker, having worked for Hambros Bank, E.D. Sassoon and Wallace Brothers Sassoon before joining Standard Chartered Bank in 1977 where he remained until 1991. He ran the Standard Chartered Investment Banking offices in Australia, Singapore and New York and returned to Head Office in 1987. Subsequently he was Chief Executive of Janson Green Plc, Chairman of Liberty Syndicate Management Ltd and Deputy Chairman of Limit Plc.

Christopher John Matchette-Downes**Non-Executive Director**

Christopher Matchette-Downes is a chartered geologist and petroleum geochemist with particular expertise and interests in Africa having identified key petroleum assets in both the East and West of the continent as well as significant experience in the greater Caribbean region. Christopher has worked in the oil and gas sector for over 30 years and has worked for both BP and BG. His extensive E&P business development experience has seen him focus on specific opportunities in the UK, Europe, Africa, Middle and Far East, Australia and America. He is currently the CEO of CaribX (UK) Limited and Director of Adamantine Energy (Kenya) Limited where he has built the teams, raised funds and secured acreage agreements throughout Central America, the Caribbean and East Africa. He also co-founded Black Marlin Energy Holdings Limited which was acquired by Afren Plc in 2010.

Strategic Report

Governance

Financial Statements

Governance continued

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2013.

Principal Activity

The Company's principal activity is the exploration, evaluation and development of mineral exploration targets, with a principle focus on the development of underground coal gasification.

Review of Business

Further details of the Company's business and expected future development are also set out in the Chairman's Statement and in the Strategic Report on pages 1 to 7. The Strategic Report also includes operational and financial reviews which together represent a review of the business, key performance indicators and the business and financial risk reviews.

Dividends

No dividends will be distributed for the year ended 31 December 2013 (2012: nil).

Directors

The Directors of the Company during the year and their beneficial interest in the Ordinary shares and share options and warrants of the Company at 31 December 2013 are set out below:

	Ordinary Shares		Share Options		Share Warrants	
	2012	2013	2012	2013	2012	2013
J G Cluff	10,000,000	11,567,914	–	2,000,000	5,000,000	5,000,000
G C Swindells (appointed 28 October 2013)	–	88,112	–	3,000,000	–	–
N W Berry	400,000	900,000	–	–	–	–
P N Cowley	400,000	400,000	–	–	–	–
Dr R V Danchin	400,000	400,000	–	–	–	–
The Earl De La Warr DL	1,000,000	2,466,666	–	–	–	–
B A FitzGerald	400,000	600,000	–	–	–	–
C J Matchette-Downes (appointed 28 October 2013)	–	–	–	–	–	–
	12,600,000	16,422,692	–	5,000,000	5,000,000	5,000,000

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2013 for the individual Directors who held office in the Company during the year.

	Salary/fees 2013 £	Bonuses 2013 £	Benefits in kind 2013 £	Share-based payment 2013 £	Total 2013 £	Total 2012 £
J G Cluff	197,333	50,000	27,153	75,632	350,118	174,604
G C Swindells	16,667	–	2,231	45,593	64,491	–
N W Berry	21,667	–	–	–	21,667	13,333
P N Cowley	21,667	–	–	–	21,667	13,333
Dr R V Danchin	21,667	–	–	–	21,667	13,333
The Earl De La Warr DL	21,667	–	–	–	21,667	13,333
B A FitzGerald	21,667	–	–	–	21,667	13,333
C J Matchette-Downes	7,500	–	–	–	7,500	–
	329,835	50,000	29,384	121,225	530,444	241,269

Post Balance Sheet Events

See note 21 for post balance sheet event disclosure.

Share Options and Warrants

The share-based payment of £121,225 (2012: £90,747) for Directors represents the share-based expense relating to share options issued during the year as well as to a Long Term Incentive Plan and share warrants, both of which were put in place on 4 May 2012.

The following share options table comprises share options and warrants held by Directors who held office during the year ended 31 December 2013:

	Warrants held at 31 December 2012	Options granted in period	Options exercised in period	Warrants & Options held at 31 December 2013	Exercise price (p)	Exercisable from	Exercisable to
J G Cluff	5,000,000	–	–	5,000,000	5p	4 May 2013	22 May 2017
	–	2,000,000	–	2,000,000	8p	23 January 2014	23 January 2023
G Swindells	–	3,000,000	–	3,000,000	5.125p	26 June 2014	26 June 2023

Further details of share-based payments are set out in Note 20.

Substantial Shareholders

The Company has been notified of the following interests of 3 per cent. or more in its issued share capital as at 31 March 2014.

Shareholders	Number of Shares	Percent (%)
Mercantile Investment Trust	15,366,666	9.91
Guinness Asset Management	12,666,666	8.20
John Gordon Cluff	11,567,914	7.46
Hargreaves Lansdown Nominees Limited	10,291,086	6.64
Odey Asset Management	6,666,666	4.30
Waverton Investment Management	6,600,000	4.26
Goldman Sachs Securities Nominees Limited	6,581,665	4.25
Brewin Dolphin Securities	5,316,937	3.43

Financial Instruments

Details of the use of financial instruments by the Company are contained in note 18 of the financial statements.

Political Contributions

No payments to political parties have been made during the year (2012: nil).

Corporate Governance

The Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the UK Corporate Governance Code does not apply to AIM companies, the Directors observe the requirements of the UK Corporate Governance Code to the extent they consider appropriate in the light of the Company's size, stage of development and resources. However, given the size of the Company, at present the Directors do not consider it necessary to adopt the Code in its entirety.

The Board, so far as practicable, follows the recommendations set out in the corporate governance guidelines for smaller quoted companies published by the Quoted Companies Alliance. The Company holds regular board meetings and the Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and acquisitions. The Board currently comprises eight Directors, of whom two are executive and six are non-executive. The Board has an audit committee and remuneration committee with formally delegated duties and responsibilities, as described below.

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings) as well as corporate governance. The audit committee comprises The Earl De La Warr DL and Peter Cowley and is chaired by Brian FitzGerald. The audit committee aims to meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee also meets regularly with the Company's external auditors.

Governance continued

Report of the Directors continued

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chairman and Chief Executive Officer and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of Non-Executive Directors is a matter for the Chairman and the Chief Executive Officer. No Director is involved in any decision as to his or her own remuneration. The Remuneration Committee comprises Peter Cowley and Dr Robert Danchin and is chaired by Nicholas Berry. The Remuneration Committee meets at least twice a year and otherwise as required.

Share Dealing Code

The Company has adopted a share dealing code for Directors and applicable employees of the Company for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules). The Directors consider that this share dealing code is appropriate for a Company whose shares are admitted to trading on AIM. The Company takes proper steps to ensure compliance by the Directors and applicable employees with the terms of the share dealing code and the relevant provisions of the AIM Rules (including Rule 21).

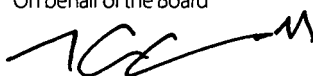
Disclosure of Information to Auditors

So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The auditors, BDO LLP, have expressed their willingness to continue in office as auditors, and a resolution to re-appoint them will be proposed at the Annual General Meeting.

On behalf of the Board



JG Cluff

Chairman and Chief Executive
24 April 2014

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the Directors. The Directors' responsibility also extends to the on-going integrity of the financial statements contained therein.

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Independent Auditor's Report to the members of Cluff Natural Resources Plc

We have audited the financial statements of Cluff Natural Resources Plc for the year ended 31 December 2013 which comprise the statement of financial position, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at: www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of the Company's loss for the year then ended;
- The financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

BDO LLP

Anne Sayers (Senior Statutory Auditor)

For and on behalf of BDO LLP (Statutory Auditor)

55 Baker Street

London

W1U 7EU

24 April 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement

for the year ending 31 December 2013

		Year ended 31 December 2013	Period from 21 February to 31 December 2012
	Notes	£	£
Continuing Operations			
Revenue		-	-
Administrative expenses		(1,932,389)	(822,578)
Operating Loss		(1,932,389)	(822,578)
Finance income		4,190	848
Loss Before Taxation	4	(1,928,199)	(821,730)
Taxation	6	-	-
Loss for the year/(period)		(1,928,199)	(821,730)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	(1.99)p	(1.29)p

Statement of Comprehensive Income

for the year ending 31 December 2013

		Year ended 31 December 2013	Period from 21 February to 31 December 2012
		£	£
Loss for the year/(period)		(1,928,199)	(821,730)
Other Comprehensive Income		-	-
Total Comprehensive Income for the year/(period) attributable to the equity holders of the Company		(1,928,199)	(821,730)

The notes on pages 19 to 35 form part of the financial statements.

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Balance Sheet

as at 31 December 2013

	Notes	2013 £	2012 £
Assets			
Non-current Assets			
Intangible assets	8	18,158	19,200
Property, plant and equipment	9	15,207	5,750
Investment in subsidiary	10	1	–
Other receivables	11	53,688	53,688
		87,054	78,638
Current Assets			
Other receivables	11	145,148	295,637
Cash and cash equivalents	12	2,931,271	2,602,127
		3,076,419	2,897,764
Total Assets		3,163,473	2,976,402
Capital and reserves attributable to the equity holders of the Company			
Shareholders' Equity			
Share capital	13	775,000	435,000
Share premium	14	4,454,287	2,867,376
Share-based payment reserve	14	463,127	322,944
Retained deficit	14	(2,701,366)	(821,730)
Total Equity		2,991,048	2,803,590
Liabilities			
Current Liabilities			
Trade and other payables	15	172,425	172,812
Total Liabilities		172,425	172,812
Total Equity and Liabilities		3,163,473	2,976,402

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 24 April 2014 and were signed on its behalf by:


JG Cluff
 Chairman and Chief Executive

The notes on pages 19 to 35 form part of the financial statements.

Statement of Changes in Equity for the year ending 31 December 2013

	Share capital £	Share premium £	Share-based payment reserve £	Retained deficit £	Total equity £
Balance at 1 January 2013	435,000	2,867,376	322,944	(821,730)	2,803,590
Issue of share capital	340,000	1,720,000	–	–	2,060,000
Expenses of issue	–	(133,089)	–	–	(133,089)
Share-based payment	–	–	188,746	–	188,746
Expired/lapsed options	–	–	(48,563)	48,563	–
Loss for the year	–	–	–	(1,928,199)	(1,928,199)
Balance at 31 December 2013	775,000	4,454,287	463,127	(2,701,366)	2,991,048
Balance at 21 February 2012	–	–	–	–	–
Issue of share capital and warrants	435,000	3,232,805	232,195	–	3,900,000
Expenses of issue	–	(365,429)	–	–	(365,429)
Share-based payment	–	–	90,749	–	90,749
Loss for the period	–	–	–	(821,730)	(821,730)
Balance at 31 December 2012	435,000	2,867,376	322,944	(821,730)	2,803,590

The notes on pages 19 to 35 form part of the financial statements.

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Cash Flow Statement

for the year ending 31 December 2013

		Year ended 31 December 2013	Period from 21 February to 31 December 2012
	Notes	£	£
Cash flows used in operating activities			
Net cash used in operating activities	1	(1,525,497)	(767,695)
Cash flows used in investing activities			
Purchase of intangible fixed assets		(14,070)	(6,000)
Purchase of property, plant and equipment		(1,047)	(21,249)
Interest received		2,849	–
Investment in subsidiary		(1)	–
Net cash used in investing activities		(12,269)	(27,249)
Cash flows from financing activities			
Proceeds of share issue	2	2,000,000	3,762,500
Expenses of share issue		(133,089)	(365,429)
Net cash from financing activities		1,866,911	3,397,071
Increase in cash and cash equivalents		329,145	2,602,127
Cash and cash equivalents at beginning of year/(period)		2,602,126	–
Cash and cash equivalents at end of year/(period)		2,931,271	2,602,127

The notes on pages 19 to 35 form part of the financial statements.

Notes to the Cash Flow Statement for the year ending 31 December 2013

1. Reconciliation of Loss before taxation to Cash used in operations

	Year ended 31 December 2013 £	Period from 21 February to 31 December 2012 £
Loss before taxation	(1,928,199)	(821,730)
Finance income	(4,190)	–
Share based payment	188,746	90,749
Shares issued to contractors for services	60,000	–
Depreciation	5,039	2,049
Amortisation	1,663	250
Directors' remuneration settled in shares	33,335	66,665
	(1,643,606)	(662,017)
Decrease/(increase) in trade and other receivables	118,496	(278,490)
(Decrease)/increase in trade and other payables	(387)	172,812
Cash used in operations	(1,525,497)	(767,695)

2. Proceeds of Share Issue

The amounts disclosed on the cash flow statement in respect of the proceeds of the share issue:

	Year ended 31 December 2013 £	Period from 21 February to 31 December 2012 £
Total value of shares issued	2,000,000	3,900,000
Less subscription shares issued	–	(100,000)
Less cash to be received in respect of share capital	–	(37,500)
Total cash proceeds of share issue	2,000,000	3,762,500

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Notes to the Financial Statements

for the year ending 31 December 2013

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards and Interpretations (collectively 'IFRS') as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstance, the result of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from this estimate. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed later in this note.

Loss from operations is stated after charging and crediting all items excluding finance income and expenses.

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

New and amended International Financial Reporting Standards adopted by the Company

The Company has adopted the following standards, amendments to standards and interpretations which are effective for the first time this year.

The impact is shown below:

New/revised International Financial Reporting Standards		Effective Date	EU adopted	Impact on Company
IAS 19	Employee Benefits (amended 2011)	1 January 2013	Yes	No impact
IFRS 7	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013	Yes	No impact
IFRS 13	Fair Value Measurement	1 January 2013	Yes	Disclosure and measurement of financial instruments
Annual Improvements to IFRSs (2009-2011 cycle)		1 January 2013	Yes	This Amendment clarifies the requirements of IFRSs and eliminate inconsistencies within and between Standards

International Financial Reporting Standards in Issue but not yet effective

At the date of authorisation of these financial statements, the IASB and IFRS Interpretations Committee have issued standards, interpretations and amendments which are applicable to the Company. Whilst these standards and interpretations are not effective for, and have not been applied in the preparation of, these financial statements, the following new/revised standards may have an impact going forward (standards not expected to have any impact on the Company are not included):

New/revised International Financial Reporting Standards		Effective Date: Annual periods beginning on or after:	EU adopted	Impact on Company
IAS 27	Separate Financial Statements	1 January 2014	Yes	Disclosure only
IAS 32	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014	Yes	Disclosure only
IAS 36	Impairment of Assets – Recoverable amount disclosures for non-financial assets	1 January 2014	Yes	Disclosure only
IFRS 9	Financial Instruments: Classification and Measurement	Currently no effective date	No	Classification and measurement of financial instruments
IFRS 10	Consolidated Financial Statements	1 January 2014	Yes	Presentation and preparation of consolidated financial statements
IFRS 11	Joint Arrangements	1 January 2014	Yes	A party to a joint arrangement recognises its rights and obligations arising from the arrangement
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014	Yes	Disclosure only
	Annual Improvements to IFRSs (2010-2012 Cycle) & Annual Improvements to IFRSs (2011-2013 Cycle)	1 January 2014	No	These amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

All of the Company's operations are based in the United Kingdom, and are recognised as a single segment.

Share-based payments

Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instruments are determined at the date of grant, taking into account market based vesting conditions. The fair value of goods and services received are measured by reference to the fair value of options.

The fair values of share options and warrants are measured using the Black Scholes model. The fair value of the Long Term Incentive Plan is measured using Monte Carlo simulations of the basic Black Scholes model. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees (or other beneficiaries) become fully entitled to the award ("the vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Where an equity settled award is forfeited, the cumulative charge expensed up to the date of forfeiture is credited to the Income Statement.

Notes to the Financial Statements continued

for the year ending 31 December 2013

1. Accounting Policies continued

Property, plant and equipment

Property, plant and equipment are stated at cost on acquisition less depreciation. Depreciation is provided on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

The annual rate of depreciation for each class of depreciable asset is:

Computer equipment	33%
Fixtures and Fittings	20-25%

The carrying value of property plant and equipment is assessed annually and any impairment is charged to the income statement.

Intangible assets

Software licences are stated at cost on acquisition less amortisation and impairment losses. The residual values and useful lives are reviewed at each reporting date and adjusted, if appropriate.

The estimated useful life for software is 3 years. Acquired computer software licences are amortised, using the straight line method, over their useful lives of 3 years or, if the licence period is shorter than 3 years, over this shorter period.

Impairment

The carrying amounts of non-current assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, in which case the review is undertaken at the cash generating unit level.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a reversal of the conditions that originally resulted in the impairment. This reversal is recognised in the income statement and is limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised in the prior years.

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value 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 an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Impairments are recognised in the income statement to the extent that the carrying amount exceeds the assets carrying amount. The revised carrying amounts are amortised in line with the Company's accounting policies.

Operating leases

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease") amounts payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic resources will result and that outflow can be reliably measured.

Exploration and evaluation assets

Pre-licence costs associated with exploring or evaluating prospects are written off as incurred to the income statement.

All costs associated with exploring and evaluating prospects within licence areas, including the initial acquisition of the licence are capitalised on a project-by-project basis pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses but not general overheads. When a decision is made to proceed to development, the related expenditures will be transferred to proven projects. Where a licence is relinquished, a project is abandoned, or is considered to be of no further commercial value to the Company, the related costs will be written off.

The recoverability of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of reserves and future profitable production or proceeds from the disposition of recoverable reserves.

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable result for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Financial Instruments

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets and financial liabilities carried in the statement of financial position include cash and cash equivalents, trade and other receivables and payables and other financial liabilities. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as finance costs or investment revenue. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

Financial Assets

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company did not have any financial assets designated as held to maturity, held for trading or fair value through the profit or loss. Unless otherwise indicated, the carrying amounts of the Company's financial assets are a reasonable approximation of their fair values.

The Company's accounting policy for each category is as follows:

Loans and receivables

Loans and receivables (including trade receivables) are measured on initial recognition at fair value and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand, deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Financial Liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company classifies its financial liabilities only as held at amortised cost.

Financial liabilities including trade payables are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Notes to the Financial Statements continued

for the year ending 31 December 2013

1. Accounting Policies continued

Financial Liabilities continued

Equity

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's Ordinary Shares are classified as equity instruments.

For the purposes of the capital management disclosures given in note 19, the Company considers its capital to be total equity.

Foreign Currencies

The functional currency of the Company is Sterling. Transactions denominated in currencies other than the functional currency of the Company are recorded at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities are translated into the functional currency at the closing rates of exchange at the reporting date. Exchange differences arising from the restatement of monetary assets and liabilities at the closing rate of exchange at the reporting date or from the settlement of monetary transactions at a rate different from that at which the asset or liability was recorded are dealt with through the income statement.

Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

1) Impairment of exploration and evaluation assets

Impairment tests on exploration and evaluation assets are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

The recoverability of the amounts shown in the Company Balance Sheet in relation to deferred exploration and evaluation expenditure are dependent upon the discovery of economically recoverable reserves, continuation of the Company's interest in the underlying asset, the political, economic and legislative stability of the regions in which the Company operates, compliance with the terms of the relevant mineral rights licences, the Company's ability to obtain the necessary financing to fulfil its obligations as they arise and upon future profitable production or proceeds from the disposal of properties.

2) Useful lives of non-current assets

Non-current assets are depreciated over their useful lives. Useful lives are based on the management's estimates of the period in which the assets will generate revenue. Values and useful lives are reviewed periodically and adjusted if appropriate. Changes to estimates can result in significant variations on the carrying value and amounts charged to the statement of comprehensive income and expenditure in the specific period.

3) Determination of share based payment costs

The determination of these costs is based on financial models. The inputs to these models are based on the Directors' judgements and estimates and are not capable of being determined with precision.

2. Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources, assessing the performance of the operating segment and making strategic decision, has been identified as the Board of Directors. The Board of Directors consider that the Company has only one operating segment at corporate level, therefore no additional segmental information is presented.

3. Employees and Directors

	Year to 31 December 2013 £	Period from 21 February to 31 December 2012 £
Wages and salaries	575,568	203,783
Social security costs	75,320	23,014
Share-based payments	188,746	90,749
	839,634	317,546

	Year to 31 December 2013	Period from 21 February to 31 December 2012
The average monthly number of employees during the year/period was as follows:		
Directors	7	6
Administrative	4	3
	11	9

	Year to 31 December 2013 £	Period from 21 February to 31 December 2012 £
Directors' remuneration:		
Salaries and fees	379,833	140,357
Benefits	29,383	10,163
Share-based payments	121,225	90,749
	530,441	241,269

Details regarding share options and warrants are set out in note 18 to the financial statements. The highest paid director in the period was J G Cluff who received total remuneration of £274,486 (2012: £83,855).

4. Loss before Taxation

	Year to 31 December 2013 £	Period from 21 February to 31 December 2012 £
The loss before tax is stated after charging:		
Other operating lease rentals – land and buildings	82,280	46,397
Amortisation of software assets	1,663	250
Depreciation – owned assets	5,040	2,049

5. Auditors' Remuneration

	Year to 31 December 2013 £	Period from 21 February to 31 December 2012 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	12,500	12,000
Fees payable to the Company's auditors for other services	1,500	–

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for the year ending 31 December 2013

6. Taxation

Analysis of tax expense

No liability to UK corporation tax arose on ordinary activities for the year/period.

Factors affecting the tax expense

The tax assessed for the year/period is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	Year to 31 December 2013 £	Period from 21 February to 31 December 2012 £
Loss on ordinary activities before taxation	(1,928,199)	(821,730)
Tax on loss on ordinary activities at the UK corporation tax rate of 23.25% (2012:24%)	(448,306)	(197,215)
Effects of:		
Accelerated capital allowances	–	(3,287)
Expenses not deductible for tax purposes	16,987	2,307
Adjustment in relation to share based payment	43,883	21,780
Unrelieved losses carried forward	387,436	176,415
Taxation expense	–	–

A deferred tax asset in respect of losses of £2,398,411 (2012: £735,067) and share based payments of £279,495 (2012: £90,749) has not been recognised due to the uncertainty and timing of future profits. The unrecognised deferred tax asset of £562,360 (2012: £189,937) is recoverable against suitable future trading profits.

7. Loss per Share

The Company has issued share options and warrants over Ordinary shares both of which could potentially dilute basic earnings per share in the future. Further details are given in note 20.

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year/period.

Given the Company's reported loss for the year/period, share options and warrants are not taken into account when determining the weighted average number of ordinary shares in issue during the year/period and therefore the basic and diluted loss per share are the same.

Basic and diluted loss per share

	2013	2012
Loss per share from continuing operations	(1.99)p	(1.29)p

The loss and weighted average number of ordinary shares used in the calculation of basic loss per share are as follows:

	2013 £	2012 £
Loss used in the calculation of total basic and diluted loss per share	(1,928,199)	(821,730)

Number of shares

	2013 Number	2012 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	96,694,977	63,549,547

If the Company's share options and warrants were taken into consideration in respect of the Company's weighted average number of ordinary shares for the purposes of diluted loss per share, it would be as follows:

Number of shares

	2013 Number	2012 Number
Potential dilutive effect of share options and warrants	49,393,425	33,371,629
Weighted average number of ordinary shares for the purposes of diluted earnings per share	146,088,402	96,921,176

Notes to the Financial Statements continued

for the year ending 31 December 2013

8. Intangible Assets

	Exploration & Evaluation Assets £	Software Licences £	Total £
Cost			
At 21 February 2012	–	–	–
Additions	–	6,000	6,000
At 31 December 2012	–	6,000	6,000
Additions	12,720	1,351	14,071
At 31 December 2013	12,720	7,351	20,071
Amortisation			
At 21 February 2012	–	–	–
Charge for period	–	250	250
At 31 December 2012	–	250	250
Charge for year	–	1,663	1,663
At 31 December 2013	–	1,913	1,913
Net Book Value			
At 31 December 2013	12,720	5,438	18,158
At 31 December 2012	–	5,750	5,750
At 21 February 2012	–	–	–

9. Property, Plant and Equipment

	Fixtures and Fittings £	Computer Equipment £	Total £
Cost			
At 21 February 2012	–	–	–
Additions	4,004	17,245	21,249
At 31 December 2012	4,004	17,245	21,249
Additions	877	170	1,047
At 31 December 2013	4,881	17,415	22,296
Depreciation			
At 21 February 2012	–	–	–
Charge for period	309	1,740	2,049
At 31 December 2012	309	1,740	2,049
Charge for year	711	4,329	5,040
At 31 December 2013	1,020	6,069	7,089
Net Book Value			
At 31 December 2013	3,861	11,346	15,207
At 31 December 2012	3,695	15,505	19,200
At 21 February 2012	–	–	–

10. Investment in Subsidiary

	2013 £	2012 £
Investment in subsidiary	1	-

On 1 October 2013, the Company incorporated a subsidiary, "Cluff Energy (Scotland) Limited", a company incorporated in Scotland. The Company has taken advantage of the exemption under the Companies Act 2006, section 405, not to consolidate this subsidiary as it has been dormant from the date of incorporation and is not material for the purpose of giving a true and fair view.

11. Trade and Other Receivables

	2013 £	2012 £
Current:		
Other receivables	56,256	159,555
Amounts receivable from related parties	33,760	42,420
Prepayments	55,132	93,662
	145,148	295,637
Non-current:		
Rental deposit	53,688	53,688
Total Receivables	198,836	349,325

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £33,760 (2012: £42,420) and an amount due from Cluff Coal Limited of £nil (2012: £1,984). The amount due from Cluff Africa Associates UK Limited is secured by a fixed charge over the assets of that company.

A rent deposit of £53,688 was paid on the commencement of the Company's office lease in May 2012. The deposit will be repaid to the Company on the expiry of the lease.

12. Cash and Cash Equivalents

	2013 £	2012 £
Cash in hand	83	326
Bank accounts	2,931,188	2,601,801
	2,931,271	2,602,127

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Notes to the Financial Statements continued for the year ending 31 December 2013

13. Share Capital

Allotted, issued and fully paid

		Number	£
Year ended December 2013			
At beginning of the year	Ordinary shares of 0.5 pence each	87,000,000	435,000
Issue of shares 31 July 2013	– to consultants	1,333,333	6,667
Issue of shares 12 November 2013	– placing & subscription	66,666,667	333,333
At end of the year	Ordinary shares of 0.5 pence each	155,000,000	775,000
Period ended December 2012			
At beginning of the period	Ordinary shares of £1 each	1	1
Subdividing of shares issued at incorporation 3 April 2012 into Ordinary shares of 0.5 pence each		199	–
Issue of shares 3 April 2012		9,999,800	49,999
Issue of shares 22 May 2012	Placing	77,000,000	385,000
At end of the period	Ordinary shares of 0.5 pence each	87,000,000	435,000

On 31 July 2013, 1,333,333 £0.005 Ordinary shares were issued to two consultants engaged by the Company to settle liabilities associated with the identification of and application for UCG licences. These shares are subject to a two year lock-in.

On 12 November 2013, 66,666,667 £0.005 Ordinary shares were issued at £0.03 by way of a placing and subscription of shares, raising £2,000,000 before transaction costs of £133,089.

The share warrants issued in the prior period are disclosed in note 20.

14. Reserves

Reserves	Description and purpose
Share Capital	Nominal value of shares issued.
Share Premium	Amount subscribed for share capital in excess of nominal value.
Share-based payment Reserve	Fair value of warrants issued in connection with share placing.
Retained Deficit	Cumulative net losses recognised in the statement of comprehensive income.

Details of movements in each reserve are set out in the Statement of Changes in Equity on page 17.

15. Trade and Other Payables

	2013 £	2012 £
Current:		
Trade creditors	35,061	16,280
Social security and other taxes	23,384	28,635
Other payables and accruals	113,980	127,897
	172,425	172,812

16. Operating Lease Arrangements

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2013 £	2012 £
Land and Buildings:		
Less than one year	89,480	89,480
Between one and five years	37,283	126,763

During the year £82,280 (2012: £46,397) was recognised as an expense in the income statement in relation to the operating lease.

17. Related Party Disclosures

Parties are considered to be related if one party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Disclosure regarding remuneration of the Directors is given in the Director's Report.

- The Company has issued the following loans to companies connected to the Directors:

- £42,420 was loaned to Cluff Africa Associates UK Limited in 2012. J G Cluff, N Berry and P Cowley are Directors of the Cluff Africa Associates UK Limited. £10,000 was repaid in the year. The total facility available under the loan agreement with Cluff Africa Associates UK Limited is £50,000. Interest is charged at a rate of 3% per annum on the outstanding balance.
- £1,984 was loaned to Cluff Coal Limited on an interest free basis in 2012. J G Cluff, N Berry, and P Cowley are the Directors of Cluff Coal Limited. No amounts were repaid in the year and the loan has been fully impaired at 31 December 2013.

- Fees were paid to MDOIL, a company controlled by C Matchette-Downes, during the year for director services (£7,500 as disclosed in the Directors' Remuneration Report) and for other services and disbursements (£2,923).

18. Financial Instruments

Principal financial instruments

The principal financial instruments used by the Company from which the financial risk arises are as follows:

	2013 £	2012 £
Financial Assets		
Cash and cash equivalents – all amounts held in Sterling	2,931,271	2,602,127
Rental deposit	53,688	53,688
Other receivables	52,192	101,905
	3,037,151	2,757,720
Financial Liabilities		
Trade Payables	35,061	16,280
Other Payables	93,485	101,550
	128,546	117,830

The financial liabilities are all payable within one year.

General Objectives and Policies

The overall objective of the board is to set policies that seek to reduce as far as practical without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are:

Policy on financial risk management

The Company's principal financial instruments comprise cash and cash equivalents, other receivables, trade and other payables. The Company's accounting policies and methods adopted, including the criteria for recognition, the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are set out in note 1 – "Accounting Policies".

The Company does not use financial instruments for speculative purposes. The carrying value of all financial assets and liabilities approximates to their fair value.

Derivatives, financial instruments and risk management

The Company does not use derivative instruments or other financial instruments to manage its exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices.

Foreign currency risk management

The Company has very limited transactional currency exposures as all projects currently undertaken are based in the UK.

Notes to the Financial Statements continued

for the year ending 31 December 2013

18. Financial Instruments continued

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company's exposure and the credit ratings of its counterparties are monitored by the Board of Directors to ensure that the aggregate value of transactions is spread amongst approved counterparties.

The Company's principal financial assets are cash and cash equivalents and other receivables. Cash equivalents include amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and available on demand is limited because the Company's counterparties are mainly banks with high credit-ratings assigned by international credit-rating agencies.

During the year, the Company has impaired the loan receivable due from Cluff Coal of £1,984. No other financial assets have indicators of impairment.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recorded in the financial statements.

Borrowings and interest rate risk

The Company's exposure to interest rate risk is not material as it currently has no borrowings.

The Company's principal financial assets are cash and cash equivalents and other receivables. Cash equivalents include amounts held on deposit with financial institutions.

The credit risk on liquid funds held in current accounts and available on demand is limited because the Company's counterparties are mainly banks with high credit-ratings assigned by international credit-rating agencies.

The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recorded in the financial statements.

Liquidity risk

During the year ended 31 December 2013, the Company was financed by cash raised through equity funding. Funds raised surplus to immediate requirements are held as short-term cash deposits in Sterling.

The maturities of the cash deposits are selected to maximise the investment return whilst ensuring that funds will be available as required to maintain the Company's operations.

In managing liquidity risk, the main objective of the Company is to ensure that it has the ability to pay all of its liabilities as they fall due. The Company monitors its levels of working capital to ensure that it can meet its liabilities as they fall due.

The table below shows the undiscounted cash flows on the Company's financial liabilities as at 31 December 2013 and 31 December 2012 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2-6 months £
At 31 December 2013			
Trade payables	35,061	35,061	–
Accruals	93,485	–	93,485
	128,546	35,061	93,485
At 31 December 2012			
Trade payables	16,280	16,280	–
Accruals	101,550	–	101,550
	117,830	16,280	101,550

19. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide returns for shareholders and to maintain an optimal capital structure to manage the cost of capital effectively. The Company defines capital as being share capital plus reserves. The Board of Directors monitor the level of capital as compared to the Company's commitments and, where necessary, adjusts the level of capital as is determined to be necessary by issuing new shares.

The Company was financed by equity in the year ended 31 December 2013. It is the intention of the Directors that the Company should continue to be financed by equity as appropriate to maintain a robust net asset position to support its business and maximise shareholders value.

The Company is subject to an externally imposed capital requirement of maintaining a minimum of £50,000 authorised share capital, which it has met in both reporting periods presented.

20. Share-Based Payments

The Company share options and warrants are equity-share-based payments as defined in IFRS 2. This standard requires that a recognised valuation methodology be employed to determine the fair value of share options and warrants granted. The total share based payment charge for the year has been derived through applying the Black Scholes model.

Long Term Incentive Plan ('LTIP')

The Company entered into an LTIP agreement with J G Cluff on 4 May 2012 pursuant to which J G Cluff may be awarded Ordinary Shares at nil cost equal to 3 per cent. of the Company's issued share capital as at 31 December, in each of the financial years from 2012 to 2016, subject to meeting specific share price targets for each of the years from 2012 to 2016 as follows:

Year to 31 December	Share price (pence)
2012	10
2013	15
2014	22.5
2015	33.75
2016	50.625

No award was made under the LTIP in respect of the period to 31 December 2013, however an amount of £31,917 (2012: £12,247) has been recognised as share-based expenses in the period. The fair value of the LTIP was measured at issue using Monte Carlo simulations of the basic Black Scholes model. The inputs to the Black-Scholes model for this valuation were as follows:

Black Scholes Model	4 May 2012
Share Price	4.12p
Exercise price	5.00-10.00p
Expected Volatility	50%
Risk Free Rate of Interest	0.86%
Expected Dividend Yield	0%
Expected Life	2.4-5 years

Rights granted under the LTIP Agreement are non-transferable except in the case of death, in which case outstanding LTIP Rights may be exercised by Mr Cluff's personal representatives.

Notes to the Financial Statements continued

for the year ending 31 December 2013

20. Share-Based Payments continued

Share Option Plan

The Company's Share Option Plan pursuant to which options over Ordinary Shares may be granted to Directors and employees of the Company, commenced on 4 May 2012.

Any employed Director or employee of the Company is eligible to receive grants under the Share Option Plan. Non-executive Directors are not eligible to receive grants. Options are non-transferable except in the case of an option holder's death, in which case the outstanding options may be exercised by the personal representatives of the option holder.

The maximum number of Ordinary Shares in respect of which options can be granted under the Share Option Plan is 20 per cent. of the Company's issued Ordinary share capital, including all awards made over the 10 years preceding the date of the grant. This limit also includes any rights granted under any other employee share incentive arrangements operated by the company but excludes rights that: (i) have lapsed, been forfeited or released; (ii) will be met by the transfer of shares already in issue; or (iii) are granted to replace an award over shares in a Company acquired by the Company.

The Board of Directors has absolute discretion to grant options, subject to any time vesting or performance conditions that it outlines. The grant of options will be evidenced by an option agreement.

6,500,000 options were granted during the year to 31 December 2013 under the scheme (2012: 1,000,000).

The Company recognised a total expense of £156,829 in the year ended 31 December 2013 (2012: £nil) in respect of share-based payments for share options.

The inputs to the Black-Scholes model were as follows:

Black Scholes Model	1 October 2012	23 January 2013	23 January 2013	26 June 2013
Share Price	4.62p	5.12p	5.12p	5.25p
Exercise price	4.88p	5.13p	8p	5.125p
Expected Volatility	60.83%	65.03%	65.03%	65.36%
Risk Free Rate of Interest	0.7072%	1.0018%	1.0018%	1.4164%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%
Expected Life	5.5 years	5.5 years	5.5 years	5.5 years
Number of options issued	1,000,000	1,500,000	2,000,000	3,000,000

Expected volatility was determined based on the historic volatility of a comparable company.

The exercise price for share options granted in October 2012 and June 2013 was set at the previous day's closing share price.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	Number of options £	WAEP £
Year ended December 2013		
Outstanding at the beginning of the year	1,000,000	0.0488
Issued	6,500,000	0.0440
Cancelled	(1,500,000)	0.0513
Outstanding at the year end	6,000,000	0.0604
Number exercisable at 31 December 2013	–	–
	Number of options £	WAEP £
Period ended December 2012		
Outstanding at the beginning of the year	–	–
Issued	1,000,000	0.0488
Outstanding at the year end	1,000,000	0.0488
Number exercisable at 31 December 2012	–	–

Warrants

There was no movement on issued warrants during the year; warrants listed below were granted during the prior period:

At 31 December 2013 and 2012	Number of Warrants	Weighted Average Exercise Price (p)
J G Cluff	5,000,000	5.00
Shore Capital and Corporate Limited	4,340,000	5.00
Shareholders	37,500,000	10.00
	46,840,000	9.45

The Company recognised an expense of £nil in respect of warrants granted in the year ended 31 December 2013 (2012: £310,697).

The following Warrants are in issue at 31 December 2013:

Shore Capital and Corporate Limited (SCS) Warrant

Pursuant to a warrant instrument dated 11 May 2012, the Company granted to Shore Capital and Corporate Limited, the Company's nominated adviser at that time, warrants to subscribe for 4,340,000 Ordinary Shares at a subscription price of £0.05 per new Ordinary share. SCS may exercise the warrants to subscribe for Ordinary shares at any time during the exercise period which ends 22 May 2017. The Company must notify SCS in the event of a takeover offer. The SCS warrants are not transferable except within the Shore Capital Group of companies.

Existing Warrant Deed – J G Cluff

Pursuant to a warrant instrument dated 4 May 2012, the Company granted J G Cluff warrants for 5,000,000 Ordinary Shares at a subscription price of £0.05 per new Ordinary Share. The Company must obtain the consent of J G Cluff before undertaking certain actions which will affect the Ordinary Shares and notify J G Cluff in the event of a takeover offer. The existing warrants are not transferable except with the prior written consent of the Company.

Placing Warrant Deed

Pursuant to the warrant instrument dated 4 May 2012, the Company granted to each placee who subscribed for Ordinary Shares pursuant to the placing one warrant to subscribe for an Ordinary share at a subscription price of £0.10 for every two placing shares subscribed. Each warrant holder may exercise the warrant to subscribe for Ordinary Shares at any time during the exercise period which ends on 22 May 2015. The Company must obtain the consent of 75 per cent. of the holders of the Placing warrants present at a meeting of the warrant holders before undertaking certain actions which will affect the Ordinary Shares and it must notify each holder of the Placing Warrants in the event of a takeover offer. The Placing warrants are not transferable except with prior written consent of the Company.

21. Post Balance Sheet Events

No significant events have taken place since the balance sheet date.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at the offices of K&L Gates LLP, One New Change, London EC4M 9AF on 21 May 2014 at 10.30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1-5 (inclusive) will be proposed as ordinary resolutions and resolution 6 will be proposed as a special resolution:

ORDINARY RESOLUTIONS

1. To receive and adopt the report of the Directors and the audited accounts for the financial period ended 31 December 2013 together with the report of the auditors thereon.
2. To re-elect Graham Swindells as a director of the Company.
3. To re-elect Christopher Matchette-Downes as a director of the Company.
4. To appoint BDO LLP as auditors of the Company to hold office until the conclusion of the next annual general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.
5. That the Directors be and are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company ("Shares") and grant rights to subscribe for, or to convert any security into, Shares ("Rights"):
 - (a) up to an aggregate nominal amount of £387,500; and
 - (b) comprising equity securities (as defined in section 560 of the Companies Act 2006) up to an aggregate nominal amount of £516,666.66 (including within such limit any Shares allotted under paragraph (a) above and any Shares that may be allotted pursuant to Rights granted under paragraph (a) above) in connection with an offer by way of a rights issue:
 - (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares; and
 - (ii) to holders of other securities as required by the rights of those securities or as the Directors otherwise consider necessary,

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in or under the laws of any territory or the requirements of any regulatory body or any stock exchange,

provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, on 20 August 2015 save that the Company may before such expiry make offers or agreements which would or might require Shares to be allotted or Rights to be granted after such expiry and the Directors may allot Shares and grant Rights in pursuance of any such offers or agreements as if the authority conferred hereby had not expired and all unexercised authorities previously granted to the Directors to allot Shares or grant Rights be and are hereby revoked.

SPECIAL RESOLUTION

6. That, subject to the passing of Resolution 5 above, the Directors be and are hereby empowered in accordance with section 570 and section 573 of the Companies Act 2006 to allot equity securities (within the meaning of section 560 of that Act) for cash, either pursuant to the authority conferred by Resolution 5 or by way of a sale of treasury shares, as if section 561(1) of that Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with an offer of equity securities (but, in the case of the authority granted under paragraph (b) of Resolution 5, by way of a rights issue only):
 - (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares; and
 - (ii) to holders of other securities as required by the rights of those securities or as the Directors otherwise consider necessary,
 - but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in or under the laws of any territory or the requirements of any regulatory body or any stock exchange; and
 - (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £232,500, and shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, on 20 August 2015, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offers or agreements as if the power conferred hereby had not expired.

Registered Office:
Third Floor
5-8 The Sanctuary
London
SW1P 3JS

By Order of the Board
24 April 2014

J G Cluff
Chairman and Chief Executive

Notes

1. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the number of votes that may be cast), shareholders must be entered in the register of members of the Company at 10.30 a.m. on 19 May 2014 (or, in the event of any adjournment, at 10.30 a.m. on the day which is two days before the date fixed for the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. A member wishing to appoint more than one proxy should contact the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL. A proxy need not be a member of the Company. Appointing a proxy will not prevent a member from attending and voting at the meeting in person.
3. A form of proxy for use in relation to the meeting is enclosed. To be valid, the form of proxy and any power of attorney or other authority under which it is signed (or a notorially certified copy of such power or authority) must be deposited with the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL, not less than 48 hours excluding non-business days before the time appointed for the holding of the meeting or any adjourned meeting.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting to be held on 21 May 2014 and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's Agent (ID 7RA36) by the latest time(s) for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's Agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to a proxy appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider take) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

5. As at 24 April 2014 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 155,000,000 ordinary shares of 0.5 pence each. Each ordinary share carries the right to one vote at a general meeting of the Company and, therefore, the total number of voting rights in the Company as at 24 April 2014 was 155,000,000.
6. In accordance with section 319A of the Companies Act 2006, the Company must cause to be answered at the meeting any question relating to the business being dealt with at the meeting which is put by a member attending the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
7. In accordance with section 311A of the Companies Act 2006, a copy of this notice and the other information required by that section is available on the Company's website <http://www.cluffnaturalresources.com>.

Explanatory Notes to the Notice of Annual General Meeting

1. Directors' report and accounts (Resolution 1)

This resolution will be proposed as an ordinary resolution. The directors of the Company are required by the Companies Act 2006 (the "Act") to present to the meeting the directors' and auditors' reports and the audited accounts for the year ended 31 December 2013. The report of the directors and the audited accounts have been approved by the directors, and the report of the auditors has been approved by the auditors, and a copy of each of these documents may be found in the annual report and accounts of the Company.

2. Re-election of Directors (Resolutions 2 and 3)

Each of these resolutions will be proposed as an ordinary resolution. Article 85 of the Company's articles of association state that any director who has been appointed by the board of directors shall retire at the next annual general meeting. Accordingly, each of Graham Swindells and Christopher Matchette-Downes is retiring and offering himself for re-election under this provision.

Biographical details of all of the directors are set out on pages 8 and 9 of the annual report and accounts of the Company.

3. Appointment and remuneration of auditors (Resolution 4)

This resolution will be proposed as an ordinary resolution. This resolution proposes the appointment of BDO LLP as the auditors of the Company and, in accordance with standard practice, gives authority to the directors to determine their remuneration.

4. Authority to allot shares (Resolution 5)

This resolution will be proposed as an ordinary resolution. Resolution 5 renews and extends a similar authority approved by shareholders at the annual general meeting of the Company held on 25 June 2013. The Company's directors may only allot shares or grant rights to subscribe for, or convert any security into, shares if authorised to do so by the shareholders. The authority conferred on the directors, at the annual general meeting held on 25 June 2013, under section 551 of the Act to allot shares expires on the date of the forthcoming annual general meeting. Accordingly, this resolution seeks to grant a new authority under section 551 of the Act to authorise the directors to allot shares (including treasury shares) in the Company or grant rights to subscribe for, or convert any security into, shares in the Company.

Resolution 5 will, if passed, authorise the directors to allot shares or grant rights to subscribe for, or to convert any security into, such shares in the Company up to a maximum nominal amount of:

- (a) £387,500, which represents approximately 50 per. cent of the existing issued ordinary share capital of the Company as at 24 April 2014 (being the latest practicable date prior to publication of this notice); and
- (b) £516,666.66 (after deducting any shares issued pursuant to paragraph (a) above), which represents approximately two-thirds of the existing issued ordinary share capital of the Company as at 24 April 2014 (being the latest practicable date prior to the publication of this notice), provided that such authority may only be used pursuant to a rights issue.

The Company does not hold any shares in treasury as at 24 April 2014 (being the latest practicable date prior to the publication of this notice).

The authority sought under Resolution 5 will expire at the earlier of the conclusion of the annual general meeting of the Company in 2015 or 15 months from the passing of the resolution, if earlier.

5. Disapplication of pre-emption rights (Resolution 6)

This resolution will be proposed as a special resolution, which requires a 75 per. cent majority of the votes to be cast in favour of the resolution. Resolution 6 renews and extends a similar authority approved by shareholders at the annual general meeting held on 25 June 2013. Under section 561(1) of the Act, if the directors wish to allot ordinary shares, or grant rights to subscribe for, or convert securities into, ordinary shares, or sell treasury shares for cash they must in the first instance offer them to existing shareholders in proportion to their holdings. There may be occasions, however, when the directors need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing shareholders. This cannot be done under the Act unless the shareholders have first waived their pre-emption rights. Resolution 6 asks the shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities, the authority contained in this resolution will be limited to the issue of shares for cash up to an aggregate nominal value of £232,500 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which represents approximately 30 per. cent of the Company's issued ordinary share capital as at 24 April 2014 (being the latest practicable date prior to the publication of this notice). The directors believe that an authority to issue 30 per. cent of the Company's issued share capital for cash without first offering the securities to existing holders is in the best interests of the Company and its shareholders as it will give the Company flexibility to allot further shares at short notice in connection with, inter alia, future fundraisings by the Company. The directors have no intention, at present, of exercising the full extent of this authority. The authority would only be exercised if the directors believe that to do so would be in the best interests of the Company and its shareholders as a whole.

The authority sought under Resolution 6 will expire at the earlier of the conclusion of the annual general meeting of the Company in 2015 or 15 months from the passing of the resolution, if earlier.

Form of Proxy

I/We, the undersigned, being (a) member(s) of Cluff Natural Resources Plc (the "Company") hereby appoint the Chairman of the meeting or (see note 2 below) _____ as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the annual general meeting of the Company to be held on 21 May 2014 at 10.30 a.m. and at any adjournment thereof.

Please indicate with an X in the boxes below how you wish your votes to be cast.

	Resolutions	For	Against	Vote Withheld
1.	To receive and adopt the annual accounts and reports of the directors and auditors thereon.			
2.	To re-elect Graham Swindells as a director of the Company.			
3.	To re-elect Christopher Matchette-Downes as a director of the Company.			
4.	To appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration.			
5.	To authorise the directors to allot equity securities.			
6.	To disapply the statutory pre-emption rights over equity securities.			

Dated this _____ day of _____ 2014

Signature(s): _____

Name: _____

Address: _____

Notes:

1. A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
2. A member who wishes to appoint someone other than the chairman as his proxy should delete the words "the Chairman of the Meeting or", insert the name of his choice in the space provided and initial the alteration.
3. The form of proxy should be signed and dated by the member or his attorney duly authorised in writing. In the case of a corporation, the form of proxy should be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. Any alteration made to the form of proxy should be initialled.
4. In the case of joint holders, the signature of any one holder is sufficient. However, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members.
5. A member should direct the proxy how to vote on the resolutions by marking the appropriate box with an X. The "vote withheld" option is provided to enable members to abstain on any of the resolutions. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" a resolution.
6. If the form of proxy is returned duly signed but without any indication as to how the proxy should vote on any resolution, the proxy will exercise his discretion as to how he votes and whether or not he abstains from voting on the resolution. The proxy may also vote or abstain from voting as he thinks fit on any other business which may properly come before the meeting.
7. To be valid, the duly signed and dated form of proxy, together with any power of attorney or other authority under which it is signed (or a notarially certified copy of such power or authority), must be returned in the reply paid envelope provided to the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL so as to be received by no later than 10.30 a.m. on 19 May 2014.
8. Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
9. CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service should refer to note 4 of the notes to the notice of the annual general meeting.

Company Information

Directors

J G Cluff
G C Swindells
N W Berry
P N Cowley
Dr R V Danchin
The Earl De La Warr DL
B A FitzGerald
C J Machette-Downes

Secretary

G C Swindells

Registered Office

Third Floor
5-8 The Sanctuary
London
SW1P 3JS

Registered Number

07958581 (England and Wales)

Nominated Adviser & Corporate Broker

Panmure Gordon & Co
One New Change
London
EC4M 9AF

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

K&L Gates LLP
One New Change
London
EC4M 9AF

Financial Public Relations

St Brides Media & Finance
3 St Michael's Alley
London
EC3V 9DS

Registrar

Share Registrars Limited
9 Lion and Lamb Yard
Farnham
GU9 7LL