Cluff Natural Resources Plc / Index: AIM / Epic: CLNR / Sector: Natural Resources

25 April 2014

Cluff Natural Resources Plc ('CNR' or 'the Company')

Preliminary Results

Cluff Natural Resources Plc, is pleased to announce its audited preliminary results for the year ended 31 December 2013 ('FY 2013').

Highlights

- Built a portfolio of Underground Coal Gasification ('UCG') Licences inshore UK totalling 30,881 hectares - aiming to combat the UK's energy needs
- Strategy to unlock the energy potential in the UK via the UCG process which involves targeting stranded coal and converting it into syngas in an environmentally clean and safe process that does not involve the use of chemicals or fresh water
- Commencing site selection within licence portfolio with a view to planning test drilling
- Evaluating conventional near-term/production oil and gas opportunities in North and West Africa where management has significant experience – providing potential near term access to cash flow
- Further strengthened the Board of Directors with the appointments of Graham Swindells (Finance Director) and Chris Matchette-Downes (Non-executive Director)
- Strong cash position of £2.9 million at year end following fundraise of £2.0 million in November 2013

Chairman and Chief Executive's Statement

Since my last statement your Company's management set itself four objectives; (1) to add more licences for Underground Coal Gasification in the United Kingdom; (2) to raise the awareness of the important implications which the production of offshore UCG has for the United Kingdom; (3) 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 (4) 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 shall have achieved 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 licence is 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 (more than 600 metres) UCG, which we plan to do in estuaries and 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 a rapid 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.

Corporate Review

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

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 CNR 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 license 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. The onshore facilities to support the undersea UCG operation are being identified, in preparation for planning application. 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

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.

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 certain financial information, in particular overheads and cash balances as set out in the Financial Review.

Graham Swindells
Finance Director

Investment policy

In addition to the development of the UCG licences CNR 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 substantially implemented Investment 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.

Income Statement

for the year ending 31 December 2013

	Notes	Year ended 31 December 2013	Period from 21 February to 31 December 2012
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		(1,928,199)	(821,730)
Taxation		–	–
Loss for the year/(period)		(1,928,199)	(821,730)
Loss per share from continuing operations			
expressed in pence per share:			
Basic and diluted	2	(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)

Balance Sheet

as at 31 December 2013

	2013	2012
	£	£
Assets		
Non-current Assets		
Intangible assets	18,158	19,200
Property, plant and equipment	15,207	5,750
Investment in subsidiary	1	-
Other receivables	53,688	53,688
	87,054	78,638
Current Assets		
Other receivables	145,148	295,637
Cash and cash equivalents	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	775,000	435,000
Share premium	4,454,287	2,867,376

Share-based payment reserve	463,127	322,944
Retained deficit	(2,701,366)	(821,730)
Total Equity	2,991,048	2,803,590
Liabilities		
Current Liabilities		
Trade and other payables	172,425	172,812
Total Liabilities	172,425	172,812
Total Equity and Liabilities	3,163,473	2,976,402

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

Cash Flow Statement

for the year ending 31 December 2013

	Year ended 31 December 2013	Period from 21 February to 31 December 2012
	£	£
Cash flows used in operating activities		
Net cash used in operating activities	(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	2,000,000	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

Notes to the Financial Statements

for the year ending 31 December 2013

1. Basis of preparation

The financial information for the year ended 31 December 2013 and the period ended 31 December 2012 set out in this announcement does not constitute the Company's statutory financial statements as defined by section 345 of the Companies Act 2006 for the year ended 31 December 2013 but is extracted from the audited financial statements for those years. The 31 December 2012 accounts have been delivered to the Registrar of Companies. The statutory financial statements for 2013 will be delivered to the Registrar of Companies in due course.

The auditors have reported on the financial statements for the year ended 31 December 2013; their report was unqualified and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board and as endorsed for use in the European Union, and with those parts of the Companies Act 2006 applicable to companies preparing their accounting under IFRS. This announcement does not itself contain sufficient information to comply with IFRSs.

The principal accounting policies adopted in the preparation of the financial information in this announcement are set out in the Company's full financial statements for the year ended 31 December 2013.

Copies of the Company's audited statutory accounts for the year ended 31 December 2013will be available at the company's website at www.cluffnaturalresources.com, promptly after the release of this preliminary announcement and a printed version will be dispatched to shareholders shortly.

The Board approved this announcement on 24 April 2014.

2 Loss per Share

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

****ENDS****

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Notes to Editors

Cluff Natural Resources Plc is an AIM-listed resource company formed in 2012 to invest in natural resources opportunities both in the UK and globally. The Company currently has 100% working interests in five Deep Underground Coal Gasification ("Deep UCG") Licences in the UK and is aiming to unlock the energy potential in the UK via the Deep UCG process which involves converting stranded coal in-situ into gas.