



**CLUFF
NATURAL
RESOURCES**

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Chairman and Chief Executive's Statement

My last statement focused on our Underground Coal Gasification ("UCG") aspirations in the UK and our aim to unlock the vast energy potential of the country's un-mined offshore coal resources. We have made significant progress in this regard, however in light of unknown factors regarding anticipated timing of the planning approval process for UCG operations in the UK, I stressed our complementary ambition to secure conventional offshore oil and gas licences. To that end we successfully applied for various blocks in the 28th Round of offshore licencing in April 2014 in the Southern North Sea gas basin and in December 2014 we were formally awarded eleven blocks contained within five licences. We are consequently focussing on these conventional licences for nearer-term value generation as we look to develop this Company into an integrated oil and gas company.

UCG

Since my last statement we have been awarded four more UCG licences in the UK by The Coal Authority, taking our total number of licences to nine. They range from South Wales to North Wales to Cumbria, the Firth of Forth and the North East of England. This is a balanced portfolio representing coverage of most of the inshore areas around the UK coastline which are (arguably) prospective for the gasification of coal. Our present intention being to access the coal by drilling from onshore has governed our decision to limit applications to inshore areas. Undeniably the coal seams in many cases thicken further out to sea and we may address such targets in the future.

Since my last statement the oil price has been convulsed on the downside dropping by half, although the price of gas has been more resilient. Sanctions have been imposed against Russia following events in Crimea and the whole security of supply issue in the UK has been graphically highlighted without any concomitant response from the Government, except to build more heavily subsidised wind farms. As I write, it has been announced that the Longannet Power Station in Scotland is likely to close within twelve months. Scotland has therefore recently lost approximately one third of its electricity supply which, being also avowedly non-nuclear, potentially renders the country's energy situation fraught with danger. I believe that the closure of Longannet poses a threat to the rest of the UK too and should lead to increasing recognition of the importance of coal gasification in the country's energy equation.

It is encouraging that the Scottish Government has now set up a committee to report by 7th May on how Scotland's energy 'mix' should be constructed. It is our corporate view that the future of Longannet (and Cockenzie and Grangemouth) can be secured by access to UCG. We have already demonstrated that the UCG suitable coal in place in our Kincardine licence alone is equivalent to 1.4 TCF of natural gas – sufficient to fire a 1000MW power station for twenty five years. The other two UCG licences in the Firth of Forth, which are larger, could provide the energy security that Scotland requires without nuclear power. The lower cost of UCG power generation would render export of electricity from Scotland again competitive. Furthermore the cost of electricity generation from UCG syngas is independent of world natural gas prices, which are sure to rise in the longer term. The output of a UCG production plant, unlike conventional coal plant, is flexible and an ideal match for the vagaries of renewable sources; and CCGT plant can be designed to operate on both syngas and natural gas as is proven in Europe.

I am pleased to record that the Minister of State at the Department of Energy and Climate Change, Rt Hon Matthew Hancock, in a speech in Gateshead last month endorsed the concept of UCG and we can only hope that this welcome attitude will be sustained by the next Government.

Conventional gas/ Halliburton MOU

The award of our eleven Southern North Sea blocks last December has added a considerable new dimension to your company. The improvement in seismic definition has led to a recent renaissance of interest in this area and particularly in the potential of the Carboniferous and the Zechstein. The Lytham discovery on our blocks 41/5 and 41/10 originally drilled by Walter in 2004 and Lundin in 2007 is of importance too and we are working towards the possibility of re-entering this discovery. The previous licence holders judge that, although the reservoir certainly contained gas, it was likely to be too tight to release a commercial flow of gas. However the advent of hydraulic fracturing has revolutionised attitudes to such reservoirs and Halliburton, with whom we have recently signed a Memorandum of Understanding, are the world's leading practitioners of the hydraulic fracturing technique and indeed have been heavily involved in our neighbouring Breagh Field's successful development. We are in regular contact with Halliburton with regards to these conventional gas opportunities as indeed we are in the context of UCG.

Funding

You will be aware we have recently raised a further £2.2 million by way of a placing of new shares at 4.25p per share which, when added to our existing cash balances provides us with sufficient working capital at least until the end of the first quarter of 2016.

Management

In May 2014 the Board appointed Andrew Nunn as our Senior Project Manager. Andrew has made an immediate impact on the development of our business and I was very happy to announce his promotion to the Board as Chief Operating Officer in December.

Outlook

Parliament has just risen and the outcome of the General Election has seldom been more difficult to predict. The Chancellor's final budget did much to render it easier for the large producing companies to sell out of the North Sea but nothing to encourage exploration. I urge the incoming Government to firstly, adopt the so-called Norwegian model whereby a 78% rebate is provided by the Government of the cost of an exploration well and secondly to accord UCG the important role it must have in establishing and the preserving the United Kingdom's energy security.

We have an exciting but challenging task ahead of us for which we need the support of the larger companies. It is therefore to be hoped that the signature of the Memorandum of Understanding with Halliburton will herald a closer cooperation with them and enable us to advance our plans, conventional and unconventional.

J G Cluff

Chairman and Chief Executive
29 April 2015

Operational Review

During 2014 Cluff Natural Resources continued the organic development of its portfolio of UK based gas assets. Our position as a leading player in the UK's emerging UCG sector has been consolidated with the award of four further offshore UCG licences and the publication of an initial JORC compliant resource assessment for Kincardine licence in Scotland. Since the year end independent geological reviews of 3 further licence areas indicated major coal tonnage potential in both the Point of Ayr and Cumbria areas.

2014 also saw the growth of the portfolio through the award of 5 "promote" licences in the emerging Carboniferous gas play in the Southern North Sea. These licences are located in an area with significant recent activity including new discoveries and installation of new production infrastructure.

UCG activity

The Company has continued to build its UCG portfolio with the award of four additional offshore UCG licences bringing the total offshore area available for UCG development in the UK to 690km². These new licences included two contiguous areas in offshore parts of the Durham Coalfield, a new licence immediately to the north of the existing Workington licence (previously referred to as North Cumbria) and a further licence in the Firth of Forth.

Licence Area	Region	Date Awarded	CLNR Working Interest (%)	Area (km ²)
Point of Ayr*	England - Wales	January 2013	100	69.5
Loughor Estuary	Wales	January 2013	100	42.1
Kincardine	Scotland	June 2013	100	36.9
Workington**	England	July 2013	100	82.4
Largo Bay	Scotland	July 2013	100	78.0
Maryport	England	August 2014	100	100.0
Durham North	England	August 2014	100	100.5
Durham South	England	August 2014	100	103.4
Frances	Scotland	April 2015	100	76.9
Total				689.7

* Formerly referred to as 'Dee Estuary'

** Formerly referred to as 'North Cumbria'

Kincardine UCG Licence

The key development within the offshore UCG portfolio has been the publication of an independently assessed JORC resource for the Kincardine Licence located in the Firth of Forth, Scotland. This report indicated a coal resource of 335 million tonnes of coal, of which 247 million tonnes are 'measured' or 'indicated'. On an energy basis the coal resources identified within the Kincardine licence area contains the equivalent energy to approximately 11 TCF of natural gas in place (mid case).

Licence Area	Category	Coal Resource (million tonnes)			Mid-case Gas in Place Equivalent (TCF)
		Low	Mid	High	Mid Case
Kincardine	Measured	93.07	125.57	157.38	4.1
	Indicated	94.66	121.36	147.25	3.9
	Inferred	68.45	87.73	106.45	2.8
Total		256.18	334.66	411.08	10.8

Additionally, within this resource 43 million tonnes of coal in place meeting our initial screening criteria for a commercial UCG development have been identified. This 43 million tonnes of coal equates to a gas in place equivalent of 1.4TCF and could support a UCG project gasifying one million tonnes of coal per annum with a lifespan of at least 25 years in this licence area.

This independent confirmation of the UCG potential in the Kincardine Licence has given the Company sufficient confidence to commit to the various environmental and engineering studies required to support a planning application for the UK's first UCG project since the 1950's. Site selection studies, environmental surveys and modelling and engineering design work required to support this planning application are underway and are due to be completed during the course of 2015.

Other UCG Licences

In addition independently assessed coal exploration targets were defined for the Point of Ayr Licence located in the Dee Estuary and the two licences in Cumbria.

The Point of Ayr licence has been assessed to potentially contain between 980 and 1,230 million tonnes of coal meeting our criteria for a commercial UCG project. This is a hugely significant coal deposit in terms of the ability to scale up the UCG process to the point where it could make a material difference on a national level. Further surveys and drilling work is required to further define the potential of this area.

Licence Area	Coal Exploration Target (million tonnes)		Mid-case Gas in Place Equivalent (TCF)***	
	Low	High	Low	High
Point of Ayr*	980	1,230	23.3	29.2
Workington**	384	640	9.0	15.2
Maryport				
Total	1,364	1,870	32.3	44.4

* Formerly referred to as 'Dee Estuary'

** Formerly referred to as 'North Cumbria'

*** Using 25GJ/tonne of coal

On an energy-equivalent basis the coal deposits identified within these exploration targets across the 3 licence areas contains between 32.3 and 44.4 TCF of natural gas in place which underlines the scale of the UCG potential in these areas.

While the licences in Cumbria were also assessed to contain significant coal resources suitable for UCG, the geological work undertaken by Wardell Armstrong also indicated the coal was potentially of coking quality and highlighted the opportunity for the establishment of a conventional coking coal mine in this area. There is precedent locally with West Cumbria Mining Limited currently exploring the potential for a new coking coal mine on the block immediately to the south of the Workington licence area. In light of this information Cluff Natural Resources will look to realise value or monetise these conventional coal assets over the coming year.

Operational Review

Conventional North Sea gas assets

To complement the existing UCG licences, Cluff Natural Resources applied for blocks in the 28th Offshore Licencing round in April 2014 and were ultimately awarded five promote licences incorporating eleven of those blocks in December 2014. These five licences cover approximately 2,400km² of the Southern North Sea in a highly prospective area where there have been a number of significant developments relating to the emerging Carboniferous play in recent years including commencement of gas production at the adjacent Breagh field, the announcement of the Pegasus West well test results in Q4 of 2014 and the completion of a pre-funded multi-client broadband 3D survey over a large area including 2 blocks licenced by Cluff Natural Resources.

The licences and blocks the Company has been awarded are set out below:

Licence Area	Blocks	Date Awarded	CLNR Working Interest		Area (km ²)
			Date	(%)	
P2248	43/11	Dec 2014	100		239.8
P2252	41/5, 41/10 & 42/1	Dec 2014	100		715.0
P2253	42/14b	Dec 2014	100		223.9
P2259	43/3b, 43/4b & 43/5	Dec 2014	100		523.1
P2261	43/7, 43/8 & 43/9	Dec 2014	100		716.5
Total					2,418.3

Of key interest is the Lytham gas discovery located in blocks 41/5 and 41/10 which was originally drilled by Walter in 2004 and latterly by Lundin in 2007. An earlier well drilled off-structure by Marathon in 1994 also had gas shows in both Carboniferous sandstones and the Zechstein dolomites. Mechanical issues prevented the full evaluation of the potential in the Carboniferous and younger formations, including the Zechstein play which is productive onshore UK and in the Netherlands.

Over the next twelve months Cluff Natural Resources is planning to re-evaluate the Lytham prospective trend, along with the larger portfolio, in light of recent developments at the Breagh, Pegasus and Cygnus fields and adjacent leads and prospects scheduled for drilling by competitors.

Halliburton Memorandum of Understanding

In February 2015 the Company entered into a Memorandum of Understanding with Halliburton, the leading global provider of engineering services to the energy sector, which aims to accelerate the development of Cluff's UCG and Southern North Sea assets through the collaborative development of new and emerging methodologies, technologies and business models.

This Memorandum of Understanding is a key endorsement of the potential commerciality of the UCG process and the large scale of the UCG opportunity both in the UK and globally.

A J Nunn

Chief Operating Officer

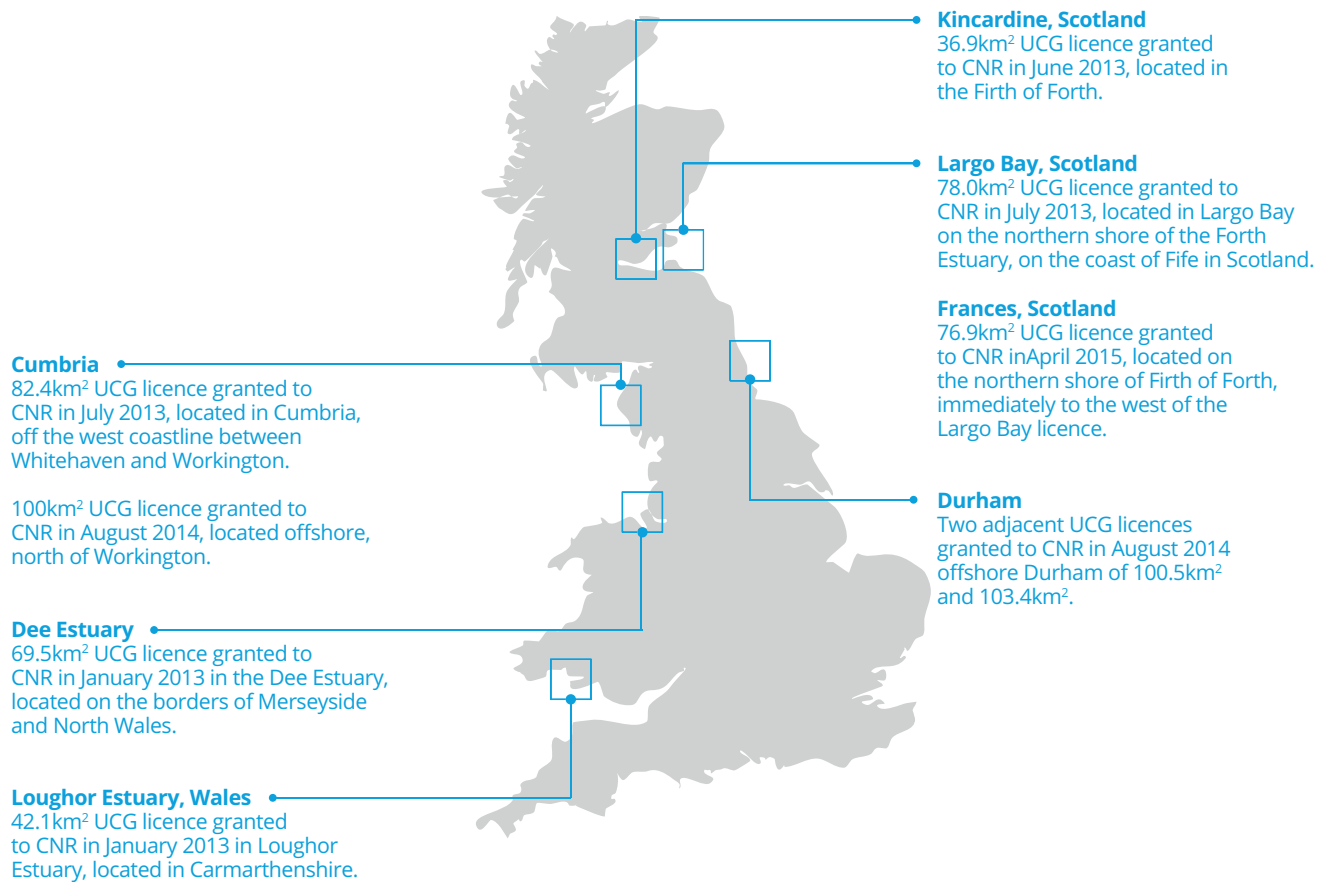
29 April 2015

Operational Review

Our Locations - UCG

Our UCG Licences

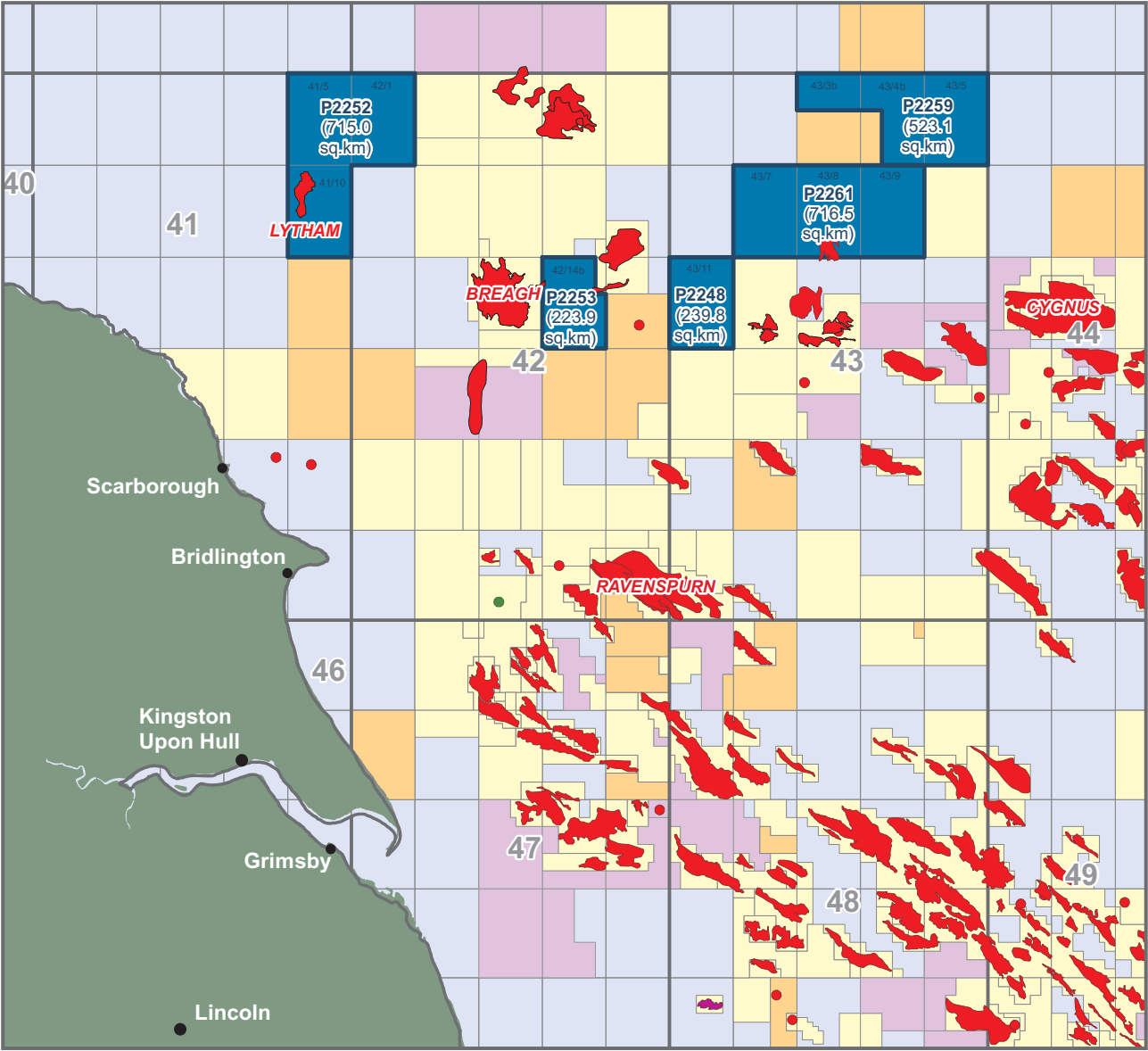
The Company currently has 100% working interest in nine Underground Coal Gasification ('UCG') Licences in the UK covering a total of 690km².



690km²
Total area of licences

Operational Review

Our Locations - North Sea



Legend

- | | |
|---|--|
| DECC Licensing | Fields |
| CLNR 28th Rd Awarded Blocks | Oil |
| Other 28th Rd Provisional Awards | Gas |
| Blocks Relinquished Since 28th Rd | Condensate |
| Currently Licensed Blocks | |

Financial Review

In the period to 31 December 2014 the Company incurred expenditure in the development of its portfolio of UCG licences, in supporting its successful application for North Sea gas licences and assessment and appraisal of a number of other natural resources opportunities in accordance with the Company's investment strategy, in addition to on-going administrative expenditure.

As at 31 December 2014, the Company had cash of £1.21 million.

Loss for the period

The Company incurred a loss for the year to 31 December 2014 of £1,725,014 (2013: £1,928,199).

Cash flow

In the year to 31 December 2014, the Company experienced a net cash outflow of £1,723,633 (2013: net cash inflow £329,145).

Net cash outflow from operating activities was £1,533,324 (2013: £1,525,497).

Closing cash

As at 31 December 2014, the Company held cash balances of £1.21 million (2013: £2.93 million).

Shareholders' equity

As at 31 December 2014 there were 155,000,000 ordinary shares of 0.5 pence each in issue.

Additionally, a total of up to 64,040,000 new ordinary shares may be issued pursuant to the exercise of share options or warrants.

Post year end equity fundraising

On 17 March 2015 the Company announced that it had conditionally raised approximately £2.2 million, before expenses, through the aggregate placing and subscription of 52,013,520 new ordinary shares of 0.5p each ("Placing Shares") at 4.25 pence per share (the "Placing") with new and existing institutional and private investors. The Placing comprised 44,222,332 Placing Shares which the Company issued on 15 April 2015 and a further 7,791,188 Placing Shares are expected to be issued on 11 September 2015.

The Placing was approved at a general meeting of the Company held on 14 April 2015 and the new ordinary shares were admitted to trading on 15 April 2015.

Going concern

The Company is dependant on its existing cash resources and its ability to raise additional funding in order to progress its exploration programme. Based on the cash balance at year end, the post year end equity fundraising and the Company's commitments, the Company has adequate financial resources to cover its budgeted exploration and development programme over the next 12 months.

Key performance indicators

At this stage in its development, the Company is focusing on the development of its existing UCG and North Sea licences as well as the evaluation of various 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

29 April 2015

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.

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 choosing 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 and development 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 Group'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

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

In addition to the development of the UCG and North Sea gas 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.

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.

J G Cluff
Chairman and Chief Executive
29 April 2015

Graham Swindells
Finance Director
29 April 2015

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. 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 Arbuthnot 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 PwC specialising in corporate recovery and restructuring. Graham graduated from the University of Glasgow with a Bachelor of Accountancy Degree.

Andrew Nunn

Chief Operating Officer

Andrew Nunn joined the Company in May 2014 and was appointed to the Board as Chief Operating Officer in December 2014. He is a Chartered Geologist with over 16 years of experience working on exploration, mining and geo-environmental projects in Europe, Australasia and Africa. Andrew spent 6 years working on UK and European unconventional gas projects including coalbed methane, tight gas and shale gas, most recently as Exploration Manager for Dart Energy. He holds a B.Sc. (Hons) in Economic Geology and an M.Sc. in Environmental Management.

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 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. He is currently a Non-executive Director of Amara Mining plc and Banro Corporation.

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. Most recently he has worked at Shore Capital Stockbrokers, having particular involvement with the natural resources team.

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, Deputy Chairman of Limit plc and Chairman of Liberty Syndicate Management Ltd.

Christopher John Matchette-Downes

Non-Executive Director

Christopher Matchette-Downes is a 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 founded Black Marlin Energy Holdings Limited which was acquired by Afren plc in 2010.

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2014.

Principal Activity

The Company's principal activity is the exploration, evaluation and development of mineral exploration targets, with a principal focus on the development of underground coal gasification and its gas licences in the Southern North Sea.

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 8.

Dividends

No dividends will be distributed for the year ended 31 December 2014 (2013: 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 2014 are set out below:

	Ordinary Shares		Share Options		Share Warrants	
	2014	2013	2014	2013	2014	2013
J G Cluff	11,567,914	11,567,914	8,000,000	2,000,000	5,000,000	5,000,000
G C Swindells	88,112	88,112	5,200,000	3,000,000	-	-
A J Nunn (appointed 16 December 2014)	-	-	3,000,000	-	-	-
N W Berry	900,000	900,000	-	-	-	-
P N Cowley	400,000	400,000	-	-	-	-
Dr R V Danchin	400,000	400,000	-	-	-	-
The Earl De La Warr DL.	2,466,666	2,466,666	-	-	-	-
B A FitzGerald	600,000	600,000	-	-	-	-
Christopher Matchette-Downes	-	-	-	-	-	-
	16,422,692	16,422,692	16,200,000	5,000,000	5,000,000	5,000,000

As set out in the Financial Review, on 17 March 2015 the Company announced that it had conditionally raised approximately £2.2 million through the aggregate placing and subscription of 52,013,520 new ordinary shares ("Placing Shares") at 4.25 pence per share (the "Placing"). As part of the Placing, certain directors subscribed for the following Placing Shares:

	Ordinary Shares
J G Cluff	470,588
G C Swindells	235,294
A J Nunn	235,294
N W Berry	470,588
P N Cowley	47,059
The Earl De La Warr DL.	588,235

The Placing was approved at a general meeting of the Company held on 14 April 2015 and the new ordinary shares were admitted to trading on 15 April 2015.

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2014 for the individual Directors who held office in the Company during the year.

	2014	2014	2014	2014	2014	2013
	Salary/fees	Bonuses	Benefits in kind	Share-based Payment	Total	Total
	£	£	£	£	£	£
J G Cluff	200,000	50,000	29,955	59,236	339,191	350,118
G C Swindells	125,000	32,500	16,288	58,971	232,759	64,491
A J Nunn*	4,792	28,750	1,067	7,716	42,325	-
N W Berry	-	-	-	-	-	21,667
P N Cowley	-	-	-	-	-	21,667
Dr R V Danchin	-	-	-	-	-	21,667
The Earl De La Warr DL.	-	-	-	-	-	21,667
B A FitzGerald	-	-	-	-	-	21,667
C J Matchette-Downes**	-	-	-	-	-	7,500
	329,792	111,250	47,310	125,923	614,275	530,444

* Represents remuneration only since appointment as a director on 16 December 2014.

** Chris Matchette-Downes was paid £34,583 in 2014 for consulting services in relation to the development of the Company's conventional oil and gas assets.

Report of the Directors

Share options and warrants

The share-based payment of £125,923 (2013: £121,225) to 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 2014:

	Warrants & Options held at 31 December 2013	Options granted in period	Options exercised in period	Warrants & Options held at 31 December 2014	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
	-	6,000,000	-	6,000,000	3.75p	30 April 2016	30 April 2024
G C Swindells	3,000,000		-	3,000,000	5.125p	26 June 2014	26 June 2023
	-	2,200,000	-	2,200,000	3.75p	30 April 2016	30 April 2024
A J Nunn	-	3,000,000	-	3,000,000	3.88p	6 September 2016	22 May 2024

Further details of share-based payments are set out in Note 19.

Substantial Shareholders

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at 24 April 2015:

Shareholders	Number of Shares	Percent (%)
Henderson Global Investors	19,902,300	9.99
Guinness Asset Management	16,675,182	8.37
Hargreaves Lansdown Nominees Limited	13,106,387	6.58
John Gordon Cluff	12,038,502	6.04
Waverton Investment Management	9,360,000	4.70
BCM Group Ltd	7,791,188	3.91
A J M Abela	7,043,001	3.54

Financial Instruments

Details of the use of financial instruments by the Company are contained in note 17 of the financial statements.

Political Contributions

No payments to political parties have been made during the year (2013: 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 nine Directors, of whom three 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). 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.

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).

Business Risks

A summary of the principal and general business risks can be found in the Strategic Report on pages 1 to 8.

Key Performance Indicators

At this stage in its development, the Company is focusing on the evaluation of various oil and gas opportunities in addition to the development of its existing UCG and Southern North Sea licences. 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.

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

J G Cluff

Chairman and Chief Executive

29 April 2015

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.

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 2014 which comprise the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, 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 2014 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.

Anne Sayers (Senior Statutory Auditor)

For and on behalf of BDO LLP (Statutory Auditor)
55 Baker Street
London
W1U 7EU

29 April 2015

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

Income Statement

for the year ending 31 December 2014

	Notes	2014 £	2013 £
Continuing Operations			
Administrative expenses		(1,744,886)	(1,932,389)
Operating Loss		(1,744,886)	(1,932,389)
Finance income		19,872	4,190
Loss Before Taxation	4	(1,725,014)	(1,928,199)
Taxation	6	-	-
Loss for the year attributable to the equity holders of the Company		(1,725,014)	(1,928,199)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	(1.11)p	(1.99)p

Statement of Comprehensive Income

for the year ending 31 December 2014

	2014 £	2013 £
Loss for the year	(1,725,014)	(1,928,199)
Other Comprehensive Income	-	-
Total Comprehensive Income for the year attributable to the equity holders of the Company	(1,725,014)	(1,928,199)

The notes on pages 20 to 33 form part of the financial statements.

Balance Sheet

as at 31 December 2014

	Notes	2014 £	2013 £
Assets			
Non-current Assets			
Intangible assets	8	254,219	18,158
Property, plant and equipment	9	10,642	15,207
Investment in subsidiary	10	251	1
Other receivables	11	53,688	53,688
		318,800	87,054
Current Assets			
Other receivables	11	172,719	145,148
Cash and cash equivalents		1,207,638	2,931,271
		1,380,357	3,076,419
Total Assets		1,699,157	3,163,473
Capital and reserves attributable to the equity holders of the Company			
Shareholders' Equity			
Share capital	12	775,000	775,000
Share premium		4,454,287	4,454,287
Share-based payment reserve		589,050	463,127
Retained deficit		(4,426,380)	(2,701,366)
Total Equity		1,391,957	2,991,048
Liabilities			
Current Liabilities			
Trade and other payables	14	307,200	172,425
Total Liabilities		307,200	172,425
Total Equity and Liabilities		1,699,157	3,163,473

The financial statements of Cluff Natural Resources plc, registered number 7958581, were approved by the Board of Directors on 29 April 2015 and were signed on its behalf by:

J G Cluff
Chairman and Chief Executive

Statement of Changes in Equity

for the year ending 31 December 2014

	Share capital £	Share premium £	Share-based payment reserve £	Retained deficit £	Total equity £
Balance at 1 January 2014	775,000	4,454,287	463,127	(2,701,366)	2,991,048
Share-based payment	-	-	125,923	-	125,923
Loss and total comprehensive loss for the year	-	-	-	(1,725,014)	(1,725,014)
Balance at 31 December 2014	775,000	4,454,287	589,050	(4,426,380)	1,391,957
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 and total comprehensive 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

Cash Flow Statement

for the year ending 31 December 2014

	Notes	2014 £	2013 £
Cash flows used in operating activities			
Net cash used in operating activities	1	(1,533,324)	(1,525,497)
Cash flows used in investing activities			
Purchase of intangible fixed assets		(208,081)	(14,070)
Purchase of property, plant and equipment		(573)	(1,047)
Proceeds on disposal of property, plant and equipment		61	-
Interest received		18,534	2,849
Investment in subsidiary		(250)	(1)
Net cash used in investing activities		(190,309)	(12,269)
Cash flows from financing activities			
Proceeds of share issue		-	2,000,000
Expenses of share issue		-	(133,089)
Net cash from financing activities		-	1,866,911
(Decrease)/Increase in cash and cash equivalents		(1,723,633)	329,145
Cash and cash equivalents at beginning of year		2,931,271	2,602,126
Cash and cash equivalents at end of year		1,207,638	2,931,271

Notes to the Cash Flow Statement

for the year ending 31 December 2014

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

	2014	2013
	£	£
Loss before taxation	(1,725,014)	(1,928,199)
Investment income	(19,872)	(4,190)
Share based payment	125,923	188,746
Shares issued to contractors for services	-	60,000
Depreciation	5,077	5,039
Amortisation	2,023	1,663
Directors' remuneration settled in shares	-	33,335
	(1,611,863)	(1,643,606)
(Increase)/decrease in other receivables	(26,233)	118,496
Increase/(decrease) in trade and other payables	104,772	(387)
Cash used in operations	(1,533,324)	(1,525,497)

Notes to the Financial Statements

for the year ending 31 December 2014

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('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.

Operating loss 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.

Going concern

The Company is dependent on its existing cash resources and its ability to raise additional funding in order to progress its exploration programme. Based on the cash balance at year end, the post year end equity fundraising and the Company's commitments, the Directors are of the opinion that the Company has sufficient funds to cover its budgeted exploration and development programme over the forthcoming 12 months from the date of approval of the financial statements.

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 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 12 Disclosure of Interests in Other Entities	1 January 2014	Yes	Disclosure only

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):

	Effective Date: Annual periods beginning on or after:	EU adopted	Impact on Company
Annual Improvements to IFRSs (2010-2012 Cycle) & Annual Improvements to IFRSs (2011-2013 Cycle)	1 January 2015	Yes	These Amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards
Annual Improvements to IFRSs (2012 -2014 Cycle)	1 January 2016	No	These Amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards
IAS 1 Disclosure Initiative - Amendments	1 January 2016	No	Disclosures
IAS 16 Clarification of Acceptable methods of & IAS 38 depreciation and amortisation - Amendments	1 January 2016	No	These amendments clarify the methods of depreciation
IFRS 9 Financial Instruments: Classification and Measurement	1 January 2018	No	Classification and measurement of financial instruments

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.

Notes to the Financial Statements

for the year ending 31 December 2014

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.

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.

Notes to the Financial Statements

for the year ending 31 December 2014

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

Notes to the Financial Statements

for the year ending 31 December 2014

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.

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

The exploration and evaluation assets are assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable value thereof. This assessment involves judgement as to the likely future commerciality of the asset and when such commerciality should be determined as well as future revenues and costs pertaining to the utilisation of the exploration and production rights to which such capitalised costs relate and the discount rate to be applied to such future revenues and costs in order to determine a recoverable value.

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.

Notes to the Financial Statements

for the year ending 31 December 2014

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

	2014	2013
	£	£
Wages and salaries	721,643	575,568
Social security costs	77,429	75,320
Share-based payments	125,923	188,746
	924,995	839,634

The average monthly number of employees during the year was as follows:

	2014	2013
Directors	8	7
Administrative	4	4
	12	11

	2014	2013
	£	£
Directors' remuneration:		
Salaries and fees	488,352	379,833
Social security costs	57,106	29,383
Share-based payments	125,923	121,225
	671,381	530,441

Details regarding share options and warrants are set out in note 19 to the financial statements. The highest paid director in the period was J G Cluff who received total remuneration of £279,955 (2013: £274,486).

4. Loss before Taxation

	2014	2013
	£	£
The loss before tax is stated after charging:		
Other operating lease rentals - land and buildings	85,255	82,280
Amortisation of software assets	2,023	1,663
Depreciation - owned assets	5,077	5,040

5. Auditors' Remuneration

	2014	2013
	£	£
Fees payable to the Company's auditors for the audit of the Company's financial statements	13,250	12,500
Fees payable to the Company's auditors for other services	7,638	1,500

Notes to the Financial Statements

for the year ending 31 December 2014

6. Taxation

Analysis of tax expense

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

Factors affecting the tax expense

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

	2014	2013
	£	£
Loss on ordinary activities before taxation	(1,725,014)	(1,928,199)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (21.5%) (2013: 23.25%)	(370,878)	(448,306)
Effects of:		
Depreciation in excess of capital allowances	807	-
Expenses not deductible for tax purposes	2,668	16,987
Adjustment in relation to share based payment	27,073	43,883
Unrelieved losses carried forward	340,329	387,436
Taxation expense	-	-

A deferred tax asset in respect of losses of £4,041,587 (2013: £2,398,411) and share based payments of £405,418 (2013: £279,495) has not been recognised due to the uncertainty and timing of future profits. The unrecognised deferred tax asset of £956,106 (2013: £562,360) is recoverable against suitable trading future 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 19.

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.

Due to the losses incurred during the year, a diluted loss per share has not been calculated as this would serve to reduce the basic loss per share. There were 64,040,000 (2013: 52,840,000) share incentives outstanding at the end of the year that could potentially dilute basic earnings per share in the future. There were no potential ordinary shares outstanding in the year (2013: Nil).

Basic and diluted loss per share

	2014	2013
Loss per share from continuing operations	(1.11)p	(1.99)p

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

	2014	2013
	£	£
Loss used in the calculation of total basic and diluted loss per share	(1,725,014)	(1,928,199)

Number of shares

	2014	2013
	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	155,000,000	96,694,977

Notes to the Financial Statements

for the year ending 31 December 2014

8. Intangible Assets

	Exploration & Evaluation Assets £	Software Licences £	Total £
Cost			
At 1 January 2013	-	6,000	6,000
Additions	12,720	1,351	14,071
At 31 December 2013	12,720	7,351	20,071
Additions	238,059	25	238,084
At 31 December 2014	250,779	7,376	258,155
Amortisation			
At 1 January 2013	-	250	250
Charge for year	-	1,663	1,663
At 31 December 2013	-	1,913	1,913
Charge for year	-	2,023	2,023
At 31 December 2014	-	3,936	3,936
Net Book Value			
At 31 December 2014	250,779	3,440	254,219
At 31 December 2013	12,720	5,438	18,158
At 1 January 2013	-	5,750	5,750

9. Property, Plant and Equipment

	Fixtures and Fittings £	Computer Equipment £	Total £
Cost			
At 1 January 2013	4,004	17,245	21,249
Additions	877	170	1,047
At 31 December 2013	4,881	17,415	22,296
Additions	-	573	573
Transfers	811	(811)	-
Disposals	-	(140)	(140)
At 31 December 2014	5,692	17,037	22,729
Depreciation			
At 1 January 2013	309	1,740	2,049
Charge for year	711	4,329	5,040
At 31 December 2013	1,020	6,069	7,089
Charge for year	725	4,352	5,077
Disposals	-	(79)	(79)
At 31 December 2014	1,745	10,342	12,087
Net Book Value			
At 31 December 2014	3,947	6,695	10,642
At 31 December 2013	3,861	11,346	15,207
At 1 January 2013	3,695	15,505	19,200

Notes to the Financial Statements

for the year ending 31 December 2014

10. Investment in Subsidiary

	2014	2013
	£	£
Investment in subsidiary	251	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. During 2014 fees were paid on behalf of Cluff Energy (Scotland) Limited totalling £250.

11. Trade and Other Receivables

	2014	2013
	£	£
Current:		
Other receivables	82,560	56,256
Amounts receivable from related parties	35,098	33,760
Prepayments	55,061	55,132
	172,719	145,148
Non-current:		
Rental deposit	53,688	53,688
Total Receivables:	226,407	198,836

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £35,098 (2013: £33,760). 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 in May 2017.

During the year no impairments were recognised. At 31 December 2013 a loan of £1,984 to Cluff Coal Limited was impaired in full. The Directors consider that the carrying amount of trade and other receivables approximate their fair value.

12. Share Capital

Allotted, issued and fully paid

Year ended December 2014	Number	£
At beginning and end of the year	155,000,000	775,000

Year ended December 2013	Number	£
Ordinary shares of 0.5 pence each		
At beginning of the year	87,000,000	435,000
Issue of shares 31 July 2013	1,333,333	6,667
Issue of shares 12 November 2013	66,666,667	333,333
At end of the year	155,000,000	775,000

On 31 July 2013, 1,333,333 £0.005 Ordinary shares were issued to two consultants engaged by the Company to assist with the identification of and application for deep underground coal gasification 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 less transaction costs of £133,089.

13. 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 share options, LTIPs and warrants issued.
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.

Notes to the Financial Statements

for the year ending 31 December 2014

14. Trade and Other Payables

	2014 £	2013 £
Current:		
Trade payables	97,133	35,061
Social security and other taxes	21,897	23,384
Other payables and accruals	188,170	113,980
	307,200	172,425

15. Operating Lease Arrangements

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

	2014 £	2013 £
Land and Buildings:		
Less than one year	89,480	89,480
Between one and five years	126,763	37,283

During the year £85,255 (2013: £82,280) was recognised as an expense in the income statement in relation to the operating lease.

16. 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 Directors' Report.

£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 2013. 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. As at 31 December 2014 the outstanding loan balance was £35,098 (2013: £33,760).

Fees were paid to MDOIL, a company controlled by C Matchette-Downes, during the year for consultancy services relating to the development of the Company's conventional oil and gas assets such fees totalled £34,583 (2013: £7,500), as disclosed in the Directors' Remuneration Report and for other services and disbursements totalled £7,552 (2013: £2,923).

Notes to the Financial Statements

for the year ending 31 December 2014

17. Financial Instruments

Principle financial instruments

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

	2014 £	2013 £
Financial Assets		
Cash and cash equivalents - all amounts held in Sterling	1,207,638	2,931,271
Rental deposit	53,688	53,688
Other receivables	42,939	52,192
	1,304,265	3,037,151
Financial Liabilities		
Trade Payables	97,133	35,061
Other payables & accruals	173,628	93,485
	270,761	128,546

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.

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.

No 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.

Notes to the Financial Statements

for the year ending 31 December 2014

Liquidity risk

During the year ended 31 December 2014 the Company was financed by cash raised through equity funding in prior years. 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 2014 and 31 December 2013 on the basis of their earliest possible contractual maturity.

	Within 2 Total £	Within 2 -6 months £	months £
At 31 December 2014			
Trade payables	97,133	97,133	-
Other payables & accruals	173,628	-	173,628
	270,761	97,133	173,628
At 31 December 2013			
Trade payables	35,061	35,061	-
Other payables & accruals	93,485	-	93,485
	128,546	35,061	93,485

18. 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 2014. 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.

Notes to the Financial Statements

for the year ending 31 December 2014

19. 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:

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

In April 2014 the LTIP was cancelled. During the year to 31 December 2014 an amount of £18,777 (2013: £31,917) was 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:

<u>Black Scholes Model</u>	<u>4 May 2012</u>
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

Notes to the Financial Statements

for the year ending 31 December 2014

Share Options

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. On 31 July 2014 an Enterprise Management Incentives Plan (EMI Plan) was adopted and options held by employees under the Share Option Plan became governed by the EMI Plan at that date.

Any employed Director or employee of the Company is eligible to receive grants under the EMI 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 EMI 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.

11,200,000 options were granted during the year to 31 December 2014 under the scheme (2013: 6,500,000).

The Company recognised a total expense of £107,146 in the year ended 31 December 2014 (2013: £156,829) in respect of share-based payments for share options.

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

Black Scholes Model	1 October	23 January	23 January	26 June
	2012	2013	2013	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

Black Scholes Model	30 April	30 April	5 September	5 September
	2014	2014	2014	2014
Share Price	3.75p	3.75p	3.88p	3.88p
Exercise price	3.75p	3.75p	3.88p	3.88p
Expected Volatility	61.87%	61.87%	47.73%	47.73%
Risk Free Rate of Interest	1.8570%	1.8570%	1.7498%	1.7498%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%
Expected Life	6.0 years	6.5 years	6.0 years	6.5 years
Number of options issued	4,100,000	4,100,000	1,500,000	1,500,000

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

Notes to the Financial Statements

for the year ending 31 December 2014

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

	Number of options	Weighted Average Exercise Price (p)
Year ended December 2014		
Outstanding at the beginning of the year	6,000,000	6.04
Issued	11,200,000	3.78
Outstanding at the year end	17,200,000	4.57
Number exercisable at 31 December 2014	6,000,000	6.04

	Number of options	Weighted Average Exercise Price (p)
Period ended December 2013		
Outstanding at the beginning of the year	1,000,000	4.88
Issued	6,500,000	4.40
Cancelled	(1,500,000)	5.13
Outstanding at the year end	6,000,000	6.04
Number exercisable at 31 December 2013	-	-

Warrants

There was no movement on issued warrants during the year; warrants listed below were granted in 2012:

	Number of Warrants	Weighted Average Exercise Price (p)
At 31 December 2014 and 2013		
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 2014 (2013: £nil). The following Warrants are in issue at 31 December 2014:

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.

20. Post Reporting Date Events

On 17 March 2015 the Company announced that it had conditionally raised approximately £2.2 million, before expenses, through the aggregate placing and subscription of 52,013,520 new ordinary shares of 0.5p each ("Placing Shares") at 4.25 pence per share (the "Placing") with a range of new and existing institutional and private investors. The Placing comprised 44,222,332 Placing Shares which the Company issued on 15 April 2015 and a further 7,791,188 Placing Shares are expected to be issued on 11 September 2015.

The Placing was approved at a general meeting of the Company held on 14 April 2015.

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 27 May 2015 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

Ordinary Resolutions

1. To receive and adopt the report of the directors and the audited accounts for the financial period ended 31 December 2014 together with the report of the auditors thereon.
2. To re-elect John Gordon Cluff as a director of the Company.
3. To re-elect Andrew James Nunn 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.

Date: 29 April 2015

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

By Order of the Board

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 10.00 a.m. on 25 May 2015 (or, in the event of any adjournment, at 10.00 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 notarially 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 27 May 2015 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 28 April 2015 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 199,222,332 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 28 April 2015 was 199,222,332.
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 2014. 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 states that any director who was not appointed or re-appointed at one of the preceding two annual general meetings of the Company shall retire at the next annual general meeting. Accordingly, John Gordon Cluff and Andrew James Nunn are retiring and offering themselves for re-election under this provision.

Biographical details of all of the directors are set out on page 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.

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 27 May 2015 at 10.00 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect John Gordon Cluff as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Andrew James Nunn as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dated this _____ day of _____ 2015

Signature(s) _____

Name _____

Address _____

Notes:

- 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.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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 10.00 a.m. on 25 May 2014.
- Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
- 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 (Chairman & Chief Executive)
G C Swindells (Finance Director)
A J Nunn (Chief Operating Officer)
N W Berry (Non-Executive & Deputy Chairman)
P N Cowley (Non-Executive)
Dr R V Danchin (Non-Executive)
The Earl De La Warr DL (Non-Executive)
B A FitzGerald (Non-Executive)
C J Matchette-Downes (Non-Executive)

Secretary

G C Swindells

Registered Office

Third Floor
5-8 The Sanctuary
London
SW1P 3JS

Registered Number

07958581 (England and Wales)

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Solicitors

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

Nominated Adviser & Joint Corporate Broker

Panmure Gordon & Co
One New Change
London
EC4M 9AF

Joint Corporate Broker

Allenby Capital
3 Saint Helen's Place
London
EC3A 6AB

Financial Public Relations

St Brides Partners
3 St Michael's Alley
London
EC3V 9DS

Registrar

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

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