CLUFF NATURAL RESOURCES

Cluff Natural Resources plc

Annual Report & Accounts 2015

Contents

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www.cluffnaturalresources.com

Chairman and Chief Executive's Statement

Since my last statement the natural resources sector has continued to be buffeted by economic and political anxiety. Although this febrile atmosphere shows little immediate sign of recovery it is our considered judgement that this will prove to be a time of opportunity for expansion. For this posture to be practical it helps to be, as we are, free of debt or onerous work commitments. We have carefully considered our position and believe that the North Sea not only continues to be of strategic importance to the UK but also compares favourably with most of the world, boasting a market, an infrastructure and a Government, on the whole, determined to sustain activity. Government however is not always entirely aligned with industry and it has been depressing to observe the lack of coherence evident in policy since Ed Miliband became the Energy Secretary, a condition aggravated by the two Coalition Energy Ministers and which is culminating in grave threats to our country's energy stability.

We considered that underground offshore coal gasification could make a significant future contribution to the energy equation by converting billion of tonnes of offshore coal into gas. However these aspirations have not been endorsed by Government which prefers to place its primary hopes on the delivery of onshore shale together with questionable (and heavily subsidised) renewables. Longannet, which was the last remaining coal fired power station in Scotland, has now closed and makes a mockery of the Scottish Nationalist Party's energy policy where they have even imposed, at this critical time, a moratorium on both shale gas and underground coal gasification. We accordingly concluded that continuing to pioneer for a future energy formula which would convert cleanly and safely our offshore coal into gas was not consonant with our shareholders' best interests.

We have therefore determined to advance our portfolio of conventional oil and gas assets in the UK North Sea where we are convinced there remain significant discoveries to be made. To that end we were pleased to publish the Competent Person's Report and resource estimate on our Southern North Sea gas assets, to extend our Memorandum of Understanding with Halliburton and to sign Sale and Purchase and Option Agreements with Verus Petroleum, which confers on us at the cost of £1, the right to acquire up to 25% of three licences over two areas in the Moray Firth and the Central North Sea, which contain or are adjacent to existing discoveries and are operated by The Parkmead Group.

We shall continue to seek to add to our North Sea portfolio consistent with our belief in the geology, in the opportunities, in the positive and helpful attitude adopted by the Oil & Gas Authority, the UK's licencing authority and above all in our conviction that the North Sea is the correct place to be as the oil market moves towards equilibrium.

To allow us to implement our strategy, and to fund the Company through to at least the end of FY 2016, we have recently completed a fundraising by way of a placing of shares. These funds whilst providing for us to add to our technical understanding of our existing licences will set the scene for a drilling programme in 2017 which will have the prospect of transforming the Company's worth.

Board changes

Nicholas Berry (73) and Brian FitzGerald (72) have indicated that they do not propose to seek re-election as directors at the Company's forthcoming Annual General Meeting. Nicholas and Brian have been directors of the Company since its formation and I would like to thank them both sincerely for their input and commitment to the Company.

J G Cluff
Chairman and Chief Executive
11 May 2016

Operational Review

2015 has proven to be a challenging year for resources companies and particularly energy companies, due to the significant downwards pressure on global energy prices and a trend towards anti-hydrocarbon policies within devolved administrations in the UK. For the Company however it has been a pivotal year with a number of highlights, including a highly encouraging maiden Competent Person's Report on our 100% owned blocks in the Southern North Sea and, since the year end, the announcement of a transaction which we expect to be the first of a number of acquisitions of non-operated equity positions in high quality North Sea exploration and appraisal assets as we look to build a new UK based oil and gas company.

Given the alignment of various negative influences including moratoriums on UCG operations in Scotland and now Wales and the cancellation of the £1 billion Carbon Capture and Storage (CCS) competition by the UK Government together with limited evidence of significant political support for UCG in general, the Company has managed a strategic shift away from UCG operations during the second half of the year and is now entirely focussed on delivering value from our portfolio of conventional assets, located in the UK's North Sea. Accordingly, all costs relating to UCG were impaired in the year.

UCG Activity

In 2015 the Company added an additional UCG licence at Frances in the Firth of Forth in Scotland to its portfolio. This took the Company's portfolio of UCG licences to nine as follows:

Licence Area	Date Region	CLNR Working Interest Awarded	Area (%)	(km²)
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**

However a number of factors have worked against the development of UCG in the UK over the last 12 months including the Scottish, and more recently the Welsh, Governments' decisions to impose moratoriums on UCG operations, the cancellation of the UK wide CCS competition and a lack of tacit support from the Westminster Government.

Despite this lack of support in Government policy at national level the Company has had positive and vocal support from politicians, local enterprise partners and industry based in the North East of England who recognise the benefits of UCG both in terms of direct employment but also as a source of cost competitive feedstock for the petrochemicals cluster based in Teesside.

The Company is confident that the existing evidence base and pressure to support the UK's energy intensive industries will eventually result in the emergence of policies which are supportive of the development of UCG projects in the UK. With this in mind the Company will maintain its current portfolio of UCG licences however expenditure on these assets will be restricted to settlement of annual licence fees until clear political support for UCG is recognised at the national level. The Company will review its position on maintaining these UCG licences on a regular basis. In the meantime, the Company has fully impaired its UCG assets in the year.

Conventional North Sea Oil and Gas Operations

The Company holds a portfolio of high quality licences located in the Southern North Sea as follows:

Licence Area	Date Blocks	CLNR Working Interest Awarded	Area (%)	(km²)
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**

Additionally, the Company has agreed, subject to regulatory approvals, to acquire from Versus Petroleum a 5% non-operated equity position in two licences (P1944 and P2156) located in the Outer Moray firth.

Operational Review

Competent Person's Report – Initial Resource Statement

Based on the initial work completed by the Company, Axis Well Technologies (an independent oil and gas consultancy firm) were commissioned to undertake an independent review of the prospectivity of the Company's Southern North Sea assets which was published in a Competent Person's Report (CPR) in December 2015. The CPR confirmed the Company's views on the highly prospective nature of the licences and confirmed significant Prospective Resources associated with prospects and leads in multiple formations across the licences.

The Prospective Resources associated with the Company's 100% owned licences and published in the CPR is summarised below:

Licence Ref:	CLNR Equity	Project ID	PRMS Status	Prospective Resource (BCF) P90 / Low	P50 / Best	Mean**	P10 / High	Risk Factor %
P2252	100%	Lytham Permian	Prospect	12	52	85	195	51
P2252	100%	Lytham Carboniferous	Prospect	12	44	67	149	30
P2252	100%	Fairhaven	Prospect	9	36	56	125	26
P2252	100%	St Annes Permian	Lead	4	14	23	52	20
P2252	100%	St Annes Carboniferous	Lead	4	16	26	58	12
P2261	100%	Clachnaharry*	Lead	9	43	86	207	12
P2261	100%	Williamson	Lead	10	20	23	40	27
P2261	100%	Carboniferous	Play	90	270	270	450	Medium-High
P2253	100%	Carboniferous	Play	85	170	170	255	Medium
P2248	100%	Carboniferous	Play	90	180	180	270	Medium

* Net resources on licence held by Company
** The mean has been added for completeness but is not recognised under PRMS guidelines

A decision was taken not to include P2259 in the review due to ongoing uncertainty around plans for the construction of a major offshore windfarm across much of this licence area.

Identification of New Prospectivity

The Company continues to analyse and interpret the available data and since the publication of the CPR has defined a number of further leads within the Carboniferous play and continues to evaluate a regional fractured Zechstein carbonate play that is analogous to multi-TCF gas fields developed in the Dutch sector but largely ignored in the Southern North Sea to date. The Company's estimate of potential recoverable gas across these plays is as follows:

Licence Ref:	CLNR Equity	Project ID	Status	Source	Potential Scale (Recoverable Gas)	Risk Factor
P2252	100%	Fractured Carbonate	Play	CLNR	280 BCF	TBC
P2248	100%	Carboniferous L1	Lead	CLNR	20–500 BCF	TBC
P2248	100%	Carboniferous L2	Lead	CLNR	20–500 BCF	TBC
P2248	100%	Bunter L3	Lead	CLNR	10–100 BCF	TBC
P2253	100%	Macanta (Haupt)	Lead	CLNR	TBC	TBC
P2253	100%	Carboniferous L1	Lead	CLNR	TBC	TBC

The volumetric estimates presented are based on preliminary structural mapping of closure areas and use of data from regional field analogues. As these leads are matured it would be the Company's intention to update the existing CPR in the course of 2016 to include these newly identified opportunities.

First North Sea Acquisition

Since the year end the Company has acquired a 5% equity stake from Verus Petroleum UK Limited ("Verus") in licences P1944 & P2156 located in the Moray Firth. These licences contain a significant heavy oil discovery and a deeper lighter oil exploration target which is thought to be the source of the overlying heavy oil.

In addition to the 5% equity stake the Company has an exclusive 9 month option to increase its equity stake in licence P1944 & P2156 by a further 20% and a further exclusive option to acquire a 25% stake from Verus in licence P2082 which we believe contains one of the best undrilled exploration targets in a mature area of the Central North Sea.

The exercising of the options will be a transformational step for the Company which will see its potential net resource base grow from approximately 140 mmboe (unrisked) to approximately 240 mmboe (if the options are exercised), based on operator estimates of contingent and prospective resources associated with the licences.

All three of the above licences, two of which are effectively drill ready, are operated by The Parkmead Group Plc.

Operational Review
continued

P1944 (Block 14/20e) & P2156 (Block 15/11 & 16f) – Fynn and Penny Prospects, Moray Firth

Located in the Moray Firth, these licences contain oil at multiple levels including a very significant heavy oil discovery in the Tertiary T82, Beauly T50 and Mey Sandstones. The deeper Jurassic Piper Sandstone, which is the primary target across the blocks is a well understood resevoir and is the key producing formation for a large number of oil fields in the Moray Firth including the giant Piper and Tartan oil fields. Two distinct prospects have been mapped at the Piper level in adjacent structures and it is proposed that a well be drilled to further assess the Tertiary heavy oil and test the lower risk Fynn prospect in 2017. Operator resource estimates for these two licence areas (if the Company's option is exercised to take its holding from 5% to 25%) are as follows:

Project	Age	Status	Equity Position*	Gross On Block STOIIP (mmbo)	Contingent Resources Net to CLNR** (mmbo)			Change of Success
			%	Mid (Low-High)	P90	P50	P10	
T82	Tertiary	Discovery	25	1093 (667–1571)	11	23	42	n/a
T50	Tertiary	Discovery	25	425 (322–535)	6	11	19	n/a
Mey Sst	Tertiary	Discovery	25	48 (43–52)	2	3	4	n/a
Fynn - Piper	Jurassic	Prospect	25	73 (41–103)	4	8	10	0.32
Penny - Piper	Jurassic	Prospect	25	101 (50–186)	4	10	20	0.20

* Post exercising of option
** Derived from operator's internal estimates (assuming option is exercised to take holding from 5% to 25%).

Well design and engineering work is planned for 2016 with the aim of drilling the initial exploration well on the Fynn prospect during 2017.

P2082 - (Blocks 30/12c, 13c, 17e & 18c) - Skerryvore Prospect

The Skerryvore prospect is located in the Central North Sea adjacent to a number of producing fields including Clyde, Fulmar, Orion and the Talbot discovery. The Skerryvore prospect contains a series of stacked reservoirs which have distinct amplitude anomalies. Reprocessed seismic data, AVO analysis and a revised interpretation of the prospect based on the 30/13-8 well drilled by Talisman has generated a highly attractive prospect which we believe to be one of the most attractive undrilled prospects in the Central North Sea. The operator's internal estimate of prospective resources (if the Company exercises its option to acquire a 25% interest) is as follows:

Project	Status	Equity Position*	Prospective Resources Net to CLNR* (mmboe)			Change of Success
		%	P90	P50	P10	
Paleocene (Strat Model)	Prospect	25	4	6	9	0.25
Ekofisk	Prospect	25	3	5	7	0.24
Tor	Prospect	25	14	28	50	0.31
North	Lead	25	5	10	18	0.24
BCU	Lead	25		6		0.10

* Derived from operator's internal estimates (assuming option to acquire 25% interest is exercised).

A site survey has been acquired across the prospect, which is drill ready, pending completion of the well design.

Halliburton Memorandum of Understanding

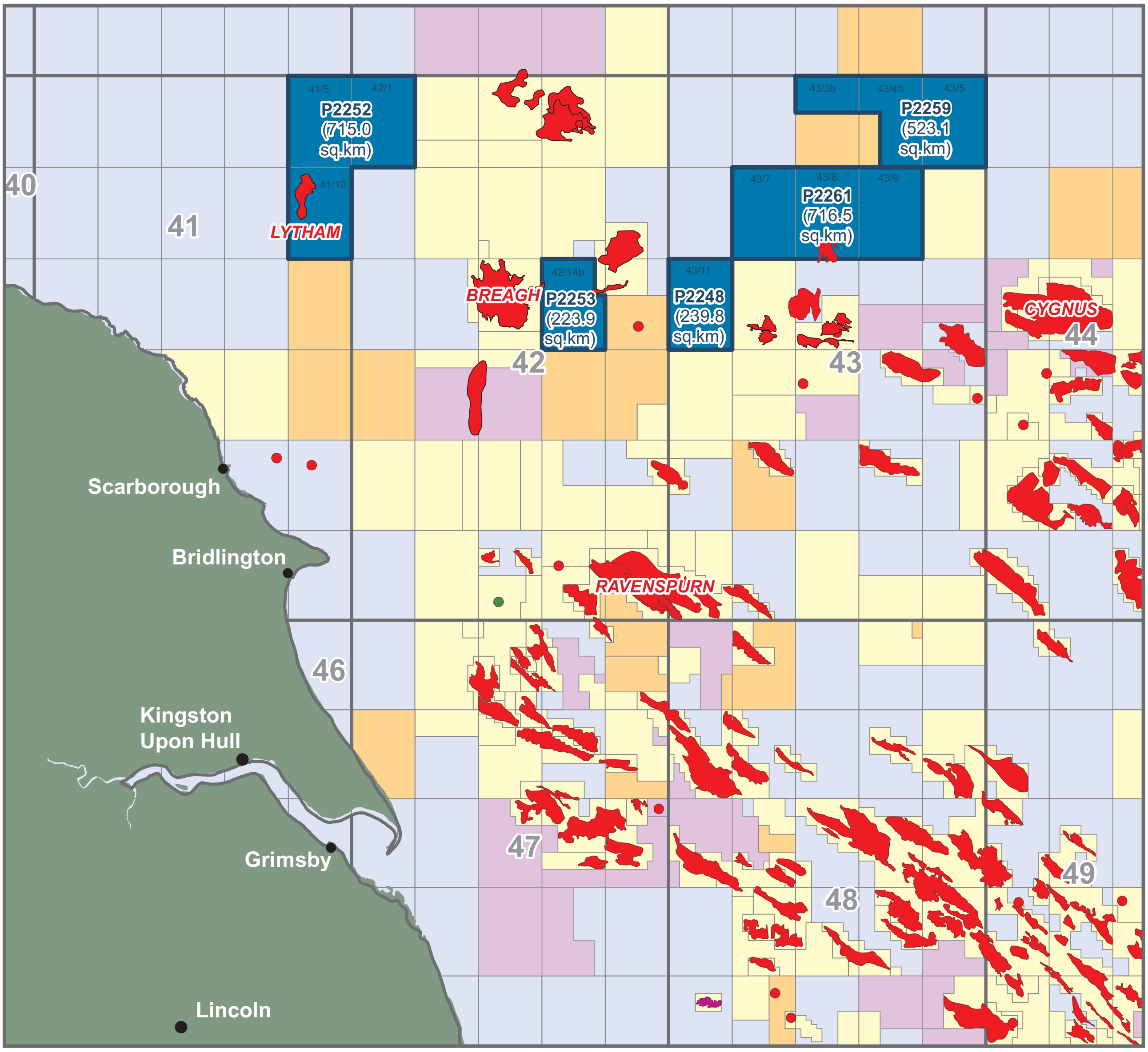
In February 2016 the Company entered into a two year extension of the existing Memorandum of Understanding (MoU) with Halliburton, a leading global provider of services to the energy sector. The MoU was revised to focus on the development of the Company's conventional assets in the Southern North Sea and the collaboration with Halliburton continues to deliver great value to the Company through access to experienced technical specialists and cutting edge technology and process which would normally be out of the reach of other companies of our size.

Next Twelve Months

Over the next 12 months the Company will look to secure the long term future of the conventional oil and gas portfolio, with a focus on retention and development of key acreage within the existing portfolio, participation in the UK's 29th offshore licencing round and ongoing evaluation of potential acquisition opportunities with the aim of creating a diversified portfolio of UK oil and gas assets.

A J Nunn
Chief Operating Officer
11 May 2016

Operational Review
Our Locations - North Sea



Legend

DECC Licensing

- CLNR 28th Rd Awarded Blocks
- Other 28th Rd Provisional Awards
- Blocks Relinquished Since 28th Rd
- Currently Licensed Blocks

Fields

- Oil
- Gas
- Condensate

2,418km²

Total area of licences

Strategic Report 01/08
Corporate Governance 09/14
Financial Statements 15/33

Financial Review

In the course of the year, the Company moved its primary focus from its Underground Coal Gasification ('UCG') assets (in particular the development of its Kincardine Project in Scotland) to developing its portfolio of five conventional oil and gas licences in the Southern North Sea. Following the UCG moratorium imposed in Scotland in October 2015 the Company ceased all expenditure in relation to its Kincardine Project and UCG as a whole (other than licence fees). Since then all major expenditure has been focused on the development of its portfolio of conventional North Sea assets and in the appraisal of a number of other natural resources opportunities in accordance with the Company's investment strategy, in addition to on-going administrative expenditure.

Loss for the period

The Company incurred a loss for the year to 31 December 2015 of £1,872,099 (2014: £1,725,014). The loss for 2015 included an impairment charge in relation to the carrying value of the Company's UCG assets of £336,790, due to the political and planning uncertainty around UCG, as well as non-cash share-based expense of £104,197 (2014: £125,923).

Cash flow

In the year to 31 December 2015 net cash used in operating activities was £1,394,277 (2014: £1,533,324) with an additional £503,307 used in investing activities (2014: £190,309). This was offset by net cash received of £1,803,999 from the placing of new shares.

Consequently, in the year to 31 December 2015, the Company experienced a net cash outflow of £93,585 (2014: £1,723,633).

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. A further 7,791,188 Placing Shares were expected to be issued on 11 September 2015 but have not been isued to date as the Company is still owed £331,125 from the subscriber for these shares and the Company believes that it is now unlikely that the funds will be forthcoming and accordingly is considering its next course of action. Despite this shortfall in funds raised, early action to curtail major costs associated with the Company's UCG project at the Kincardine Project, coupled with an on-going discipline and focus on overall cost control, meant that the Company was in fact in a stronger cash position at the 2015 year-end than originally anticipated at the time of the Placing.

Closing cash

As at 31 December 2015, the Company held cash balances of £1.11 million (2014: £1.21 million).

Shareholders' equity

As at 31 December 2015 there were 199,222,332 (2014: 155,000,000) ordinary shares in issue.

Additionally, a total of up to 28,540,000 (2014: 64,040,000) new ordinary shares may be issued pursuant to the exercise of share options or warrants.

Post year end equity fundraising

On 6 April 2016 the Company announced that it had raised £727,000, before expenses, through the aggregate placing and subscription of 58,171,200 new ordinary shares of 0.5p each ("Placing Shares") at 1.25 pence per share (the "Placing") with new and existing institutional and private investors. The Placing was conducted in two stages, with 14,920,000 Placing Shares placed using the Directors' existing authority to allot shares for cash on a non-pre-emptive basis (the "First Placing Shares"), and 43,251,200 Placing Shares (the "Second Placing Shares") placed conditionally upon, amongst other things, shareholders passing the resolution to be proposed at a general meeting of the Company held on 25 April 2016. Admission of the First Placing Shares occurred on 20 April 2016 and the Second Placing Shares on 26 April 2016.

Following this placing there were 257,393,532 ordinary shares in issue.

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 Company has adequate financial resources to cover its budgeted exploration and development programme at least until the end of 2016. Further funding will inevitably be required to allow the Company to fully implement its strategy beyond this period and it therefore anticipates that further funds will be raised, most likely by way of equity, as it has successfully done in the past.

Key performance indicators

At this stage in its development, the Company is focusing on the development of its existing North Sea gas assets 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
11 May 2016

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

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

Strategic and Economic

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

Operational

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

Commercial

- Failure to access new opportunities
- Failure to maximise value from existing interests
- Loss of control of key assets
- Dissatisfied stakeholders
- Regulatory compliance and legal
- Government policy decisions which potentially hinder the development of certain projects

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

In particular, the Company's ability to effectively implement its business strategy over time may depend in part on its ability to raise additional funds. The need for and amount of any additional funds required is currently unknown and will depend on numerous factors related to the Company's current and future activities. The Company is likely to seek additional funds, through equity, debt or joint venture financing. There can be no assurance that any such equity, debt or joint venture financing will be available to the Company in a timely manner, on favourable terms, or at all. Any additional equity financing will dilute current shareholdings, and debt financing, if available, and may involve restrictions on further financing and operating activities. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities, as well as possibly resulting in the delay or indefinite postponement of the Company's activities.

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 North Sea gas licences the Company has acquired to date, the Company proposes to continue to evaluate other potential oil and gas projects in line with its investing policy, as it aims to build a portfolio of resource assets and create value for shareholders. As disclosed in the Company's AIM Admission Document in May 2012, the Company's 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.

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
11 May 2016

Graham Swindells
Finance Director
11 May 2016

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 Public Company M&A 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 and subsequently spent two years at PricewaterhouseCoopers 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 45 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 also a Non-executive Director of Banro Corporation and Amara Mining Plc.

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. Previously he has worked at Shore Capital Stockbrokers, having particular involvement with the natural resources team and has recently joined Toscafund Asset Management.

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

Christopher John Matchette-Downes
Non-Executive Director
Christopher Matchette-Downes is a Chartered geologist and petroleum geochemist with particular expertise and interests in Africa having identified key petroleum assets in both the East and West of the continent as well as significant experience in the greater Caribbean region. Christopher has worked in the oil and gas sector for over 30 years and has worked for both BP and BG. His extensive exploration business development experience has seen him focus on specific opportunities in the UK, Europe, Africa, Middle and Far East, Australia and the Americas. He is currently a director of CaribX (UK) Limited and Adamantine Energy (Kenya) Limited where he has built the teams, raised funds and secured acreage agreements throughout Central America, the Caribbean and East Africa. He also co-founded Black Marlin Energy 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 2015.

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 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 page 1.

The Directors' consideration of the Company's position in respect of going concern is set out in the Financial Review on page 6 and in note 1 of the financial statements.

Dividends

No dividends will be distributed for the year ended 31 December 2015 (2014: 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 2015 are set out below:

	Ordinary Shares		Share Options		Share Warrants	
	2015	2014	**2015**	2014	**2015**	2014
J G Cluff	**11,639,345**	11,168,757	**8,000,000**	8,000,000	**5,000,000**	5,000,000
G C Swindells	**323,406**	88,112	**5,200,000**	5,200,000	**-**	-
A J Nunn	**235,294**	-	**3,000,000**	3,000,000	**-**	-
N W Berry	**1,370,588**	900,000	**-**	-	**-**	-
P N Cowley	**447,059**	400,000	**-**	-	**-**	-
Dr R V Danchin*	**400,000**	400,000	**-**	-	**-**	-
The Earl De La Warr DL.	**3,054,901**	2,466,666	**-**	-	**-**	-
B A FitzGerald	**600,000**	600,000	**-**	-	**-**	-
Christopher Matchette-Downes	**-**	-	**2,000,000**	-	**-**	-
	18,070,593	16,023,535	**18,200,000**	16,200,000	**5,000,000**	5,000,000

* Resigned 1 May 2015

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 subscribed for by the Directors were admitted to trading on 15 April 2015.

Report of the Directors

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2015 for the individual Directors who held office in the Company during the year.

	2015 Salary/fees £	2015 Pension £	2015 Benefits in Kind £	2015 Share-based Payment £	2015 Total £	2014 Total £
J G Cluff	**200,000**	**-**	**29,410**	**54,726**	**284,136**	339,191
G C Swindells	**133,792**	**13,379**	**3,294**	**20,067**	**170,532**	232,759
A J Nunn	**118,354**	**11,943**	**2,378**	**29,404**	**162,079**	42,325
N W Berry	**-**	**-**	**-**	**-**	**-**	-
P N Cowley	**-**	**-**	**-**	**-**	**-**	-
Dr R V Danchin	**-**	**-**	**-**	**-**	**-**	-
The Earl De La Warr DL.	**-**	**-**	**-**	**-**	**-**	-
B A FitzGerald	**-**	**-**	**-**	**-**	**-**	-
C J Matchette-Downes*	**-**	**-**	**-**	**-**	**-**	-
	452,146	**25,322**	**35,082**	**104,197**	**616,747**	614,275

* Chris Matchette-Downes was paid £83,811 in 2015 (2014: £34,583) for consulting services in relation to the development of the Company's conventional oil and gas portfolio.

Share options and warrants

The share-based payment of £104,197 (2014: £125,923) to Directors represents the share-based payment expense relating to share options issued during the current and prior years as well as to a Long Term Incentive Plan and share warrants.

The following share options table comprises share options and warrants held by Directors who held office during the year ended 31 December 2015:

	Warrants & Options held at 31 December 2014	Options granted in period	Options exercised in period	Warrants & Options held at 31 December 2015	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
C J Matchette-Downes	-	2,000,000	-	**2,000,000**	4p	25 August 2017	25 August 2025

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

Substantial Shareholders

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at 9 May 2016:

Shareholders	Number of Shares	Percent (%)
Henderson Global Investors	25,713,319	10.0%
Guinness Asset Management	21,475,182	8.3%
Albert Abela	18,037,121	7.0%
Hargreaves Lansdown Nominees Limited	16,444,904	6.4%
John Gordon Cluff	11,639,345	4.5%
Fiske	9,871,666	3.8%
Lloyd Dorfman	8,682,353	3.4%
BCM International	7,791,188	3.0%

Financial Instruments

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

Political Contributions

No payments to political parties have been made during the year (2014: nil).

Report of the Directors
continued

Corporate Governance

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

The Board, so far as practicable, follows the recommendations set out in the corporate governance guidelines for smaller quoted companies published by the Quoted Companies Alliance. The Company holds regular board meetings and the Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and acquisitions. The Board currently comprises eight Directors, of whom three are executive and five 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. Brian is not seeking re-election at the Company's Annual General Meeting following which a replacement as chair will be appointed. The audit committee aims to meet 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.

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 is chaired by Nicholas Berry. Nicholas is not seeking re-election at the Comapny's Annual General Meeting following which a replacement as chair will be appointed. The Remuneration Committee aims to meet 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 page 7.

Key Performance Indicators

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

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.

The Directors do however closely monitor certain financial information, in particular overheads and cash balances as set out in the Financial Review.

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
11 May 2016

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 2015 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Directors acknowledge that additional funds need to be raised through partnership arrangements, capital raisings or other financing packages. At present there are no such arrangements in place and therefore there can be no guarantee that further funds will be raised. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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

11 May 2016
BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Income Statement
for the year ending 31 December 2015

	Notes	2015 £	2014 £
Continuing Operations			
Impairment of exploration and evaluation assets		**(336,790)**	-
Other administrative expenses		**(1,546,752)**	(1,744,886)
Operating Loss		**(1,883,542)**	(1,744,886)
Finance income		**11,443**	19,872
Loss before taxation	4	**(1,872,099)**	(1,725,014)
Taxation	6	**-**	-
Loss for the year		**(1,872,099)**	(1,725,014)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	**(1.00)p**	(1.11)p

Statement of Other Comprehensive Income
for the year ending 31 December 2015

	2015 £	2014 £
Loss for the year	**(1,872,099)**	(1,725,014)
Other Comprehensive Income	**-**	-
Total Comprehensive Income for the year attributable to the equity holders of the Company	**(1,872,099)**	(1,725,014)

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

Balance Sheet
as at 31 December 2015

	Notes	2015 £	2014 £
Assets			
Non-current Assets			
Intangible assets	8	**428,128**	254,219
Property, plant and equipment	9	**5,890**	10,642
Investment in subsidiary	10	**501**	251
Other receivables	11	**53,688**	53,688
		488,207	318,800
Current Assets			
Other receivables	11	**87,702**	172,719
Cash and cash equivalents		**1,114,052**	1,207,638
		1,201,754	1,380,357
Total Assets		**1,689,961**	1,699,157
Capital and reserves attributable to the equity holders of the Company			
Shareholders' Equity			
Share capital	12	**996,111**	775,000
Share premium		**6,037,175**	4,454,287
Share-based payment reserve		**529,292**	589,050
Retained deficit		**(6,134,524)**	(4,426,380)
Total Equity		**1,428,054**	1,391,957
Liabilities			
Current Liabilities			
Trade and other payables	14	**261,907**	307,200
Total Liabilities		**261,907**	307,200
Total Equity and Liabilities		**1,689,961**	1,699,157

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 11 May 2016 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 2015

	Share capital £	Share premium £	Share-based payment reserve £	Retained deficit £	Total equity £
Balance at 1 January 2015	775,000	4,454,287	589,050	(4,426,380)	1,391,957
Issue of share capital	221,111	1,658,338	-	-	1,879,449
Expenses of issue	-	(75,450)	-	-	(75,450)
Share-based payment	-	-	104,197	-	104,197
Expired/lapsed options	-	-	(163,955)	163,955	-
Loss and total comprehensive loss for the year	-	-	-	(1,872,099)	(1,872,099)
Balance at 31 December 2015	**996,111**	**6,037,175**	**529,292**	**(6,134,525)**	**1,428,054**
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**

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

Cash Flow Statement
for the year ending 31 December 2015

	Notes	2015 £	2014 £
Cash flows used in operating activities			
Net cash used in operating activities	1	**(1,394,277)**	(1,533,324)
Cash flows used in investing activities			
Purchase of intangible fixed assets		**(512,552)**	(208,081)
Purchase of property, plant and equipment		**(668)**	(573)
Proceeds on disposal of property, plant and equipment		**-**	61
Interest received		**10,162**	18,534
Investment in subsidiary		**(250)**	(250)
Net cash used in investing activities		**(503,308)**	(190,309)
Cash flows from financing activities			
Proceeds of share issue		**1,879,449**	-
Expenses of share issue		**(75,450)**	-
Net cash from financing activities		**1,803,999**	-
Decrease in cash and cash equivalents		**(93,586)**	(1,723,633)
Cash and cash equivalents at beginning of year		**1,207,638**	2,931,271
Cash and cash equivalents at end of year		**1,114,052**	1,207,638

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

Notes to the Cash Flow Statement
for the year ending 31 December 2015

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

	2015 £	2014 £
Loss before taxation	**(1,872,099)**	(1,725,014)
Investment income	**(11,443)**	(19,872)
Share based payment	**104,197**	125,923
Depreciation	**5,420**	5,077
Amortisation	**1,853**	2,023
Impairment of intangibles	**336,790**	-
	(1,435,282)	(1,611,863)
Decrease/(Increase) in other receivables	**86,298**	(26,233)
(Decrease)/Increase in trade and other payables	**(45,293)**	104,772
Cash used in operations	**(1,394,277)**	(1,533,324)

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

Notes to the Financial Statements
for the year ending 31 December 2015

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 develop its assets. 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 at least until the end of 2016. Further funding will be required to allow the Company to fully implement its strategy beyond this period. The Company anticipates that further funds will be raised, most likely by way of equity, as it has successfully done in the past. Should the company be unable to raise further funds, it may be unable to realise its assets and discharge its liabilities in the normal course of business. These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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
Annual Improvements to IFRSs (2010-2012 Cycle) &	1 January 2015	Yes	These amendments clarify the requirements of IFRSs and eliminate inconsistencies within and between Standards
Annual Improvements to IFRSs (2011-2013 Cycle)		Yes	

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 a material impact going forward (standards not expected to have an impact on the Company in the foreseeable future are not included):

New/revised International Financial Reporting Standards

		Effective Date	EU adopted	Impact on Company
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 IAS 38	Clarification of Acceptable methods of 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
IFRS 16	Leases	1 January 2019	No	Recognition and measurement of leases

Notes to the Financial Statements
for the year ending 31 December 2015

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 2015

1. Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements
for the year ending 31 December 2015

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.

Following the moratorium that has been imposed on UCG in Scotland and now Wales, uncertainty currently exists over the ability to successfully develop a UCG project in the UK and accordingly a decision has been taken to fully impair the Company's UCG assets by £336,790, as disclosed in note 8.

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 2015

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

	2015 £	2014 £
Wages and salaries	**706,676**	721,643
Social security costs	**71,279**	77,429
Share-based payments	**104,197**	125,923
	882,152	924,995

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

	2015	2014
Directors	**8**	8
Administrative	**4**	4
	12	12

Directors' remuneration

	2015 £	2014 £
Directors' remuneration:		
Salaries and fees	**512,550**	488,352
Social security costs	**63,035**	57,106
Share-based payments	**104,197**	125,923
	679,782	671,381

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 £229,410 (2014: £279,955).

4. Loss before Taxation

	2015 £	2014 £
The loss before tax is stated after charging:		
Other operating lease rentals – land and buildings	**83,496**	85,255
Amortisation of software assets	**1,853**	2,023
Impairment of intangibles	**336,790**	-
Depreciation – owned assets	**5,420**	5,077

5. Auditors' Remuneration

	2015 £	2014 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	**14,000**	13,250
Fees payable to the Company's auditors for other services	**5,023**	7,638

Notes to the Financial Statements
for the year ending 31 December 2015

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:

	2015 £	2014 £
Loss on ordinary activities before taxation	**(1,872,099)**	(1,725,014)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (20.25%) (2014: 21.5%)	**(379,100)**	(370,878)
Effects of:		
Depreciation in excess of capital allowances	**838**	807
Expenses not deductible for tax purposes	**3,893**	2,668
Adjustment in relation to share based payment	**21,100**	27,073
Unrelieved losses carried forward	**353,269**	340,329
Taxation expense	**–**	–

A deferred tax asset in respect of trading losses of £5,786,125 (2014: £4,041,587) and share based payments of 509,615 (2014: £405,418) has not been recognised due to the uncertainty and timing of future profits. The unrecognised deferred tax asset of £1,274,887 (2014: £956,106) 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 28,540,000 (2014: 64,040,000) 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 (2014: Nil).

Basic and diluted loss per share

	2015	2014
Loss per share from continuing operations	**(1.00)p**	(1.11)p

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

	2015 £	2014 £
Loss used in the calculation of total basic and diluted loss per share	**(1,872,099)**	(1,725,014)

Number of shares

	2015 Number	2014 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**186,621,996**	155,000,000

Notes to the Financial Statements
for the year ending 31 December 2015

8. Intangible Assets

	Exploration & Evaluation Assets £	Software Licences £	Total £
Cost			
At 1 January 2014	12,720	7,351	20,071
Additions	238,059	25	238,084
At 31 December 2014	250,779	7,376	258,155
Additions	512,472	80	512,552
At 31 December 2015	**763,251**	**7,456**	**770,707**
Amortisation			
At 1 January 2014	-	1,913	1,913
Charge for year	-	2,023	2,023
At 31 December 2014	-	3,936	3,936
Charge for year	-	1,853	1,853
Impairment	336,790	-	336,790
At 31 December 2015	**336,790**	**5,789**	**342,579**
Net Book Value			
At 31 December 2015	**426,461**	**1,667**	**428,128**
At 31 December 2014	250,779	3,440	254,219
At 1 January 2014	12,720	5,438	18,158

Due to uncertainty over the ability to successfully develop UCG projects in the UK, as described in the Financial review and note 1, a decision was taken to fully impair the Company's UCG assets by £336,790. Accordingly, the net book value of exploration and evaluation assets at as 31 December 2015 relates solely to the Company's North Sea gas assets.

9. Property, Plant and Equipment

	Fixtures and Fittings £	Computer Equipment £	Total £
Cost			
At 1 January 2014	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
Additions	399	269	668
At 31 December 2015	**6,091**	**17,306**	**23,397**
Depreciation			
At 1 January 2014	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
Charge for year	889	4,531	5,420
At 31 December 2015	**2,634**	**14,873**	**17,507**
Net Book Value			
At 31 December 2015	**3,457**	**2,433**	**5,890**
At 31 December 2014	3,947	6,695	10,642
At 1 January 2014	3,861	11,346	15,207

Notes to the Financial Statements
for the year ending 31 December 2015

10. Investment in Subsidiary

	2015 £	2014 £
Investment in subsidiary	**501**	251

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 2015 fees were paid on behalf of Cluff Energy (Scotland) Limited totalling £250 (2014: £250).

11. Trade and Other Receivables

	2015 £	2014 £
Current:		
Other receivables	**22,997**	82,560
Amounts receivable from related parties	**21,119**	35,098
Prepayments	**43,586**	55,061
	87,702	172,719
Non-current:		
Rental deposit	**53,688**	53,688
Total Receivables	**141,390**	226,407

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £21,119 (2014: £35,098). 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. 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 2015		**Number**	£
At beginning of the year	Ordinary shares of 0.5 pence each	**155,000,000**	775,000
Issue of shares		**44,222,332**	221,111
At end of the year	Ordinary shares of 0.5 pence each	**199,222,332**	996,111

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

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 were expected to be issued on 11 September 2015. The Placing was approved at a general meeting of the Company held on 14 April 2015.

The funds associated with the further 7,791,188 shares had not been received from the subscriber for these shares by 31 December 2015. Accordingly, the further 7,791,188 shares have not been issued.

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 2015

14. Trade and Other Payables

Current:	2015 £	2014 £
Trade payables	**175,635**	97,133
Social security and other taxes	**21,485**	21,897
Other payables and accruals	**64,787**	188,170
	261,907	307,200

15. Operating Lease Arrangements

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

Land and Buildings:	2015 £	2014 £
Less than one year	**89,480**	89,480
Between one and five years	**37,283**	126,763

During the year £83,496 (2014: £85,255) 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 Director's Report.

£42,420 was loaned to Cluff Africa Associates UK Limited (CAA) in 2012. J G Cluff is a Director of CAA and Peter Cowley and Nicholas Berry were Directors of CAA until 4 September 2015 and 23 March 2016 respectively. £10,000 was repaid by CAA in 2013 and a further £15,000 was repaid in 2015. The total facility available under the loan agreement with Cluff Africa Associates UK Limited was £50,000. Interest is charged at a rate of 3% per annum on the outstanding balance. As at 31 December 2015 the outstanding loan balance was £21,119 (2014: £35,098).

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 £83,811 (2014: £34,583), as disclosed in the Directors' Remuneration Report and for other services and disbursements totalled £6,734 (2014: £7,552).

Notes to the Financial Statements
for the year ending 31 December 2015

17. Financial Instruments

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

	2015 £	2014 £
Financial Assets		
Cash and cash equivalents – all amounts held in Sterling	**1,114,053**	1,207,638
Rental deposit	**53,688**	53,688
Related party loan receivable	**21,119**	35,098
Other receivables	**9,697**	42,939
	1,198,557	1,339,363
Financial Liabilities		
Trade Payables	**175,635**	97,133
Other payables & accruals	**64,787**	173,628
	240,422	270,761

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 2015

17. Financial Instruments (continued)

Liquidity risk

During the year ended 31 December 2015, the Company was financed by cash raised through equity funding. Funds raised surplus to immediate requirements are held as short-term cash deposits in Sterling.

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

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

The table below shows the undiscounted cash flows on the Company's financial liabilities as at 31 December 2015 and 31 December 2014 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 - 6 months £
At 31 December 2015			
Trade payables	**175,635**	**175,635**	**-**
Other payables & accruals	**64,787**	**-**	**64,787**
	240,422	**175,635**	**64,787**
At 31 December 2014			
Trade payables	97,133	97,133	-
Other payables & accruals	173,628	-	173,628
	270,761	97,133	173,628

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 2015 and again in 2016 following the announcement of an equity fundraising in April 2016. 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 at least until the end of 2016. Further funding will inevitably be required to allow the Company to fully implement its strategy beyond this period. 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 2015

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.

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.

2,000,000 options were granted during the year to 31 December 2015 under the scheme (2014: 11,200,000).

The Company recognised a total expense of £104,197 in the year ended 31 December 2015 (2014: £107,146) in respect of share-based payments for share options.

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

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

Black Scholes Model	30 April 2014	30 April 2014	5 September 2014	5 September 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

Black Scholes Model	26 August 2015	26 August 2015
Share Price	4.00p	4.00p
Exercise price	4.00p	4.00p
Expected Volatility	59.89%	59.89%
Risk Free Rate of Interest	1.3398%	1.3398%
Expected Dividend Yield	0.00%	0.00%
Expected Life	6.0 years	6.5 years
Number of options issued	1,000,000	1,000,000

Expected volatility was determined based on the historic volatility of the Company since 2014 when sufficient annual data has been available, with data from a comparable company being used prior to 2014 in the initial period after the Company's incorporation.

Notes to the Financial Statements
for the year ending 31 December 2015

19. Share-Based Payments (continued)

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

Year ended December 2015	Number of options	WAEP p
Outstanding at the beginning of the year	17,200,000	4.57
Issued	2,000,000	4.0
Outstanding at the year end	19,200,000	4.51
Number exercisable at 31 December 2015	6,000,000	6.04

Year ended December 2014	Number of options	WAEP p
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

Of the warrants granted in 2012, the 37,500,000 granted to Shareholders lapsed in 2015. The number of warrants at 31 December 2014 and 2015 are set out below:

	2014	2015	WAEP p
J G Cluff	5,000,000	5,000,000	5.00
Shore Capital and Corporate Limited	4,340,000	4,340,000	5.00
Shareholders	37,500,000	-	-
	46,840,000	9,340,000	5.00

The Company recognised an expense of £nil in respect of warrants in the year ended 31 December 2015 (2014: £nil). The following Warrants are in issue at 31 December 2015:

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 warrants lapsed on the expiry of the exercise period on 22 May 2015.

Notes to the Financial Statements
for the year ending 31 December 2015

20. Post Balance Sheet Events

Proposed acquisition of North Sea licence interests from Verus Petroleum UK Limited

On 10 May 2016 the Company announced this it had signed a Sale and Purchase and Option Agreements with Verus Petroleum (CNS) Limited and Verus Petroleum (SNS) Limited (both wholly-owned subsidiaries of Verus Petroleum UK Limited) ('Verus') in relation to the proposed acquisition of up to a 25% participating interest held by Verus in three licences located in the Central North Sea and the Moray Firth. These licences, two of which are effectively drill ready, are operated by The Parkmead Group, which estimates the potential for 400 million barrels of recoverable oil in aggregate. Under the Sale and Purchase Agreement the Company will initially acquire a 5% non-operated interest in UK Continental Shelf ('UKCS') Licences P1944 (Block 14/20e) and P2156 (Block 15/11 & 15/16f) located in the Outer Moray Firth, which contain the "Fynn" and "Penny" exploration prospects located below the shallow Tertiary sands that were found to contain heavy oil. The exclusive Option Agreement allows the Company to increase its equity position in Licences P1944 and P2156 by 20% to 25% within a period of nine months following execution of the Sale and Purchase Agreement. Additionally it provides for an exclusive option to acquire, within the same nine month period, a 25% interest in Licence P2082 (Blocks 30/12c, 13c, 17e & 18c) which is located in the Central North Sea and contains the "Skerryvore" exploration prospect.

Equity fundraising

On 6 April 2016 the Company announced that it had raised £727,000, before expenses, through the aggregate placing and subscription of 58,171,200 new ordinary shares of 0.5p each ("Placing Shares") at 1.25 pence per share (the "Placing") with new and existing institutional and private investors. The Placing was conducted in two stages, with 14,920,000 Placing Shares placed using the Directors' existing authority to allot shares for cash on a non-pre-emptive basis (the "First Placing Shares"), and 43,251,200 Placing Shares (the "Second Placing Shares") placed conditionally upon, amongst other things, shareholders passing the resolution to be proposed at a general meeting of the Company held on 25 April 2016. Admission of the First Placing Shares occurred on 20 April 2016 and the Second Placing Shares on 26 April 2016.

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 7 June 2016 at 10.30 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 2015 together with the report of the auditors thereon.

2. To re-elect Peter Cowley as a director of the Company.

3. To re-elect Earl William De La Warr 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: 11 May 2016

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 10.30 a.m. on 3 June 2016 (or, in the event of any adjournment, at 10.30 a.m. on the day which is two days before the date fixed for the adjourned meeting). Changes to the register of members after the relevant deadline will be disregarded in determining the rights of any person to attend and vote at the meeting.

2. A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by the member. A member wishing to appoint more than one proxy should contact the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL. A proxy need not be a member of the Company. Appointing a proxy will not prevent a member from attending and voting at the meeting in person.

3. A form of proxy for use in relation to the meeting is enclosed. To be valid, the form of proxy and any power of attorney or other authority under which it is signed (or a 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 7 June 2016 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 11 May 2016 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 257,393,532 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 11 May 2016 was 257,393,532.

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 2015. 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, Peter Cowley and Earl William De La Warr 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 7 June 2016 at 10.30 a.m. and at any adjournment thereof.

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

Resolutions	For	Against	Vote withheld
1. To receive and adopt the annual accounts and reports of the directors and auditors thereon.	☐	☐	☐
2. To re-elect Peter Cowley as a director of the Company.	☐	☐	☐
3. To re-elect Earl William De La Warr as a director of the Company.	☐	☐	☐
4. To appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration.	☐	☐	☐

Dated this ______________ day of ______________ 2016

Signature(s) ______________________

Name ______________________

Address ______________________

____

Notes:

1. A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
2. A member who wishes to appoint someone other than the chairman as his proxy should delete the words "the Chairman of the Meeting or", insert the name of his choice in the space provided and initial the alteration.
3. The form of proxy should be signed and dated by the member or his attorney duly authorised in writing. In the case of a corporation, the form of proxy should be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. Any alteration made to the form of proxy should be initialled.
4. In the case of joint holders, the signature of any one holder is sufficient. However, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members.
5. A member should direct the proxy how to vote on the resolutions by marking the appropriate box with an X. The "vote withheld" option is provided to enable members to abstain on any of the resolutions. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" a resolution.
6. If the form of proxy is returned duly signed but without any indication as to how the proxy should vote on any resolution, the proxy will exercise his discretion as to how he votes and whether or not he abstains from voting on the resolution. The proxy may also vote or abstain from voting as he thinks fit on any other business which may properly come before the meeting.
7. To be valid, the duly signed and dated form of proxy, together with any power of attorney or other authority under which it is signed (or a notarially certified copy of such power or authority), must be returned in the reply paid envelope provided to the Company's registrars, Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL so as to be received by no later than 10.30 a.m. on 3 June 2016.
8. Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
9. CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service should refer to note 4 of the notes to the notice of the annual general meeting.

Company Information

Directors
J G Cluff (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)
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)

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

Auditors
BDO LLP
55 Baker Street
London
W1U 7EU

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

Financial Public Relations
St Brides 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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