Cluff Natural Resources Plc
Annual Report & Accounts 2016

CLUFF NATURAL RESOURCES

About us

Cluff Natural Resources Plc is an AIM quoted company (LSE:CLNR) investing in global resources opportunities with a primary focus on UK based upstream energy projects. The Company currently holds a 100% interest in two gas licences in the Southern North Sea. In 2016 the Company made significant progress with its North Sea assets, culminating in an increase in its P50 prospective gas resources from 845 BCF to 2.4 TCF.

Strategy

Secure Farm-in Partners
100% equity position in both licences, high quality assets, large resource base and low exploration costs in Southern North Sea provide strong basis to attract partners.

Grow Portfolio
Organic growth via applications for complimentary licences in UK's next (30th) Licencing Round.

Enhance asset base
Ongoing subsurface work to continue to quantify new leads and upgrade existing prospects.

Leverage partnerships
Strategic partnership with Halliburton represents significant step towards commercialisation of North Sea assets.

The Journey so far

December 2014	5 Southern North Sea gas licences awarded over 11 blocks
December 2015	Initial CPR confirms prospective resources of 845 BCF
February 2016	MOU with Halliburton renewed for further 2 years
October 2016	CPR on licence P2248 confirms 1.73 TCF P50 prospective resource
December 2016	P50 prospective resource estimate on licence P2252 increased fourfold
	Total Portfolio increased to 2.4 TCF recoverable gas
April 2017	Independent Scoping Study confirms robust economics on Cadence scremerston and Basset Bunter prospects

Our investment case

Quality assets
Two highly prospective assets:
- P2248 - P50 prospective resources of 1.73 TCF
- P2252 – P50 prospective resource of 636 BCF

Robust Economics
- Cadence Scremerston Prospect – risked EMV of £86.6m (equates to 26p/share)
- Basset Bunter Prospect – risked EMV of £69.0m (equates to 21p/share)

Strong fundamentals for UK Gas Exploration
- Proven gas basin with established operating environment
- Southern North Sea is a low cost operating environment
- UK gas prices are significantly higher than Henry Hub (US)

No debt or onerous work commitments

100% ownership – strong position from which to farm down

Corporate website

To find out further information, please visit:
www.cluffnaturalresources.com for the latest news, reports, presentations and video.

Chairman and Chief Executive's Statement

While the market for oil and gas companies remains challenging I believe there has been a significant improvement in sentiment, both within and towards the industry. The last few months have seen increased M&A activity, an increasing number of farm-ins, the re-structuring and re-capitalisation of major mid-tier companies and certain oil and gas majors committing to long term production from the UKCS, including BP's publicly stated ambition to double their production from UK waters.

Of more significance to your Company is the recent re-affirmation of the prospectivity and long term future of the Southern North Sea gas basin and its strategic importance to the UK. Of special note is the recent acquisition of the Breagh asset, which is adjacent to our licences, by Oranje-Nassau Energie, the spudding of a deep Carboniferous exploration well on the Ravenspurn gas field by BP and Centrica's renewed interest in exploration evidenced by the award of a tranche of blocks immediately to the North of our existing licences in the recently announced 29th Offshore Licencing Round.

This increased positivity towards the Southern Gas Basin has also manifested itself in the significant level of interest and traffic through our dataroom which was formally opened in January to facilitate the farm-out of our existing portfolio of high quality exploration assets. Of relevance to this process, I am pleased to reaffirm the announcement in October 2016 of an independent technical audit and CPR and further technical work announced in December 2016, which has resulted in a tripling of the P50 prospective resources contained within this portfolio to approximately 2.4 trillion cubic feet of gas.

We also recently announced the findings of a Scoping Study on just two of the six identified prospects on licence P2248 which demonstrated robust economics for these prospects and extrapolated an overall implied unrisked NPV of £697 million for all six of the prospects on this licence. This study has confirmed our long-held conviction that exploring for gas in the Southern North Sea can deliver significant value for shareholders and the UK as a whole. Should exploration wells prove commercial quantities of gas in line with expectations, then these economics demonstrate that cost effective development options are readily available, a key consideration for any operator or investor looking at the Company's exploration assets.

Being a UK company with exclusively UK North Sea interests, your management is accountable to shareholders for adopting that position. We have done so for a number of reasons. Firstly, notwithstanding the apparent view of many of the major oil companies that the North Sea no longer offers the prospect of major discoveries (about which they may well be in error), it is widely agreed that there remain many licences which contain high quality exploration targets. HMG has the power to render those targets even more attractive by fiscal incentive. Secondly, the North Sea is well run. Thirdly, it is secure. And, fourthly, it contains many existing discoveries (which the UK's Oil & Gas Authority (OGA) estimate to be in excess of three hundred) which remain undeveloped. The OGA is due to announce the 30th round of licence awards and we are advised that this round will include such "small pools" of oil and gas which will reduce much of the exploration risks whilst offering, in some cases, immediate resources. We have been giving much thought to this eventuality and are determining how to respond with the intention of applying when the round is announced. It is my view that this could herald a "North Sea Phase Two" with the OGA estimating that as much as 3.4 billion barrels of oil equivalent is distributed amongst these pools.

In line with our stated UK focused strategy, the Company looked to strengthen the Board and I am particularly pleased to refer to the appointment of Mark Lappin as a Non-Executive Director. Mark's most recent role was that of E&P Subsurface Director (UK and Netherlands) at Centrica and brings a wealth of relevant technical and commercial North Sea experience to the Company as well as an inventive mind.

We have also raised £2.5 million of cash by way of equity during the period under review and wish to thank our shareholders for their support.

Our destiny is directly linked to the North Sea and the absence of any major commitments and debt gives us a theoretical agility which most other companies lack. It is our duty as management to convert that theory into action.

J G Cluff
Chairman and Chief Executive

21 April 2017

Operational Review

The year has seen a significant maturation of the Company's resource base and reorganisation of the Company's portfolio as we actively reduced our acreage position to focus on our two core assets. Significantly, despite this rationalisation of the portfolio, the Company's overall net prospective resource position has increased threefold during the period under review as new prospects were identified and matured through ongoing technical workflows. This work culminated in the publication of a Competent Person's Report on P2248 and an updated resource estimate on P2252, with the portfolio now comprising eight distinct prospects in five different proven reservoir bearing formations with gas initially in place (GIIP) estimates of between 1.4 and 9.5 TCF (P10-P90 Range).

The Company has been actively promoting and marketing its assets over recent months with the intention of finding a partner, or partners, to participate in the drilling of exploration wells on these core licences. A dataroom was formally opened in January and, despite what are still challenging conditions in the exploration sector, the Company has seen a significant level of interest in its assets from established North Sea operators and potential new entrants to the market.

This interest has been positively influenced by a number of macro factors including the stabilisation of the oil price in the $50-60 range, renewed commitment by majors such as BP to the North Sea and increasing M&A activity within the basin, including a number of major private equity backed transactions. 2017 is likely to be a key year for the Southern North Sea Gas Basin, with significant activity expected in the vicinity of the Company's licences. This will include the results of the BP well being drilled in the Southern North Sea to a deep Carboniferous prospect near the Ravenspurn field, which could open up a new carboniferous play in the region, the drilling of a further exploration well immediately adjacent to the Cadence prospect by Centrica and the potential submission of field development plans for Centrica's Pegasus discovery and Premier's Tolmount discovery.

Portfolio Management and Rationalisation

As announced previously, the Southern North Sea portfolio has been rationalised to focus on our two core assets and offset the financial burden associated with those areas sterilised by potential offshore windfarm developments or which had insufficient data to fully support a farm-out process. This resulted in the surrender of licences P2259 and P2261 and a partial relinquishment of licence P2252 which roughly halved the acreage on this licence.

Licences P2253 and P2258, in which the Company held a 50% non-operated interest following a cross assignment, were also surrendered following a decision by the OGA not to grant an extension on these blocks. This has resulted in a three quarter reduction in the Company's net acreage and the equivalent reduction in licence fees which would otherwise have been payable.

The areas covered by licences P2253 and P2258 will be included in the 30th licensing round to be held later this year and the Company is reviewing the options for relicensing these areas under the more favourable 'Innovate' licence terms now being offered by the OGA.

The 'Promote' terms on the Company's core 100% owned assets on P2252 and P2248 were extended for a period of 12 months to 30 November 2017 by the OGA in recognition of the challenging farm-out market in recent years and the length of time required to complete deals in the current oil price environment.

The Company is currently running an active farm-out process which has attracted interest from a number of established North Sea operators. The Company's aim is to complete a farm out in advance of the expiry of these licences which will involve a drilling commitment such that the OGA continues the licences into their fourth year. In the event that such a farm-out is not concluded before the expiry dates, the Company would be reliant on the OGA to grant a further extension to allow the Company to continue ongoing farm-out discussions.

Operational Review

Licence and Resource Summary

Following the rationalisation of the portfolio and updated resource statements, the Company's current licence portfolio and prospect inventory, as of April 2017, is summarised below:

Licence	Prospect	Reservoir Formation	GIIP Range (BCF) P90 – P10	Prospective Resources (BCF) P90	P50	Mean*	P10	CoS %
P2248 Q43 240 km2	Camden	Yoredale	120 - 782	58	**160**	**204**	405	15
	Cadence	Scremerston	101 - 658	59	**165**	**206**	410	18
		Fell Sandstone	187 - 3,574	111	**604**	**923**	2,175	9
	Bassett	Bunter Sandstone	49 - 374	36	**128**	**153**	303	29
	Bathurst		169 - 704	119	**275**	**317**	571	18
	Beckett		134 - 1,095	97	**403**	**460**	892	18
P2252 Q41 358 km2	Lytham	Fractured Hauptdolomite	117 - 416	52	**123**	**137**	244	49
		Carboniferous	22-249	12	**44**	**68**	149	30
	Fairhaven	Fractured Hauptdolomite	40 - 170	18	**45**	**53**	98	30
	Pensacola	Fringing Reef	216 - 1,077	113	**270**	**338**	650	20
		Reef Fill	254 - 651	67	**154**	**186**	347	16
Totals**			1,409 – 9,750	742	**2,371**	**3,045**	6,244	

* Mean resources have been added for completeness but is not recognised under PRMS guidelines
** Resources have been aggregated for simplicity but are not PRMS compliant

P2248 – Field Development Plans and Economics

On 20 April 2017, the Company announced the results of an independent Scoping Study on field development plans and economic analysis on the Cadence Scremerston and the Bassett Bunter prospects representing just two of the six identified prospects on Licence P2248.

The economics of each prospect, based on a stand-alone development, were tested against numerous potential exploration outcomes and development scenarios and using a gas price profile based on UK NBP gas price futures forecasts (as of 7 March 2017) from 2017 to the end of 2021, with gas prices from 2022 onwards increasing at 2% per annum. The economic evaluation indicated highly positive NPV values for both prospects and even in the P90 (i.e. low side recoverable gas volumes) NPV positive outcomes are possible. The outputs of the economic modelling for a selected representative development scenario for each prospect are presented in the table below:

		Unrisked P50 Prospective Resources (BCF)[1]			Chance of success	Unrisked NPV10 (£m)			EMV (£m)
Prospect	Formation	Low (P90)	Mid (P50)	High (P10)	%	Low (P90)	Mid (P50)	High (P10)	Post-Drill Success EMV
Cadence	Scremerston	59	165	410	18	12.7	47.6	285.8	86.6
Bassett	Bunter	36	128	303	29	3.0	41.8	183.1	69.0

1 These figures are sourced from the Competent Person's Report on P2248 published in October 2016.

The Scoping Study indicated that other prospects on Licence P2248, which would be significantly de-risked by exploration success, provide significant further possible upside to the economic cases presented below, but were not the focus of this study. Additionally, it is expected that significant CAPEX and OPEX synergies could be realised if two or more prospects are developed as a cluster as opposed to a stand-alone development.

Cadence-Scremerston Highlights

- Modelled stand-alone development options included P90, P50 and P10 resource volumes, low and high CO_2 cases, different export routings and varying production well performance outcomes using the nearby Breagh field as the key analogue
- Mid-case NPV10 of £47.6 million for selected development case (P90 to P10 range of £12.7 million to £285.8 million)
- EMV of £86.6 million assuming a discovery results from the proposed exploration well
- Cash flow positive after 18 months with a payback period of three years for the selected P50 development case
- Assumes no contribution from the Cadence-Fell or Camden prospects which contain significant upside potential (P50 prospective resources of 764 BCF in aggregate) assuming exploration success

Operational Review
continued

P2248 – Field Development Plans and Economics (continued)

Bassett Prospect

- Modelled development options included P90, P50 and P10 resource volumes, low and high CO2 cases, different export routings and varying production well performance outcomes using the nearby Esmond field as a primary analogue
- Mid-case NPV10 of £41.8 million for selected development case (P90 to P10 range of £3.0 million to £183.1 million)
- EMV of £69.0 million assuming a discovery results from the proposed exploration well
- Cash flow positive after 18 months with a payback period of less than three years for the selected P50 development case
- Assumes no contribution from the Bathurst and Beckett prospects which contain significant upside potential (P50 prospective resources of 678 BCF in aggregate) assuming exploration success

Additionally, the Scoping Study indicated an implied extrapolated un-risked NPV for the six identified prospects on Licence P2248 of £697 million.

Options over Central North Sea and Outer Moray Firth oil licences

On 10 May 2016, the Company announced that it had agreed to acquire, subject to approvals, a 5% equity stake from Verus Petroleum UK Limited ('Verus') in licences P1944 and P2156 located in the Moray Firth which contain the Fynn & Penny prospects and a contemporaneous exclusive option for nine months to acquire a 25% stake in licence P2082.

While the assets remain technically attractive, the ongoing uncertainty around the incumbent partners, in particular their willingness and/or financial ability to drill the wells required to test the prospects, has resulted in the Oil and Gas Authority not extending the licence terms on P2082 and the option period on P1944 and P2156 expired without an explicit commitment to drilling the well required to secure this licence in the next term.

While neither option was exercised, it is understood that both areas of interest are likely to be available for re-licencing in the 30th Round, which gives the Company the option to re-acquire an interest in these attractive assets without exposure to back costs and in conjunction with a more aligned group of partners. No decision has been made on participation at this stage but the Company will review the situation once the 30th Licencing Round is announced, most likely in Q2 of 2017.

Underground Coal Gasification

In the absence of a supportive policy on UCG emerging from Westminster and the indefinite extension of the UCG Moratorium in Scotland, the Company has notified The Coal Authority, as the responsible authority for issuing UCG licences, that it is relinquishing its nine UCG licences.

Given the uncertainty around the future of these assets which has existed for some time, these licences had already been fully written down in the Company's 2015 accounts.

Halliburton Memorandum of Understanding

In February 2016, the Company entered 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 be of great value to the Company through access to experienced technical specialists and cutting edge technology and processes which would normally be out of the reach of companies of our size.

Future developments

While the Company's core focus, quite rightly, has been on the farm-out of its existing assets, there has also been significant commitment to the longer term future of the Company. This will include investment in the 30th Licensing Round which is expected to be announced in Q2 of 2017.

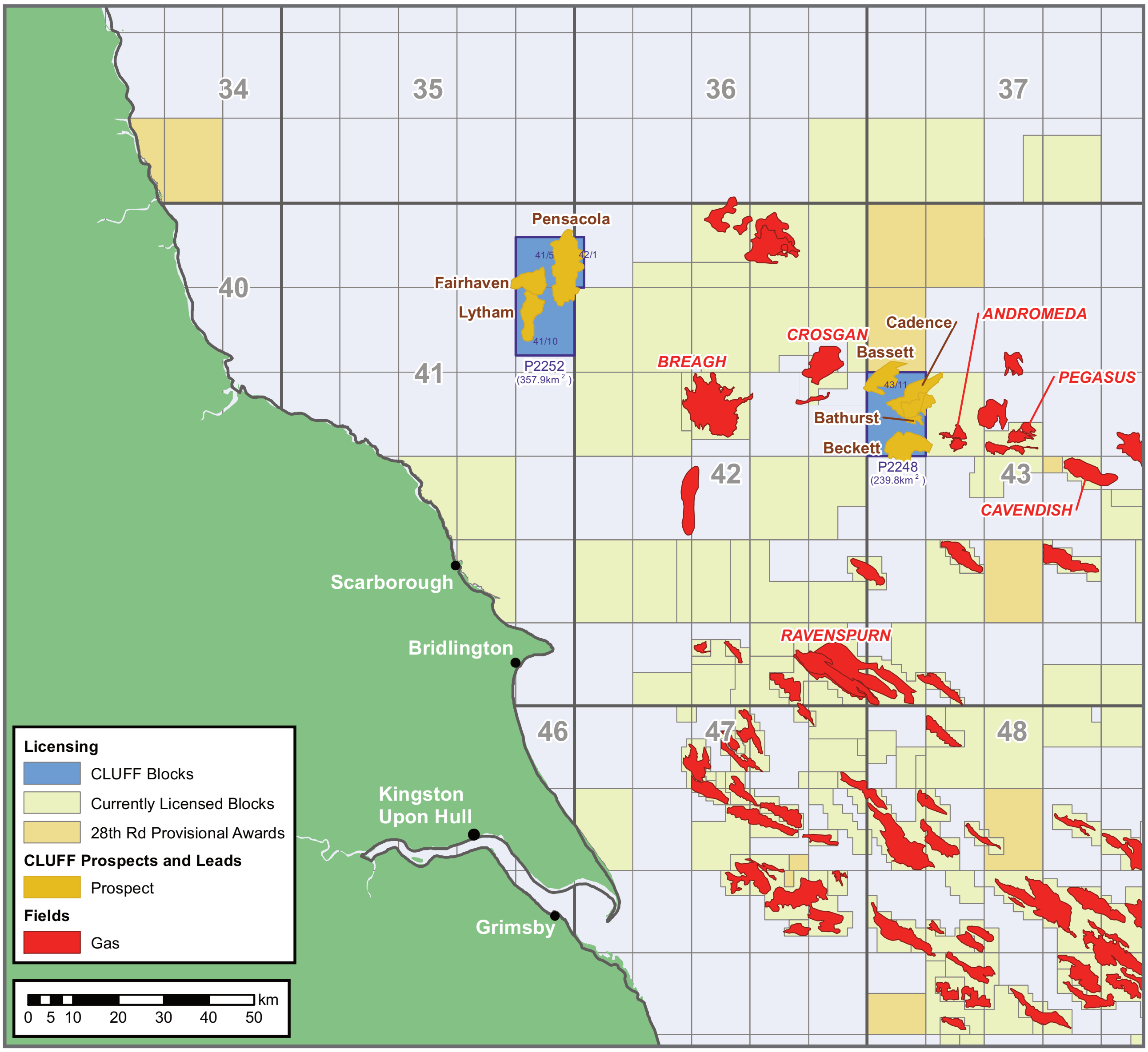
The 30th Offshore Licencing Round is focused on mature producing areas, including the Company's core area of the Southern North Sea Gas basin, and will include both exploration opportunities and a large number of unsanctioned discoveries. The Company anticipates making an application for a number of blocks in the 30th Round providing a pipeline of future opportunities for adding shareholder value.

In addition to the proposed organic growth via advertised licensing rounds, the Company continues to review other potential opportunities to grow the Company's portfolio both within the UKCS and further afield.

A J Nunn
Chief Operating Officer

21 April 2017

Operational Review
Our Locations - North Sea



598km²

Total area of licences

Financial Review

Since the start of 2016, all major expenditure has been focused on the development of the Company's portfolio of conventional North Sea assets and in the appraisal of a number of other natural resources opportunities in accordance with the Company's investing policy, in addition to on-going administrative expenditure.

Loss for the period

The Company incurred a loss for the year to 31 December 2016 of £1,730,606 (2015: £1,872,099). The loss for 2016 included an impairment charge in relation to the carrying value of the North Sea gas licences (P2259, 2261, 2253 and 2258) which it relinquished in the year. This charge amounted to £318,407 (2015: £336,790).

Cash flow

In the year to 31 December 2016, net cash used in operating activities was slightly lower than the previous year at £1,334,065 (2015: £1,394,277) with an additional £447,735 used in investing activities (2015: £503,308). This was offset by cash (net of expenses) received of £2,375,658 from the placing of new ordinary shares in April and November 2016.

Consequently, in the year to 31 December 2016, the Company experienced a net cash inflow of £593,858 (2015: £93,585 outflow).

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 each at 1.25 pence per share with new and existing institutional and private investors. Admission of the shares to trading on AIM occurred in April 2016. The purpose of this placing was to fund the Company's activities to the end of 2016.

On 3 November 2016, the Company announced that it had raised a further £1.8 million, before expenses, through the aggregate placing and subscription of 72,000,000 new ordinary shares each at 2.5 pence per share with new and existing institutional and private investors. Admission of the shares to trading on AIM occurred in November 2016.

Following these placings, there were 329,393,532 ordinary shares in issue (2015: 199,222,332).

Closing cash

As at 31 December 2016, the Company held cash balances of £1.71 million (2015: £1.11 million).

Shareholders' equity

As at 31 December 2016, there were 329,393,532 (2015: 199,222,332) ordinary shares in issue.

Additionally, a total of up to 50,096,901 (2015: 28,540,000) new ordinary shares may be issued pursuant to the exercise of share options or warrants.

Going concern

The inherent nature of the Company means that it is dependent on its existing cash resources and its ability to raise additional funding in order to progress its exploration programme on an ongoing basis. Based on the cash balance at year end and the Company's commitments, the Company has adequate financial resources to cover its budgeted exploration and development programme until the fourth quarter of 2017. Further funding will likely 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, applying for additional licences, as well as the evaluation of various oil and gas opportunities.

The key metric for the Company at this stage in its development, is its estimated level of prospective resources. The Company is therefore delighted to have tripled its P50 prospective gas resources in 2016 from 845BCF to 2.4TCF.

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

21 April 2017

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 regular 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 Investing Policy is as follows:

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

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

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

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

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

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

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

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

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. Whilst 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

21 April 2017

Graham Swindells
Finance Director

21 April 2017

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 2013, having previously been a Director in Corporate Finance at Ernst & Young. Graham 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 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.

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, Group Technical Director of Cluff Resources Plc and Non-executive Director of Amara Mining 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.

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.

Mark Lappin
Non-Executive Director

Mark Lappin has over 35 years' experience in the oil and gas industry, most recently as Sub-Surface Director for UK and Netherlands at Centrica. Mark began his career as a Geophysicist at Phillips Petroleum and has held senior technical and commercial roles with Conoco Phillips, Exxon Mobil and Dart Energy.

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2016.

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.

Dividends

No dividends will be distributed for the year ended 31 December 2016 (2015: 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 2016 are set out below:

	Ordinary Shares		Share Options		Share Warrants	
	2016	2015	**2016**	2015	**2016**	2015
J G Cluff	**13,038,502**	12,038,502	**18,648,709**	8,000,000	**5,000,000**	5,000,000
G C Swindells	**323,406**	323,406	**9,654,096**	5,200,000	**-**	-
A J Nunn	**235,294**	235,294	**10,454,096**	3,000,000	**-**	-
N W Berry[1]	**1,370,588**	1,370,588	**-**	-	**-**	-
P N Cowley	**447,059**	447,059	**-**	-	**-**	-
The Earl De La Warr DL.	**3,054,901**	3,054,901	**-**	-	**-**	-
B A FitzGerald[1]	**600,000**	600,000	**-**	-	**-**	-
Christopher Matchette-Downes[2]	**113,120**	-	**2,000,000**	2,000,000	**-**	-
Mark Lappin	**-**	-	**-**	-	**-**	-
	19,182,870	18,069,750	**40,756,901**	18,200,000	**5,000,000**	5,000,000

1 Resigned 6 June 2016
2 Resigned 30 August 2016

JG Cluff may exercise the warrants to subscribe for Ordinary shares at a price of £0.05 at any time during the exercise period which ends 22 May 2017.

Director's Remuneration - audited

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2016 for the individual Directors who held office in the Company during the year.

	2016 Salary/fees £	**2016 Pension £**	**2016 Benefits in Kind £**	**2016 Share-based Payment £**	**2016 Total £**	2015 Total £
J G Cluff	**200,000**	**-**	**19,528**	**66,000**	**285,528**	284,136
G C Swindells	**138,833**	**13,854**	**2,493**	**35,159**	**190,339**	170,532
A J Nunn	**133,583**	**13,358**	**2,260**	**41,601**	**190,803**	151,442
N W Berry[1]	**-**	**-**	**-**	**-**	**-**	-
P N Cowley	**-**	**-**	**-**	**-**	**-**	-
The Earl De La Warr DL.	**-**	**-**	**-**	**-**	**-**	-
B A FitzGerald[1]	**-**	**-**	**-**	**-**	**-**	-
C J Matchette-Downes[2]	**-**	**-**	**-**	**25,375**	**25,375**	10,637
Mark Lappin	**355**	**-**	**-**	**-**	**355**	-
	472,772	**27,213**	**24,282**	**168,135**	**692,401**	616,747

1 Resigned 6 June 2016
2 Resigned 30 August 2016

Chris Matchette-Downes was additionally paid £50,610 in 2016 (2015: £83,811) for consulting services in relation to the development of the Company's oil and gas portfolio.

Report of the Directors

Indemnities

The company has put in place qualifying third party indemnity provisions for all of the directors the Company which was in force at the date of approval of this report.

Share options and warrants

The share-based payment of £168,135 (2015: £104,197) to Directors represents the share-based expense relating to share options issued during the year.

The following share options table comprises share options and warrants held by Directors who held office during the year ended 31 December 2016:

	Warrants & Options held at 31 December 2015	Options granted in period	Options/ forfeited cancelled in period	Options exercised in period	**Warrants & Options held at 31 December 2016**	Exercise price (p)	Exercisable from	Exercisable to
J G Cluff	5,000,000	-	-	-	**5,000,000**	5.0	4 May 2013	22 May 2017
	2,000,000	-	-	-	**2,000,000**	8.0	23 January 2014	23 January 2023
	6,000,000	-	-	-	**6,000,000**	3.75	30 April 2015	30 April 2024
	-	10,648,709	-	-	**10,648,709**	1.325	10 June 2017	10 June 2026
G C Swindells	3,000,000	-	(3,000,000)	-	**-**	5.125	26 June 2014	26 June 2023
	2,200,000	-	-	-	**2,200,000**	3.75	30 April 2015	30 April 2024
	-	7,454,096	-	-	**7,454,096**	1.325	10 June 2017	10 June 2026
A J Nunn	3,000,000	-	-	-	**3,000,000**	3.88	6 Sept 2015	22 May 2024
	-	7,454,096	-	-	**7,454,096**	1.325	10 June 2017	10 June 2026
C J Matchette-Downes	2,000,000	-	-	-	**2,000,000**	4.0	25 August 2015	25 August 2025

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

Substantial Shareholders

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at 21 April 2017:

Shareholders	Number of Shares	Percent (%)
Hargreaves Lansdown Nominees Limited	35,412,050	10.75
Henderson Global Investors	32,905,500	9.99
Guinness Asset Management	27,487,182	8.34
Halifax Share Dealing	17,833,494	5.41
TD Direct	14,676,445	4.46
Barclays Wealth	13,999,311	4.25
Algy Cluff	13,038,502	4.00
Laurence Butcher	12,800,000	3.89
SVS Securities	10,862,319	3.30
Fiske	10,790,000	3.28
Lloyd Dorfman	10,706,273	3.25

Financial Instruments

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

Post Balance Sheet Events

On 10 May 2016, the Company announced that it had entered into an option with Verus Petroleum (SNS) Ltd ("Verus") to acquire a 25% interest in licences P1944 (Block 14/20e) and P2156 (Block 15/11 & 16f) located in the Outer Moray Firth which contain the Fynn and Penny prospects (the "Option") which was exercisable within a period of nine months. On 13 February 2017, the Company announced that, due to uncertainty as to the likely timing of any drilling activity on this licence, the Company did not exercise the Option and accordingly, the Option lapsed.

Political Contributions

No payments to political parties have been made during the year (2015: 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 six Directors, of whom three are executive and three 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 Peter Cowley. 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 The Earl De La Warr and Peter Cowley and is chaired by The Earl De La Warr. 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 and the Market Abuse Regulations (EU). 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 and in note 17 of the financial statements.

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

21 April 2017

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 2016 which comprise the balance sheet, income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2016 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, based on the work undertaken in the course of the audit:

- 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 and;
- the strategic report and directors report have been prepared in accordance with applicable legal requirements.

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 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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

21 April 2017

Income Statement
for the year ending 31 December 2016

	Notes	2016 £	2015 £
Administrative expenses:			
Impairment of exploration and evaluation assets	8	**(318,407)**	(336,790)
Other administrative expenses		**(1,416,127)**	(1,546,752)
Total administrative expenses		**(1,734,534)**	(1,883,542)
Operating Loss		**(1,734,534)**	(1,883,542)
Finance income		**3,928**	11,443
Loss Before Taxation	4	**(1,730,606)**	(1,872,099)
Taxation	6	**-**	-
Loss for the year		**(1,730,606)**	(1,872,099)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	**(0.70)p**	(1.00)p

Statement of Other Comprehensive Income
for the year ending 31 December 2016

	2016 £	2015 £
Loss for the year	**(1,730,606)**	(1,872,099)
Other Comprehensive Income	**-**	-
Total Comprehensive Income for the year attributable to the equity holders of the Company	**(1,730,606)**	(1,872,099)

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

Balance Sheet
as at 31 December 2016

	Notes	2016 £	2015 £
Assets			
Non-current Assets			
Intangible assets	8	**554,498**	428,128
Property, plant and equipment	9	**3,885**	5,890
Investment in subsidiary	10	**1,101**	501
Other receivables	11	**-**	53,688
		559,484	488,207
Current Assets			
Other receivables	11	**196,724**	87,702
Cash and cash equivalents		**1,707,910**	1,114,052
		1,904,634	1,201,754
Total Assets		**2,464,118**	1,689,961
Capital and reserves attributable to the equity holders of the Company			
Shareholders' Equity			
Share capital	12	**1,646,967**	996,111
Share premium		**7,761,977**	6,037,175
Share-based payment reserve		**582,193**	529,292
Accumulated retained deficit		**(7,749,896)**	(6,134,524)
Total Equity		**2,241,241**	1,428,054
Liabilities			
Current Liabilities			
Trade and other payables	14	**222,877**	261,907
Total Liabilities		**222,877**	261,907
Total Equity and Liabilities		**2,464,118**	1,689,961

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 21 April 2017 and were signed on its behalf by:

J G Cluff
Chairman and Chief Executive

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

Statement of Changes in Equity
for the year ending 31 December 2016

	Share capital £	Share premium £	Share-based payment reserve £	Retained deficit £	Total equity £
Balance at 1 January 2016	996,111	6,037,175	529,292	(6,134,524)	1,428,054
Comprehensive income for the year					
Loss for the year	-	-	-	(1,730,606)	(1,730,606)
Total comprehensive loss for the year	-	-	-	(1,730,606)	(1,730,606)
Contributions by and distributions to owners					
Issue of share capital	650,856	1,876,284	-	-	2,527,140
Expenses of issue	-	(151,482)	-	-	(151,482)
Share-based payment	-	-	168,135	-	168,135
Expired/lapsed options	-	-	(115,234)	115,234	-
Total contributions by and distributions to owners	650,856	1,724,802	52,901	115,234	2,543,793
Balance at 31 December 2016	**1,646,967**	**7,761,977**	**582,193**	**(7,749,896)**	**2,241,241**
Balance at 1 January 2015	775,000	4,454,287	589,050	(4,426,380)	1,391,957
Comprehensive income for the year					
Loss for the year	-	-	-	(1,872,099)	(1,872,099)
Total comprehensive loss for the year	-	-	-	(1,872,099)	(1,872,099)
Contributions by and distributions to owners					
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	-
Total contributions by and distributions to owners	221,111	1,582,888	(59,758)	163,955	1,908,196
Balance at 31 December 2015	**996,111**	**6,037,175**	**529,292**	**(6,134,524)**	**1,428,054**

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

Cash Flow Statement
for the year ending 31 December 2016

	Notes	2016 £	2015 £
Cash flows used in operating activities			
Net cash used in operating activities	1	**(1,334,065)**	(1,394,277)
Cash flows used in investing activities			
Purchase of intangible fixed assets		**(448,575)**	(512,552)
Purchase of property, plant and equipment		**(1,833)**	(668)
Interest received		**3,273**	10,162
Investment in subsidiary		**(600)**	(250)
Net cash used in investing activities		**(447,735)**	(503,308)
Cash flows from financing activities			
Proceeds of share issue		**2,527,140**	1,879,449
Expenses of share issue		**(151,482)**	(75,450)
Net cash from financing activities		**2,375,658**	1,803,999
Increase / (decrease) in cash and cash equivalents		**593,858**	(93,586)
Cash and cash equivalents at beginning of year		**1,114,052**	1,207,638
Cash and cash equivalents at end of year		**1,707,910**	1,114,052

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 2016

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

	2016	2015
	£	£
Loss before taxation	**(1,730,606)**	(1,872,099)
Investment income	**(3,928)**	(11,443)
Share based payment	**168,135**	104,197
Depreciation	**3,838**	5,420
Amortisation	**3,798**	1,853
Impairment of intangibles	**318,407**	336,790
	(1,240,356)	(1,435,282)
(Increase)/decrease in other receivables	**(54,679)**	86,298
Decrease in trade and other payables	**(39,030)**	(45,293)
Cash used in operations	**(1,334,065)**	(1,394,277)

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

Notes to the Financial Statements
for the year ending 31 December 2016

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 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 fourth quarter of 2017. Further funding will 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.

On this basis the Directors believe that the necessary funds to fund operations will be raised as required and accordingly they are confident that the company will continue as a going concern and have prepared the financial statements on that basis. Should the company be unable to raise the necessary finance, it may be unable to realise its assets and discharge its liabilities in the normal course of business. These circumstances indicate the existence of material uncertainty which may cast significant doubt over 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 not able 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. None of the new amendments have had a significant effect.

New/revised International Financial Reporting Standards		Effective Date	EU adopted
	Annual Improvements to IFRSs (2012 -2014 Cycle)	1 January 2016	Yes
IAS 1	Disclosure Initiative – Amendments	1 January 2016	Yes
IAS 16 & IAS 38	Clarification of Acceptable methods of depreciation and amortisation – Amendments	1 January 2016	Yes

Notes to the Financial Statements
for the year ending 31 December 2016

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: Annual periods beginning on or after	EU adopted	Impact on Company
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2018	Yes	Classification and measurement of financial instruments – currently not expected to have a material impact
IFRS 16	Leases	1 January 2019	No	Recognition and measurement of leases - currently not expected to have a material impact
IFRS 15	Revenue from contracts with customers	1 January 2018	Yes	Not expected to have a material impact on the company in the foreseeable future

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 expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

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

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

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

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

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

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

Notes to the Financial Statements
for the year ending 31 December 2016

1. Accounting Policies (continued)

Property, plant and equipment

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

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

Computer equipment	33%
Fixtures and Fittings	20-25%

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

Intangible assets

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

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

Impairment

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

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

The recoverable amount of assets is the greater of their value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The Company's cash-generating units are the smallest identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

Operating leases

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

Provisions

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

Exploration and evaluation assets

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

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

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

Notes to the Financial Statements
for the year ending 31 December 2016

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

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

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

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

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

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

Notes to the Financial Statements
for the year ending 31 December 2016

1. Accounting Policies (continued)

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 balance sheet.

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 18, the Company considers its capital to be total equity.

Foreign Currencies

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

Critical accounting estimates and judgements

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

1) **Impairment of exploration and evaluation assets**

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

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

2) **Depreciation 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 2016

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

	2016 £	2015 £
Wages and salaries	**662,331**	706,676
Social security costs	**69,979**	71,279
Share-based payments	**168,135**	104,197
	900,445	882,152

	2016	2015
The average monthly number of employees during the year / period was as follows:		
Directors	**7**	8
Administrative	**4**	4
	11	12

Directors' remuneration

	2016 £	2015 £
Directors' remuneration:		
Salaries and fees	**523,382**	512,550
Social security costs	**61,863**	63,035
Share-based payments	**168,135**	104,197
	753,380	679,782

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 £219,528 (2015: £229,410).

4. Loss before Taxation

	2016 £	2015 £
The loss before tax is stated after charging:		
Other operating lease rentals – land and buildings	**83,282**	83,496
Amortisation of software assets	**3,798**	1,853
Impairment of intangibles	**318,407**	336,790
Depreciation – owned assets	**3,838**	5,420

5. Auditors' Remuneration

	2016 £	2015 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	**14,500**	14,500
Fees payable to the Company's auditors for other services	**3,875**	4,300

Notes to the Financial Statements
for the year ending 31 December 2016

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:

	2016 £	2015 £
Loss on ordinary activities before taxation	**(1,730,606)**	(1,872,099)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (20%) (2015: 20.25%)	**(346,121)**	(379,100)
Effects of:		
Depreciation in excess of capital allowances	**300**	838
Expenses not deductible for tax purposes	**2,744**	3,893
Adjustment in relation to share based payment	**33,627**	21,100
Unrelieved losses carried forward	**309,450**	353,269
Taxation expense	**-**	-

A deferred tax asset in respect of trading losses of £7,333,376 (2015: £5,786,125) and share based payments of £582,193 (2015: £509,615) has not been recognised due to the uncertainty and timing of future profits. The unrecognised deferred tax asset of £1,583,114 (2015: £1,274,887) 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 50,096,901 (2015: 28,540,000) share incentives outstanding at the end of the year that could potentially dilute basic earnings per share in the future.

Basic and diluted loss per share

	2016	2015
Loss per share from continuing operations	**(0.70)p**	(1.00)p

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

	2016 £	2015 £
Loss used in the calculation of total basic and diluted loss per share	**(1,730,606)**	(1,872,099)

Number of shares

	2016 Number	2015 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**246,340,146**	186,621,996

Notes to the Financial Statements
for the year ending 31 December 2016

8. Intangible Assets

	Exploration & Evaluation Assets £	Software Licences £	£
Cost			
At 1 January 2015	250,779	7,376	258,155
Additions	512,472	80	512,552
At 31 December 2015	763,251	7,456	770,707
Additions	438,062	10,513	448,575
At 31 December 2016	**1,201,313**	**17,969**	**1,219,282**
Amortisation			
At 1 January 2015	-	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
Charge for year	-	3,798	3,798
Impairment	318,407	-	318,407
At 31 December 2016	**655,197**	**9,587**	**664,784**
Net Book Value			
At 31 December 2016	**546,116**	**8,382**	**554,498**
At 31 December 2015	426,461	1,667	428,128
At 1 January 2015	250,779	3,440	254,219

In the course of 2016 the Company's Southern North Sea licences P2259, P2261 and P2253 were relinquished. Accordingly, the carrying value of these assets was impaired by £318,407 down to £nil. The net book value of exploration and evaluation assets at 31 December 2016 relates solely to the Company's two remaining North Sea Licences, P2252 and P2248.

9. Property, Plant and Equipment

	Fixtures and Fittings £	Computer Equipment £	Total £
Cost			
At 1 January 2015	5,692	17,037	22,729
Additions	399	269	668
At 31 December 2015	6,091	17,306	23,397
Additions	209	1,624	1,833
Disposals	-	(17,105)	(17,105)
At 31 December 2016	**6,300**	**1,825**	**8,125**
Depreciation			
At 1 January 2015	1,745	10,342	12,087
Charge for year	889	4,531	5,420
At 31 December 2015	2,634	14,873	17,507
Charge for year	929	2,909	3,838
Disposals	-	(17,105)	(17,105)
At 31 December 2016	**3,563**	**677**	**4,240**
Net Book Value			
At 31 December 2016	**2,737**	**1,148**	**3,885**
At 31 December 2015	3,457	2,433	5,890
At 1 January 2015	3,947	6,695	10,642

Notes to the Financial Statements
for the year ending 31 December 2016

10. Investment in Subsidiary

	2016 £	2015 £
Investment in subsidiary	**1,101**	501

On 1 October 2013, the Company incorporated a subsidiary, Cluff Energy (Scotland) Limited, a company incorporated in Scotland at 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ. 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 2016 fees were paid on behalf of Cluff Energy (Scotland) Limited totalling £600 (2015: £250).

11. Trade and Other Receivables

	2016 £	2015 £
Current:		
Other receivables	**68,187**	22,997
Rental deposit	**53,688**	-
Amounts receivable from related parties	**21,774**	21,119
Prepayments	**53,075**	43,586
	196,724	87,702
Non-current:		
Rental deposit	**-**	53,688
Total Receivables	**196,724**	141,390

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £21,774 (2015: £21,119). 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 is repayable to the Company on the expiry of the lease on 31 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 2016		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	**199,222,332**	**996,111**
Issue of shares		**130,171,200**	**650,856**
At end of the year	Ordinary shares of 0.5 pence each	**329,393,532**	**1,646,967**

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

On 6 April 2016, the Company announced that it had conditionally raised approximately £727,000, before expenses, through the aggregate placing and subscription of 58,171,200 new ordinary shares at 1.25 pence per share.

On 4 November 2016, the Company announced that it had conditionally raised approximately £1.8 million, before expenses, through the aggregate placing and subscription of 72,000,000 new ordinary shares at 2.5 pence per share.

Notes to the Financial Statements
for the year ending 31 December 2016

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 and warrants issued.
Accumulated 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.

14. Trade and Other Payables

Current:	2016 £	2015 £
Trade payables	**60,096**	175,635
Social security and other taxes	**23,278**	21,485
Other payables and accruals	**139,503**	64,787
	222,877	261,907

15. Operating Lease Arrangements

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

Land and Buildings:	2016 £	2015 £
Less than one year	**37,283**	89,480
Between one and five years	**-**	37,283

During the year £83,282 (2015: £83,496) was recognised as an expense in the income statement in relation to the operating lease.

16. Related Party Disclosures

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

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

£42,420 was loaned to Cluff Africa Associates UK Limited (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 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 is £50,000. Interest is charged at a rate of 3% per annum on the outstanding balance. As at 31 December 2016 the outstanding loan balance was £21,774 (2015: £21,119).

Fees were paid to MDOIL, a company controlled by C Matchette-Downes, during the year on an arms-length basis for consultancy services relating to the development of the Company's conventional oil and gas assets. Such fees totalled £50,610 (2015: £83,811), as disclosed in the Directors' Remuneration Report and for other services and disbursements totalled £2,581 (2015: £6,734).

Notes to the Financial Statements
for the year ending 31 December 2016

17. Financial Instruments

Classification of financial instruments

The fair value hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Principal financial instruments

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

	2016	2015
	£	£
Financial Assets		
Cash and cash equivalents – all amounts held in Sterling	**1,707,910**	1,114,052
Rental deposit	**53,688**	53,688
Related party loan receivable	**21,774**	21,119
Other receivables	**5,029**	9,697
	1,788,401	1,198,556
Financial Liabilities		
Trade Payables	**60,096**	175,635
Other payables & accruals	**139,503**	64,787
	199,599	240,422

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.

Financial Statements 15/33

Notes to the Financial Statements
for the year ending 31 December 2016

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 (A2 and A3) 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.

Liquidity risk
During the year ended 31 December 2016, 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 2016 and 31 December 2015 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 -6 months £
At 31 December 2016			
Trade payables	**60,096**	**60,096**	**-**
Other payables & accruals	**139,503**	**-**	**139,503**
	199,599	**60,096**	**139,503**
At 31 December 2015			
Trade payables	175,635	175,635	-
Other payables & accruals	64,787	-	64,787
	240,422	175,635	64,787

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 2016 following equity fundraisings in April and November 2016. Based on the cash balance at year end and the Company's commitments, the Company has adequate financial resources to cover its budgeted exploration and development programme until the fourth quarter of 2017. 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 2016

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. 25,556,901 options were granted during the year to 31 December 2016 under the scheme (2015: 2,000,000) and 4,000,000 options expired.

The Company recognised a total expense of £168,135 in the year ended 31 December 2016 (2015: £104,197) in respect of share-based payments for share options.

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

Black Scholes Model	23 January 2013
Share Price	5.12p
Exercise price	8p
Expected Volatility	65.03%
Risk Free Rate of Interest	1.0018%
Expected Dividend Yield	0.00%
Expected Life	5.5 years
Number of options issued	2,000,000

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	10 June 2016	10 June 2016
Share Price	4.00p	4.00p	1.33p	1.33p
Exercise price	4.00p	4.00p	1.33p	1.33p
Expected Volatility	59.89%	59.89%	60.73%	60.73%
Risk Free Rate of Interest	1.3398%	1.3398%	0.7353%	0.7353%
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	1,000,000	1,000,000	12,778,451	12,778,450

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 2016

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

Year ended December 2016	Number of options	WAEP p
Outstanding at the beginning of the year	**19,200,000**	**4.51**
Issued	**25,556,901**	**1.33**
Exercised	**-**	**-**
Forfeited / cancelled	**(4,000,000)**	**5.13**
Outstanding at the year end	**40,756,901**	**2.46**
Number exercisable at 31 December 2016	**7,600,000**	**4.89**

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
Exercised	-	-
Forfeited / cancelled	-	-
Outstanding at the year end	19,200,000	4.51
Number exercisable at 31 December 2015	6,000,000	6.04

The number of warrants at 31 December 2015 and 2016 are set out below:

	2015	2016	Weighted Average Exercise Price (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**
	9,340,000	**9,340,000**	**5.00**

The Company recognised an expense of £nil in respect of warrants granted in the year ended 31 December 2016 (2015: £nil).
The following Warrants are in issue at 31 December 2016:

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. JG Cluff may exercise the warrants to subscribe for Ordinary shares at any time during the exercise period which ends 22 May 2017. The existing warrants are not transferable except with the prior written consent of the Company.

20. Post Balance Sheet Events
On 10 May 2016, the Company announced that it had entered into an option with Verus Petroleum (SNS) Ltd ("Verus") to acquire a 25% interest in licences P1944 (Block 14/20e) and P2156 (Block 15/11 & 16f) located in the Outer Moray Firth which contain the Fynn and Penny prospects (the "Option") which was exercisable within a period of nine months. On 13 February 2017, the Company announced that, due to uncertainty as to the likely timing of any drilling activity on this licence, the Company did not exercise the Option and accordingly, the Option lapsed.

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 Wednesday 31 May 2017 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 2016 together with the report of the auditors thereon.
2. To re-elect Graham Swindells as a director of the Company.
3. To re-elect Mark Lappin 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:
21 April 2017

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 26 May 2017 (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, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR. 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, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR, 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 31 May 2017 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 26 April 2017 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 329,393,532 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 26 April 2017 was 329,393,532.

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 2016. 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, Graham Swindells and Mark Lappin are retiring and offering themselves for re-election under this provision.

   Biographical details of all of the directors are set out on page 6 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 31 May 2017 at 10.30 a.m. and at any adjournment thereof.

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

Resolutions	**For**	**Against**	**Vote withheld**
1. To receive and adopt the annual accounts and reports of the directors and auditors thereon.	☐	☐	☐
2. To re-elect Graham Swindells as a director of the Company.	☐	☐	☐
3. To re-elect Mark Lappin 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 ______________ 2017

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.

   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, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received by no later than 10.30 a.m. on 26 May 2017.
7. Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
8. 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)
P N Cowley (Non-Executive)
The Earl De La Warr DL. (Non-Executive)
Mark Lappin (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 & 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
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

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+44 (0)20 7251 7720 / www.effektiv.co.uk

Cluff Natural Resources Plc
Third Floor
5-8 The Sanctuary
London
SW1P 3JS
United Kingdom
+44 (0)20 7887 2630

www.cluffnaturalresources.com