

Cluff Natural Resources Plc
Annual Report & Accounts 2017



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 oil and gas exploration and appraisal. The Company currently holds a 100% interest in two gas licences in the Southern North Sea. In 2017 the Company made significant progress with its North Sea assets which contain estimated P50 prospective gas resources of 2.4 TCF.

Strategy

Secure investment to drill wells on both of the Company's licences

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) Licensing Round.

Enhance asset base

Ongoing subsurface work to continue to upgrade and de-risk existing prospects.

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
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
November 2017	Licences extended
November 2017	Applications submitted for additional licences in the UK's 30 th Licensing Round

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 20p/share)
- Basset Bunter Prospect – risked EMV of £69.0m (equates to 16p/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.



Strategic Report

- 01 Chairman's Statement
- 02 Chief Executive's Statement
- 03 Operational Review
- 07 Financial Review
- 08 Business Risks
- 09 Investing Policy

Corporate Governance

- 10 Board of Directors
- 11 Report of the Directors
- 14 Statement of Directors' Responsibilities
- 15 Independent Auditor's Report

Financial Statements

- 18 Income Statement
- 18 Statement of Comprehensive Income
- 19 Balance Sheet
- 20 Statement of Changes in Equity
- 21 Statement of Cash Flows
- 22 Notes to the Statement of Cash Flows
- 23 Notes to the Financial Statements

Shareholder Information

- 38 Notice of Annual General Meeting
- 40 Explanatory Notes to the Notice of Annual General Meeting
- 41 Form of Proxy

Chairman's Statement

It is chilling to reflect that only ten years ago the UK was a net exporter of energy whereas now we are evidently highly vulnerable to changes in the climate, be it physical or political. As it happens, recent bad weather and tensions with Russia have delivered a wake-up call to the UK that we are close to crisis. It is otiose to apportion blame. Now is the time for action. Our island's characteristics provide an equation which will protect us in extremis with energy supply options ranging from subsidised renewables, solar and wind power, to the gasification of coal. However, it is the Southern North Sea which contains huge quantities of undiscovered gas with an infrastructure in place which is the envy of many countries, most obviously China. The 30th round of licensing awards due this quarter will herald the renaissance of this our most valuable energy asset.

It is my aim that shareholders' patience will be rewarded during the second quarter of this year by securing investment to provide for one or more wells to be drilled on our Southern North Sea Licences and by the award, to us, of additional licences for which we applied last November in the 30th round of UK offshore licensing.

We leave no stone unturned in our endeavour to obtain a partner(s) for our licences in the Southern North Sea. With the exception of the Jersey Oil & Gas farm-out to Statoil (which resulted in a significant oil discovery last year), there have been limited farm-outs achieved not only offshore the UK but throughout the World. The situation in the North Sea is however improving and is likely to improve further after the 30th round awards have been made as many companies, in my judgement, will continue to adopt a prudent attitude to their exploration budgets until they know the outcome of the round and how successful or not they have been. Thus, funds for exploration should be liberated in the event of some of the larger applicants securing less exposure than they had anticipated.

Our applications are significant and, I believe, well thought out and coherently presented. All matters pertaining to the round are of course *sub judice* whilst the UK Oil & Gas Authority are monitoring and vetting the applications and the applicants, but I can say that, should our applications be largely recognised, we shall instantly be proprietors of a significant amount of highly prospective North Sea acreage and additional prospective resources.

As you may have read, in February 2018 I announced my decision to step down as Chief Executive to allow time to develop other interests, notably the formation of a new charity and the authorship of more books. These activities, however, will not be at the expense of my determination, as Chairman, to oversee our duty to shareholders by translating the above objectives into reality.

J G Cluff
Chairman

27 April 2018

Chief Executive's Statement

2017 has been another year of significant progress and investment for the Company as we work towards our stated aim of drilling wells and ultimately becoming one of the UK's leading independent oil and gas companies focusing on exploration and appraisal.

From a technical perspective, Andrew Nunn and his team have achieved a great deal as a result of the extensive technical work they have carried out on our licences. This has resulted in a significantly enhanced understanding of the various prospects on our portfolio of licences, increasing the chances of geological success on both the Bunter and Carboniferous prospects. Most of this work has been completed such that our key prospects are now effectively drill ready.

From an economic perspective, in April 2017 an independent scoping and economic study was carried out on two of our prospects on Licence P2248. These prospects, the Bassett Bunter prospect and the Scremerston Carboniferous prospect were two of the smaller prospects, but nonetheless demonstrated extremely robust economics. This study also indicated an implied extrapolated NPV (just for P2248) of £697m. These economics are further enhanced bearing in mind UK gas prices have increased by over 30% since this work was carried out.

The farm-out process commenced formally in early 2017 and this process has undoubtedly taken longer than originally anticipated. The farm-in market has, with one or two exceptions, remained subdued throughout 2017 with exploration budgets amongst major operators still limited after a prolonged period of depressed oil and gas prices. However, with a sustained recovery in prices, coupled with the dramatically reduced costs of operating in the North Sea as the UK industry has successfully restructured itself, we have started to see signs of renewed interest in the sector and, in particular, the North Sea. We have experienced a significant level of interest in our data room and remain in dialogue with a number of parties. In parallel with the farm-out process, the Company is also exploring various additional forms of financing which will support its ultimate aim of drilling one or more wells on these licences in 2019.

At the end of November 2017, the Company announced that the Oil & Gas Authority had granted an extension to the Promote Period and the Initial Term of P2248 and P2252 to 30 November 2018, subject to a number of technical and commercial milestones including a farm-out being achieved by 31 May 2018 and a drill or drop decision being made by 30 September 2018. The Company is confident that it will meet the technical milestones and has received interest from a number of parties in respect of the farm-out process. If, however, a farm-out of either licence is not concluded before 31 May 2018, the Company will, as it has done in the past, seek a deferral of this milestone from the Oil & Gas Authority to allow further time to secure the necessary funding to commit to drilling.

In November 2017, the Company made a substantial application for additional licences in the UK's latest (30th) offshore licensing round. These applications, over multiple blocks, build on the Company's core competencies and are focussed primarily on the Southern North Sea. The blocks applied for contain a number of drilled discoveries, undrilled prospects and leads and, if awarded, have the potential to build scale, further diversifying the portfolio and significantly enhancing the Company's resource base. Awards are expected to be made before the end of the second quarter of 2018.

In April 2018, the company raised an additional £750,000, primarily from institutional investors which will fund the Company to mid Q4 2018. Over the coming months, the Company intends to commence evaluation of any additional licences awarded in the 30th offshore licensing round, including estimated prospective resource volumes associated with any new licences. It will also continue the process to secure farm-in partner(s) and/or strategic investors. Geological and technical work on P2248 will be completed and at the same time the Company will continue to develop well designs and planning in anticipation of a prospective multi-well drilling programme in 2019 on key exploration targets.

The Company has a strong foundation, with a substantial prospective resource base of 2.4 TCF of gas, equivalent to 400 million barrels of oil as well as having the opportunity, if successful in the 30th licensing round, to significantly enhance and diversify that resource base. Each of the licences are held 100%, contain multiple prospects and are located close to existing infrastructure in a proven gas basin which has enjoyed significant exploration success in recent years. While there is always more that could be done to support investment in exploration, in the UK we are fortunate to have flexible and effective regulators in the Oil & Gas Authority and a favourable (top quartile globally) fiscal regime which makes the UK North Sea an attractive place in which to invest.

We remain an agile, low cost company with no debt and with a sustained recovery in oil and gas prices coupled with a significant reduction in exploration costs, we believe now is a perfect time to be investing in drilling in the North Sea.

Graham Swindells
Chief Executive Officer

27 April 2018

Operational Review

The year saw significant investment in our existing Southern North Sea assets which focused on a deeper understanding of the key risk factors associated with each of the prospects and defining the operational parameters for a future drilling campaign. This included commencement of the re-processing of seismic data over Licence P2248, as agreed with the Oil and Gas Authority during the licence extension process, and scoping a potential new 3D survey over the Pensacola prospect on Licence P2252.

P2248 – Cadence Prospect

The Cadence prospect is a large dip and fault sealed structure with much of the resource upside being reliant on cross-fault seal. Given this is the key risk associated with the prospect the technical work undertaken during 2017 focused on this element of the prospect and included a revised structural interpretation focusing on fault linkages, a fault seal analysis study which looked at potential hydrocarbon column heights held within the larger structure and an internal study which reviewed the relative timings of fault reactivation and hydrocarbon charging events. The outcome of this work has been a positive revision of the prospect risking, especially within the Scremerston Formation, for which the modelling work indicates that modest faults can effectively retain hydrocarbon columns of several hundred metres.

The additional work around fault seal and hydrocarbon charge timing has allowed us to significantly increase the geological chance of success (GCoS) associated with the Cadence prospect, lifting the GCoS for the Scremerston interval from 18% to 26% and from 9% to 16% for the Fell Sandstone interval.

Licence P2248 – Bunter Sandstone Prospects

During the year the Company completed a rock physics study and trial reprocessing, including a pre-stack inversion, of the existing 3D with the aim of confirming the applicability of an Amplitude Versus Offset (AVO) workflow to further define the Bunter Prospects. The rock physics study confirmed a definite 'gas response' was to be expected within the Bunter Sandstone and the AVO analysis of the reprocessed seismic both provided enhanced reservoir definition within the Bunter Sandstone and confirmed that the AVO response over the three Bunter Prospects is analogous to the response observed at the Esmond Gas Field and the Furasta discovery on adjacent blocks.

In conjunction with the AVO work, significant time was spent on the identification of potential migration pathways for gas from its sources in the underlying Carboniferous, through the regional Zechstein seal and into the overlying Bunter Sandstone which is considered to be a key risk associated with this play. This resulted in the identification of a significant gas chimney directly linking the Carboniferous with the prospects within the licence area and the presence of the Tertiary dyke complex to the North East of the prospects which is one of the proposed migration routes for the Esmond Gas Field.

This initial work has allowed us to redefine the risks associated with the Bassett and Bathurst prospects, with GCoS increasing to 37% and 22% respectively and we anticipate a similar uplift in the GCoS associated with the Beckett prospect once the reprocessing and AVO workflow is propagated out into the full 3D seismic volume.

P2252 – Pensacola Prospect

The focus of technical work on P2252 has been on enhancing our understanding on the Pensacola Z2 Zechstein reef prospect, especially with respect to production analogues, regional setting and potential for follow-on opportunities on adjacent acreage. Halliburton had previously completed a seismic inversion study on the Lytham-Fairhaven prospect based on the Marathon 3D, which images the southern third of the Pensacola prospect, with work ongoing to integrate the outputs of this inversion study into our geological model for Pensacola.

A potential alternative work programme which includes the acquisition of a new 3D survey across the entire Pensacola prospect has been agreed with the OGA. This gives optionality going forward and the new 3D survey may be undertaken either prior to drilling the initial exploration well into the prospect or post the initial well to aid future development operations if the initial well demonstrates the presence of commercial quantities of gas.

Operational Review

continued

Licence and Resource Summary

The Company's current licence portfolio and prospect inventory, as of March 2018, is summarised below:

Licence	Prospect	Reservoir Formation	GIIP Range (BCF)	Prospective Resources (BCF) CoS %				
			P90 - P10	P90	P50	Mean*	P10	
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

Licence Extensions

In August 2017, we requested an extension of the current licences into their fourth year and these extensions were duly granted by the Oil and Gas Authority in November 2017. As highlighted at the time, these extensions were subject to a series of technical and commercial milestones to be met during the coming year.

The key dates imposed by the OGA are to conclude the farm-out discussions by 31st May, or secure alternative funding, which would allow drilling of a well on P2248 and the acquisition of new 3D seismic across the Pensacola prospect on P2252. Final Drill or Drop decisions for both licences are required by 30th September 2018.

Farm-out

The global farm-out market remained challenging during 2017 with less than one farm-out per month being completed worldwide and a reduction in the value of the of the deals being offered. However, with oil prices in excess of \$70 a barrel and a UK NBP gas price of \$7MMBtu, there has been a significant increase in asset level deal activity since the final quarter of 2017. This enhanced deal activity coincided with a renewed interest in the North Sea from new entrants being attracted to the basin on the back of significantly reduced lifting costs, an enhanced fiscal regime and the 30th Offshore Licensing Round.

To capitalize on this renewed interest in the North Sea, the Company engaged ENVOI Ltd, a specialist upstream asset marketing firm, to assist with marketing the existing assets on a global scale. We have an ongoing dialogue with many of the companies who have been involved in the data room process, however it is clear that achieving the best possible outcome for the licences requires a strong element of competitive tension. If, however, a farm-out of either licence is not concluded before 31 May 2018, the Company will, as it has successfully done in the past, seek a deferral of this milestone from the UK Oil & Gas Authority.

While the farm-out process remains the preferred route to funding future drilling, the Company continues to consider alternative ways of ensuring the proposed drilling activity is funded within the timelines set out by the OGA. The options being considered in addition to farm-out include using an element of equity in licences to offset drilling and service contractor costs and potentially entering into innovative deals that will result in cash payments on well completion (i.e. bottom-hole contributions) or agreeing an option to purchase with established Operators prior to undertaking well operations.

Operational Review

continued

30th Offshore Licensing Round

In November 2017, the Company submitted a number of applications for new licences in the UK's 30th Offshore Licensing Round. The Company has leveraged its deep technical understanding of the key plays on our existing acreage to identify a number of highly prospective blocks around our core acreage, and elsewhere in the UKCS ("UK Continental Shelf"), which will provide a significant funnel of opportunities to support future drilling activity.

The application areas are primarily focused on our core area in the Southern Gas Basin and many blocks contain small existing discoveries which significantly de-risk the exploration potential but may also form viable production opportunities in their own right.

New licence awards are expected to be announced during Q2 2018 and, depending on the extent of licences awarded by the OGA, have the potential to significantly enhance and diversify the Cluff portfolio, both in terms of the scale of resources and geographically.

Future developments

The Company is committed to drilling the existing assets and continues to advance towards a potential multi-well drilling programme commencing in 2019. Whilst a number of hurdles remain to be resolved, the initial well engineering, project schedule, detailed cost estimates and data collection requirements for each prospect are being progressed to ensure as short an interval as possible between finalisation of well funding to drilling operations.

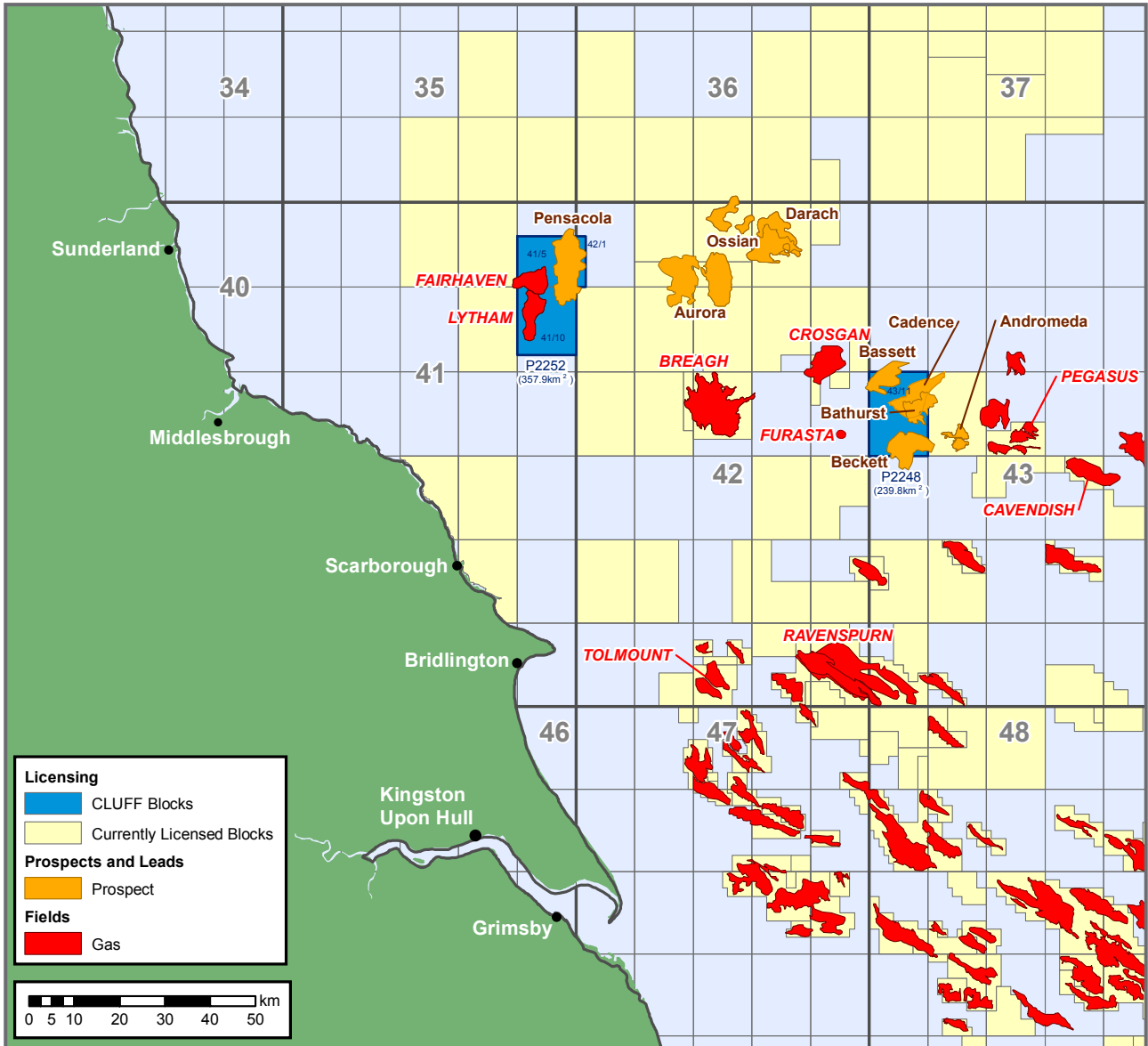
A J Nunn

Chief Operating Officer

27 April 2018

Operational Review

Our Locations - North Sea



598km²
Total area of licences

Financial Review

All major expenditure in the last two years 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 investment strategy, in addition to on-going administrative expenditure.

Loss for the year

The Company incurred a loss for the year to 31 December 2017 of £1,590,203 (2016: £1,730,606) which related primarily to technical and administrative expenditure. The loss for 2017 was less than the previous year primarily because 2016 included an impairment charge of £318,407 in relation to the carrying value of the North Sea gas licences which the Company relinquished that year, whereas no impairment charge was incurred in 2017.

Financial position

The Company's cash position was £1,016,667 at 31 December 2017 (2016: £1,707,910) with the year-on-year decrease in cash being explained below. The increase in intangible assets to £775,351 (2016: £554,498) is mainly due to further investment in the North Sea licences of £223,508. Total liabilities include short-term creditors and accruals, which slightly decreased to £212,539 (2016: £222,877). The decrease in total equity of £514,526 is due to the loss for the year offset by the subscription of new shares, and other movements set out in the Statement of Changes in Equity on page 20.

Cash flow

In the year to 31 December 2017, net cash used in operating activities was £1,428,306 (2016: £1,334,065) and £224,729 was used in investing activities (2016: £447,735) all of which relates to expenditure on exploration assets. This was partially offset by cash received (net of expenses) of £961,792 from the subscription of new ordinary shares in October 2017.

Consequently, in the year to 31 December 2017, the Company experienced a net cash outflow of £691,243 (2016: £593,858 inflow).

Equity fundraising

On 6 October 2017, the Company raised £1,000,000, before expenses, through the subscription of 66,666,667 new ordinary shares of 0.5p each at 1.5 pence per share with new and existing institutional and private investors (the "Subscription"). Admission of the shares to trading on AIM occurred in October 2017. The purpose of this Subscription was to fund the Company to complete the application for additional licences under the UK's 30th Offshore Licensing Round, to allow additional time to seek to complete a farm-out of the Company's two 100% owned gas licences in the Southern North Sea and to continue to pursue additional investment opportunities, as well as for general working capital purposes. At that time, the Company stated that the net proceeds of the Subscription would fund the Company through to at least the middle of Q2 of 2018. Since then, the Company has submitted comprehensive applications for licences in the 30th Offshore Licensing Round and has continued the process of seeking investment from third parties to fund drilling on the Company's two gas licences.

Following the Subscription there were 396,060,199 ordinary shares in issue.

Following a further subscription announced on 20 April 2018, which generated proceeds of £750,000 before expenses, the Company's working capital position is ahead of that stated in October 2017 such that the Company is funded until the middle of Q4 of 2018.

Closing cash

As at 31 December 2017, the Company held cash balances of £1.02 million (2016: £1.71 million).

Shareholders' equity

As at 31 December 2017 there were 396,060,199 (2016: 329,393,532) ordinary shares in issue.

Additionally, a total of up to 40,756,901 (2016: 50,096,901) new ordinary shares may be issued pursuant to the exercise of share options or warrants.

Going concern

The inherent nature of the Company means 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, and following the receipt of £750,000 before expenses from the subscription of shares announced on 20 April 2018, the Company has adequate financial resources to cover its budgeted exploration and development programme until the middle of Q4 of 2018. 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. 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 above.

Graham Swindells Chief Executive Officer

27 April 2018

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
- Failure to secure a farm-out by 31 May 2018 and to reach a drill or drop decision by 30 September 2018, an obligation under the licences which expire on 30 November 2018
- Licences, permits and/or approvals may be difficult to renew or 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 management and the Board

Financial

- Restrictions in capital markets and other sources of funding, 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, may involve restrictions on further financing and operating activities. If adequate funds are not available on acceptable terms, the Company may not be able to take advantage of opportunities, as well as possibly resulting in the delay or indefinite postponement of the Company's activities.

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

Investing Policy

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

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

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

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

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

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

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

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

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

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

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

This strategic report contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil and gas exploration and production business. 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

27 April 2018

Graham Swindells
Chief Executive Officer

27 April 2018

Board of Directors

Algy Cluff

Chairman

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 Plc.

Graham Swindells

Chief Executive Officer

Graham Swindells joined the Company in May 2013 as Chief Financial Officer and became Finance Director later that year. He joined the Company from Ernst & Young where he was a Director in Public Company M&A. Graham graduated from the University of Glasgow with a Bachelor of Accountancy Degree and after qualifying as a Chartered Accountant spent two years at PricewaterhouseCoopers specialising in corporate recovery and restructuring. He subsequently specialised in corporate finance, becoming a director in corporate finance at Arbuthnot securities during which time he focused on advising and broking small and mid-cap public companies across various sectors, but with a particular focus on natural resources. Graham succeeded Algy Cluff as Chief Executive on 1 March 2018.

Andrew Nunn

Chief Operating Officer

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

Peter Nigel Cowley

Non-Executive Director

Peter Cowley is a geologist with over 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 Chief Executive Officer of Banro Corporation and Loncor Resources. He holds M.Sc and MBA degrees and is a Fellow of I.M.M.M. He was also a Non-executive Director of Amara Mining Plc.

Mark Lappin

Non-Executive Director

Mark Lappin has over 35 years of experience in the oil and gas industry. Mark is currently Technical Director at Cuadrilla and prior to that was 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 ended 31 December 2017.

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 2017 (2016: 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 2017 are set out below:

	Ordinary Shares		Share Options		Share Warrants	
	2017	2016	2017	2016	2017	2016
J G Cluff	13,038,502	13,038,502	18,648,709	18,648,709	-	5,000,000
G C Swindells	323,406	323,406	9,654,096	9,654,096	-	-
A J Nunn	235,294	235,294	10,454,096	10,454,096	-	-
P N Cowley	447,059	447,059	-	-	-	-
The Earl De La Warr DL. ²	3,054,901	3,054,901	-	-	-	-
Mark Lappin ¹	-	-	-	-	-	-
	17,099,162	17,099,162	38,756,901	38,756,901	-	5,000,000

1 Appointed 19 December 2016

2 Resigned 25 September 2017

Directors' Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2017 for the individual Directors who held office in the Company during the year.

	2017	2017	2017	2017	2016
	Salary/fees £	Pension £	Benefits in Kind £	Total £	Total £
J G Cluff	200,000	-	22,560	222,560	219,528
G C Swindells	144,083	14,408	2,727	161,218	155,180
A J Nunn	144,083	14,408	2,526	161,017	149,202
P N Cowley	20,000	-	-	20,000	-
The Earl De La Warr DL. ²	15,000	-	-	15,000	-
Mark Lappin ¹	20,343	-	-	20,343	355
	543,509	28,816	27,813	600,138	524,265

1 Appointed 19 December 2016

2 Resigned 25 September 2017

Report of the Directors

continued

Share options and warrants

The following share options table comprises share options and warrants held by Directors who held office during the year ended 31 December 2017:

	Warrants & Options held at 31 December 2016	Options granted in period	Warrants expired in period	Options exercised in period	Warrants & Options held at 31 December 2017	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	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
AJ 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

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 27 April 2018:

Shareholders	Number of Shares	Percent (%)
IPGL	40,625,000	9.17%
Hargreaves Lansdown Nominees Limited	40,439,385	9.13%
Janus Henderson Investors	32,905,500	7.43%
Guinness Atkinson Asset Management	27,487,182	6.21%
Fiske	25,990,000	5.87%
Interactive Investor Trading	25,263,843	5.70%
SVS Securities	23,220,937	5.27%
Lloyd Dorfman	17,372,940	3.92%
Barclays Wealth	14,632,211	3.30%
Lynchwood Nominees Limited	13,300,000	3.00%

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

Effective 28 February 2018, Algy Cluff stepped down from his role as Chief Executive Officer, remaining as Chairman of the Company. As a result, the Company has made a £50,000 gross settlement payment in lieu of termination of his contract as Chairman and Chief Executive in the subsequent period.

On 20 April 2018, the Company announced that it had raised £750,000, before expenses, through the subscription of 46,875,000 new ordinary shares at 1.6 pence per share.

There were no other significant post balance sheet events.

Political Contributions

No payments to political parties have been made during the year (2016: 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 five Directors, of whom two 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, approving remuneration, assessing independence, agreeing the scope of the audit and reviewing the audit findings). The audit committee comprises Mark Lappin 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 Mark Lappin and Peter Cowley and is chaired by Peter Cowley. 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 Regulation (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 8 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.

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

Disclosure of Information to Auditors

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

Auditors

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

On behalf of the Board

Graham Swindells
Chief Executive Officer

27 April 2018

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 (IFRSs) 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 period. 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 (AIM).

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

Opinion

We have audited the financial statements of Cluff Natural Resources Plc (the "Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the statement of cash flows and the related notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of Company's affairs as at 31 December 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Material uncertainty relating to 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. These indicate that additional funds will need to be raised to finance the Company's budgeted exploration and development programme and to enable the Company to meet its other operational obligations as they fall due beyond the middle of Q4 2018. 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 any adjustments that would result if the Company was unable to continue as a going concern.

We have identified going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.

As at 31 December 2017 the Company had cash reserves of £1.0m. As set out in note 1, the cash flow forecasts prepared by the Directors indicate that the Company will require additional funding during November 2018. As described above, this indicates a risk over going concern.

Our audit procedures in response to this key audit matter included the following:

- A review of Management's assessment that going concern is an appropriate basis of preparation;
- A review of the latest cash flow forecasts for the Company which include the twelve months from the date of approval of these financial statements;
- Challenging and corroborating Management's assumptions included in the cash flow forecasts particularly around whether the work commitments are appropriately costed and consistent with the budgeted licence work programme; and
- Discussing with Management how they intend to raise the funds necessary for the Company to continue as a going concern, in the required timeframe and considering this in light of the Company's previous fundraising.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Carrying value of exploration assets

The Company's exploration assets associated with the two licences, P2252 and P2248, represent the key assets on the Company's statement of financial position. During the year additions of £0.2m were capitalised and at 31 December 2017 the Company's exploration assets totalled £0.8m (2016: £0.6m). (Refer to note 8)

During the year the Company obtained an extension to the licences through to November 2018. As part of the extension the Oil & Gas Authority ("OGA") set out various licence obligations which include successfully securing a farm-out by 31 May 2018 and which ultimately tasks the Company with making a drill or drop decision by 30 September 2018.

Independent Auditor's Report

continued

Key audit matter (continued)

Carrying value of exploration assets (continued)

Management performed an impairment indicator review in accordance with accounting standards to assess whether there were any indicators of impairment for the exploration assets and whether impairment was appropriate, noting that the Company would need to satisfy its licence obligations or further extend the licences beyond November 2018 with the OGA. Following this assessment, the Board concluded that no impairment was required, as set out in note 1.

Given the inherent judgement involved in the assessment of the carrying value of the exploration assets, we considered the carrying value of exploration assets to be a significant risk for our audit. In particular, the determination that the Company will satisfy the current licence obligations and/or further extend the licences past November 2018, represented a key judgement by the Board and a focus for our audit.

How we addressed the key audit matter:

- We agreed a sample of costs capitalised in the year to third party documentation and considered whether they met the criteria for capitalisation under the Company's policies and accounting standards.
- We reviewed the licence documentation to satisfy ourselves that the licences remain valid, as well as to confirm the dates of expiry and licence obligations.
- We evaluated management's impairment indicator review performed in accordance with IFRS 6. In doing so we considered factors such as: the licence status and expiry date together with the history of licence extensions; the required work programme including the associated commitments and obligations; and internal and external feasibility studies. We considered the progress of the Company's technical work to date, together with budgeted works, against the licence extension obligations and due dates.
- We critically assessed the judgement that the technical work conducted on the projects to date is sufficient to meet the licencing authority's criteria for extending the licences past their current expiry date. This included agreeing a sample of specific work performed to date to third party documentation, whilst also considering this against the licence commitments and budgeted works.
- We assessed management's judgment that, in the event of a farm-out opportunity not being secured by 31 May 2018, the Company had a reasonable expectation of being able to secure extension of the licences based on the work performed to date, the steps taken to secure a farm-out, the ongoing relationship with the licencing authority and the past history of licence renewals.
- We considered the adequacy of the disclosures made in the financial statements to ensure that this was consistent with both the conclusions from our audit testing and accounting standards.

Our findings:

We found management's assessment that there were no indicators of impairment at the reporting date to be appropriate. In particular, we found the key judgments noted above regarding the licence extension to be acceptable.

We found the disclosures in the financial statements to be relevant and informative.

Our application of materiality

	Materiality for FY 2017	Basis for materiality
FY 2017	£34,000	1.75% of total assets
FY 2016	£49,000	2.0% of total assets

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We consider total assets to be the financial metric of the most interest to shareholders and other users of the financial statements given the Company's status as an oil and gas exploration company and therefore consider this to be an appropriate basis for materiality.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £25,500 (2016: £36,750) which represents 75% (2016 75%) of the above materiality levels.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £1,700 (2016: £2,500). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds. There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Cluff Natural Resources Plc is a company registered in the UK and listed on the Alternative Investment Market Exchange. Our audit strategy involved a full scope audit of the Company whose principal operations and corporate head office function is located in the UK. We set out above the risks that had the greatest impact on our audit strategy and scope.

Independent Auditor's Report

continued

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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.

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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ryan Ferguson (Senior Statutory Auditor)

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

27 April 2018

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

Income Statement

for the year ended 31 December 2017

Continuing Operations	Notes	2017 £	2016 £
Administrative expenses:			
Impairment of exploration and evaluation assets	8	-	(318,407)
Other administrative expenses		(1,591,701)	(1,416,127)
Total administrative expenses		(1,591,701)	(1,734,534)
Operating Loss		(1,591,701)	(1,734,534)
Finance income		1,498	3,928
Loss Before Tax	4	(1,590,203)	(1,730,606)
Income tax expense	6	-	-
Loss for the year		(1,590,203)	(1,730,606)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	(0.46)p	(0.70)p

Statement of Comprehensive Income

for the year ended 31 December 2017

	2017 £	2016 £
Loss for the year	(1,590,203)	(1,730,606)
Other Comprehensive Income	-	-
Total Comprehensive Expense for the year attributable to the equity holders of the Company	(1,590,203)	(1,730,606)

Balance Sheet

as at 31 December 2017

	Notes	2017 £	2016 £
Assets			
Non-current Assets			
Intangible assets	8	775,351	554,498
Property, plant and equipment	9	4,350	3,885
Investment in subsidiary	10	-	1,101
Other receivables	11	53,688	-
		833,389	559,484
Current Assets			
Other receivables	11	89,198	196,724
Cash and cash equivalents		1,016,667	1,707,910
		1,105,865	1,904,634
Total Assets		1,939,254	2,464,118
Capital and reserves attributable to the equity holders of the Company			
Shareholders' Equity			
Share capital	12	1,980,300	1,646,967
Share premium		8,390,436	7,761,977
Share-based payment reserve	19	627,838	582,193
Accumulated retained deficit		(9,271,859)	(7,749,896)
Total Equity		1,726,715	2,241,241
Liabilities			
Current Liabilities			
Trade and other payables	14	212,539	222,877
Total Liabilities		212,539	222,877
Total Equity and Liabilities		1,939,254	2,464,118

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 27 April 2018 and were signed on its behalf by:

Graham Swindells
Chief Executive Officer

The notes on pages 23 to 36 form part of the financial statements.

Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £	Share premium £	Share-based payment reserve £	Retained deficit £	Total equity £
Balance at 1 January 2017	1,646,967	7,761,977	582,193	(7,749,896)	2,241,241
Comprehensive income for the year					
Loss for the year	-	-	-	(1,590,203)	(1,590,203)
Total comprehensive loss for the year	-	-	-	(1,590,203)	(1,590,203)
Contributions by and distributions to owners					
Issue of share capital	333,333	666,667	-	-	1,000,000
Expenses of issue	-	(38,208)	-	-	(38,208)
Share-based payment	-	-	113,885	-	113,885
Lapsed warrants	-	-	(68,240)	68,240	-
Total contributions by and distributions to owners	333,333	628,459	45,645	68,240	1,075,677
Balance at 31 December 2017	1,980,300	8,390,436	627,838	(9,271,859)	1,726,715
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

Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 £	2016 £
Cash flows used in operating activities			
Net cash used in operating activities	1	(1,428,306)	(1,334,065)
Cash flows used in investing activities			
Purchase of intangible assets		(223,508)	(448,575)
Purchase of property, plant and equipment		(2,329)	(1,833)
Interest received		1,498	3,273
Investment in subsidiary		(390)	(600)
Net cash used in investing activities		(224,729)	(447,735)
Cash flows from financing activities			
Proceeds of share issue		1,000,000	2,527,140
Expenses of share issue		(38,208)	(151,482)
Net cash from financing activities		961,792	2,375,658
(Decrease) / increase in cash and cash equivalents		(691,243)	593,858
Cash and cash equivalents at beginning of year		1,707,910	1,114,052
Cash and cash equivalents at end of year		1,016,667	1,707,910

The notes on pages 23 to 36 form part of the financial statements.

Notes to the Statement of Cash Flows

for the year ended 31 December 2017

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

	2017 £	2016 £
Loss before tax	(1,590,203)	(1,730,606)
Investment income	(1,498)	(3,928)
Share-based payment	113,885	168,135
Depreciation	1,864	3,838
Amortisation	2,655	3,798
Impairment of investment in subsidiary	1,491	-
Impairment of intangibles	-	318,407
	(1,471,806)	(1,240,356)
Decrease/(increase) in other receivables	53,838	(54,679)
Decrease in trade and other payables	(10,338)	(39,030)
Cash used in operations	(1,428,306)	(1,334,065)

Notes to the Financial Statements

for the year ended 31 December 2017

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, and following the receipt of £750,000 before expenses from the subscription of shares announced on 20 April 2018, the Directors are of the opinion that the Company has sufficient funds to cover its budgeted exploration and development programme and to meet its other operational obligations as they fall due until the middle of the fourth quarter of 2018. The Directors acknowledge that additional funds will be required to be raised to finance the Company's budgeted exploration and development programme and to meet its other operational obligations as they fall due beyond the middle of Q4 2018. These funds will need to be raised through partnership arrangements, capital raisings or other financing packages. At present there are no such arrangements in place and whilst the Directors remain confident of being able to successfully raise the required financing, most likely by way of equity as has been achieved in the past, there can be no guarantee that this will occur. 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 any adjustments that would result if the Group was unable to continue as a going concern which would principally relate to impairment of the Group's non-current assets.

Adoption of new and revised International Financial Reporting Standards

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 material impact on the financial statements of the Company.

	Effective period commencing on or after
IAS 12: Amendments – Recognition of deferred tax assets for unrealised losses	1 Jan 2017
IAS 7: Amendments – Disclosure initiative	1 Jan 2017
Annual improvements to IFRSs (2014 – 2016 cycle)	1 Jan 2017

Standards effective in future periods

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Company's activities and are mandatory for the Company's accounting periods beginning after 1 January 2018 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after
IFRS 9: Financial Instruments	1 Jan 2018
IFRS 15: Revenue from contracts with customers	1 Jan 2018
IFRS 16: Leases	1 Jan 2019
IFRS 15: Clarifications to IFRS 15 revenue from contracts with customers	1 Jan 2018
IFRIC 22: Foreign currency transactions and advance consideration	1 Jan 2018
IFRS 2: Amendments - Classification and measurement of share-based payment transactions	1 Jan 2018
Annual improvements to IFRSs (2015-2017 Cycle) 1	1 Jan 2019

1 Not yet adopted by the European Union.

Notes to the Financial Statements

for the year ended 31 December 2017

1. Accounting Policies (continued)

Standards effective in future periods (continued)

IFRS 9 'Financial Instruments' will supersede IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 covers classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. Management note that given current operations the anticipated impact is expected to be limited to a review of expected credit losses on receivables, although the impact is not expected to be material. At transition the Company will take the choice not to restate comparatives.

IFRS 15 'Revenue from Contracts with Customers' provides a single model for accounting for revenue arising from contracts with customers, focusing on the identification and satisfaction of performance obligations, and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 will supersede IAS 18 'Revenue'. Management do not anticipate any impact as the Company is not currently generating any revenue.

IFRS 16 'Leases' provides a new model for lessee accounting in which all leases, other than short-term and small-ticket-item leases, will be accounted for by the recognition on the balance sheet of a right-to-use asset and a lease liability, and the subsequent amortisation of the right-to-use asset over the lease term. IFRS 16 will be effective for annual periods beginning on or after 1 January 2019. The Company expects to adopt IFRS 16 on 1 January 2019. The requirements of IFRS 16 will extend to the Company's operating leases for land & buildings (note 15) and as such the Company expects a material impact with these leases being recognised on balance sheet.

There are no other standards and interpretations in issue but not yet adopted that the directors anticipate will have a material effect on the reported income or net assets of the Company.

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 (share options and warrants) is cancelled, it is treated as if it had vested on the date of cancellation if it had not yet fully vested, 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. Upon expiry of an equity-settled award, the cumulative charge expensed is transferred from the Share-based payment reserve to the Accumulated retained deficit.

Notes to the Financial Statements

for the year ended 31 December 2017

Impairment of exploration assets

Exploration and evaluation assets are reviewed regularly for indicators of impairment following the guidance in IFRS 6 'Exploration for and Evaluation of Mineral Resources' and tested for impairment where such indicators exist.

In accordance with IFRS 6 the Company considers the following facts and circumstances in their assessment of whether the Company's exploration and evaluation assets may be impaired:

- Whether the period for which the Company has the right to explore in a specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Whether substantive expenditure on further exploration for and evaluation of mineral resources in a specific area is neither budgeted nor planned;
- Whether exploration for and evaluation of reserves in a specific area have not led to the discovery of commercially viable quantities of mineable material and the Company has decided to discontinue such activities in the specific area; and
- Whether sufficient data exists to indicate that although a development in a specific area is likely to proceed, the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full from successful development or by sale.

If any such facts or circumstances are noted, the Company, as a next step, perform an impairment test in accordance with the provisions of IAS 36. In such circumstances the aggregate carrying value of the exploration and evaluation asset is compared against the expected recoverable amount of the cash-generating unit. The recoverable amount is the higher of value in use and the fair value less costs to sell. The Company has identified one cash-generating unit. In accordance with the provisions of IFRS 6 the level identified for the purposes of assessing the Company's exploration and evaluation assets for impairment may comprise one or more cash-generating units.

Any impairment arising is recognised in the Income Statement for the year.

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.

Intangible exploration and evaluation assets are not depreciated and are carried forward, subject to the provisions of the Company's impairment of exploration and evaluation policy, until the technical feasibility and commercial viability of extracting hydrocarbons are demonstrable. At such point exploration and evaluation assets are assessed for impairment and any impairment loss is recognised before reclassification of the assets to a category of property, plant and equipment.

Notes to the Financial Statements

for the year ended 31 December 2017

1. Accounting Policies (continued)

Taxation

Income 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. 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 ended 31 December 2017

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.

Judgements

Impairment of exploration and evaluation assets (note 8)

Qualifying exploration and evaluation costs are initially classified and held as intangible assets rather than being expensed. In recording costs as exploration and evaluation assets, judgement is required as to the extent to which the costs are attributable to the discovery of specific hydrocarbon resources and include both internal and external costs. Expenditure is capitalised by reference to appropriate CGUs and is assessed for impairment when circumstances suggest that the carrying amount may exceed its recoverable amount, with reference to IFRS 6 indicators. This assessment involves judgement as to:

- (i) The timing of future development of the asset;
- (ii) Funding structures and financing costs of development;
- (iii) Commercial development opportunities for extracting value from the asset; and
- (iv) Modelling inputs such as the appropriateness of discount rates, reserve and resource estimates, oil and gas pricing predictions, etc.

The carrying value of exploration and evaluation assets were assessed for indicators of impairment at 31 December 2017 in accordance with IFRS 6. In forming this assessment, the Company considered external and internal competent person's reports, the status of the licences and financing which supported the carrying value. The determination that, in the event of a farm-out opportunity not being secured by 31 May 2018, the Company will be able to secure an extension of the licences, represented a key judgement. The Board concluded that there were no indicators of impairment.

Estimates

Determination of share-based payment costs (note 19)

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 ended 31 December 2017

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

	2017	2016
	£	£
Employee costs		
Wages and salaries	631,487	610,001
Short-term non-monetary benefits	37,169	25,118
Defined contribution pension costs	29,050	27,213
Share-based payment expense	113,885	168,135
Social security costs	69,915	69,979
	881,506	900,446

	2017	2016
The average monthly number of employees during the year was as follows:		
Directors	6	7
Administrative	3	4
	9	11

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, being the Directors of the Company.

	2017	2016
	£	£
Salaries and fees	543,510	523,382
Short-term non-monetary benefits	27,813	24,282
Defined contribution pension costs	28,817	27,213
Share-based payment expense	106,482	168,135
	706,622	743,012

Salaries and fees include fees for consulting services amounting to £nil (2016: £50,610) paid to a former director. This is excluded from Directors' Remuneration.

Directors remuneration is disclosed in the Directors' Report on page 11.

Details regarding share options and warrants are set out in note 19 to the financial statements.

No share options were exercised during the year or in the prior year.

4. Loss before Tax

	2017	2016
	£	£
The loss before tax is stated after charging:		
Other operating lease rentals – land and buildings	111,209	83,282
Amortisation of software assets	2,655	3,798
Impairment of investment in subsidiary	1,491	-
Impairment of intangibles	-	318,407
Depreciation – owned assets	1,864	3,838

Notes to the Financial Statements

for the year ended 31 December 2017

5. Auditors' Remuneration

	2017 £	2016 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	16,750	14,500
Fees payable to the Company's auditors for non-audit related services	700	3,875
Fees payable to the Company's auditors for other audit-related services	500	500

6. Income Tax

Analysis of income tax expense

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

Factors affecting the income tax expense

The tax assessed for the year is different to the standard rate of corporation tax in the UK, as explained below:

	2017 £	2016 £
Loss on ordinary activities before taxation	(1,590,203)	(1,730,606)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (19.25%) (2016: 20%)	(306,114)	(346,121)
Effects of:		
Capital allowances (in excess of)/ less than depreciation	(169)	300
Expenses not deductible for tax purposes	1,980	2,744
Adjustment in relation to share-based payment	21,923	33,627
Unrelieved losses carried forward	282,380	309,450
Income tax expense	-	-

A deferred tax asset of £1,672,054 (2016: £1,466,676) in respect of trading losses of £8,800,286 (2016: £7,333,376) has not been recognised due to the uncertainty and timing of 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 40,756,901 (2016: 50,096,901) 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

	2017	2016
Loss per share from continuing operations	(0.46)p	(0.70)p

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

	2017 £	2016 £
Loss used in the calculation of total basic and diluted loss per share	(1,590,203)	(1,730,606)

Number of shares

	2017 Number	2016 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	343,914,080	246,340,146

Notes to the Financial Statements

for the year ended 31 December 2017

8. Intangible Assets

	Exploration & Evaluation Assets £	Software Licences £	£
Cost			
At 1 January 2016	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
Additions	223,508	-	223,508
At 31 December 2017	1,424,821	17,969	1,442,790
Amortisation			
At 1 January 2016	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
Charge for year	-	2,655	2,655
At 31 December 2017	655,197	12,242	667,439
Net Book Value			
At 31 December 2017	769,624	5,727	775,351
At 31 December 2016	546,116	8,382	554,498
At 1 January 2016	426,461	1,667	428,128

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 down to £nil by £318,407 during 2016.

The net book value of exploration and evaluation assets at 31 December 2017 and 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 2016	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
Additions	222	2,107	2,329
Disposals	-	(70)	(70)
At 31 December 2017	6,522	3,862	10,384
Depreciation			
At 1 January 2016	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
Charge for year	978	886	1,864
Disposals	-	(70)	(70)
At 31 December 2017	4,541	1,493	6,034
Net Book Value			
At 31 December 2017	1,981	2,369	4,350
At 31 December 2016	2,737	1,148	3,885
At 1 January 2016	3,457	2,433	5,890

Notes to the Financial Statements

for the year ended 31 December 2017

10. Investment in Subsidiary

	2017 £	2016 £
Investment in subsidiary	-	1,101

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 2017 fees were paid on behalf of Cluff Energy (Scotland) Limited totalling £390 (2016: £600).

During 2017, the decision was taken to liquidate the subsidiary and as such, the investment has been impaired by £1,491 to £nil.

11. Trade and Other Receivables

	2017 £	2016 £
Current:		
Other receivables	2,429	5,029
Other tax receivables	12,459	63,158
Rental deposit	-	53,688
Amounts receivable from related parties	-	21,774
Prepayments	74,310	53,075
	89,198	196,724
Non-current:		
Rental deposit	53,688	-
Total Receivables	142,886	196,724

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £nil (2016: £21,774), following the settlement of the outstanding balance during the year.

A rent deposit of £53,688 was paid on the commencement of the Company's office lease in May 2012. This lease was renewed in May 2017 with the same deposit. The deposit is repayable to the Company on the expiry of the lease on 31 May 2022 (or on 31 May 2020 if a break clause is exercised).

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 2017		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	329,393,532	1,646,967
Issue of shares		66,666,667	333,333
At end of the year	Ordinary shares of 0.5 pence each	396,060,199	1,980,300
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

On 6 October 2017, the Company announced that it had raised approximately £1,000,000, before expenses, through the subscription of 66,666,667 new ordinary shares at 1.5 pence per share.

Notes to the Financial Statements

for the year ended 31 December 2017

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 20.

14. Trade and Other Payables

Current:	2017 £	2016 £
Trade payables	112,465	60,096
Social security and other taxes	23,773	23,278
Other payables and accruals	76,301	139,503
	212,539	222,877

The Directors consider that the carrying amount of trade and other payables approximate their fair value.

15. Operating Lease Arrangements

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

Land and Buildings:	2017 £	2016 £
Less than one year	139,813	37,283
Between one and five years	559,250	-

During the year £111,209 (2016: £83,282) 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.

Key management personnel are considered to be the Directors of the Company. Disclosure regarding remuneration of key management is provided in note 3.

£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; all outstanding balances were repaid during 2017.

The total facility available under the loan agreement with Cluff Africa Associates UK Limited was £50,000. Interest was charged at a rate of 3% per annum on the outstanding balance. As at 31 December 2017 the outstanding loan balance was £nil (2016: £21,774).

Notes to the Financial Statements

for the year ended 31 December 2017

17. Financial Instruments

Principal financial instruments

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

	2017	2016
	£	£
Financial Assets		
Cash and cash equivalents – all amounts held in Sterling	1,016,667	1,707,910
Rental deposit	53,688	53,688
Related party loan receivable	-	21,774
Other receivables	2,429	5,029
	1,072,784	1,788,401
Financial Liabilities		
Trade Payables	112,465	60,096
Other payables & accruals	76,301	139,503
	188,766	199,599

The financial liabilities are all payable within one year.

General Objectives and Policies

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

Policy on financial risk management

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

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

Derivatives, financial instruments and risk management

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

Foreign currency risk management

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

Credit risk

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

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

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

No financial assets have indicators of impairment.

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

Notes to the Financial Statements

for the year ended 31 December 2017

17. Financial Instruments (continued)

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 2017, 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 2017 and 31 December 2016 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 -6 months £
At 31 December 2017			
Trade payables	112,465	112,465	-
Other payables & accruals	76,301	-	76,301
	188,766	112,465	76,301
At 31 December 2016			
Trade payables	60,096	60,096	-
Other payables & accruals	139,503	-	139,503
	199,599	60,096	139,503

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 2017 following the announcement of an equity fundraising in October 2017. Based on the cash balance at year end and the Company's commitments, and following the receipt of £750,000 before expenses from the subscription of shares announced on 20 April 2018, the Company has adequate financial resources to cover its budgeted exploration and development programme and meet its other operational obligations as they fall due until the middle of the fourth quarter of 2018. 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 ended 31 December 2017

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. No options were granted during the year to 31 December 2017 under the scheme (2016: 25,556,901) and no options expired (2016: 4,000,000).

The Company recognised a total share-based payment expense of £113,885 in the year ended 31 December 2017 (2016: £168,135) in respect of share options.

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

	23 January			
Black Scholes Model	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		

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

	26 August	26 August	10 June	10 June
Black Scholes Model	2015	2015	2016	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 ended 31 December 2017

19. Share-Based Payments (continued)

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

Year ended December 2017	Number of options	WAEP p
Outstanding at the beginning of the year	40,756,901	2.46
Outstanding at the year end	40,756,901	2.46
Number exercisable at 31 December 2017	27,978,451	2.98

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	-	-
Expired / lapsed	(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

The number of warrants at 31 December 2017 and 2016 are set out below:

	2017	2016	Weighted Average Exercise Price (p)
J G Cluff	-	5,000,000	5.00
Shore Capital and Corporate Limited	-	4,340,000	5.00
	-	9,340,000	5.00

The Company recognised an expense of £nil in respect of warrants granted in the year ended 31 December 2017 (2016: £nil). The warrants all expired during the year on 22 May 2017.

20. Post Balance Sheet Events

Effective 28 February 2018, Algy Cluff stepped down from his role as Chief Executive Officer, remaining as Chairman of the Company. As a result, the Company has made a £50,000 gross settlement payment in lieu of termination of his contract as Chairman and Chief Executive in the subsequent period.

On 20 April 2018, the Company announced that it had raised £750,000, before expenses, through the subscription of 46,875,000 new ordinary shares at 1.6 pence per share.

No other significant post balance sheet events have occurred.

Shareholder documents

Notice of Annual General Meeting
Form of Proxy

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Cluff Natural Resources Plc (the "Company") will be held at the offices of K&L Gates LLP, One New Change, London EC4M 9AF on 7 June 2018 at 10.30 a.m. for the purpose of considering and, if thought fit, passing resolutions 1 to 5 as ordinary resolutions and resolution 6 as a special resolution:

Ordinary Resolutions

1. To receive and adopt the report of the directors and the audited accounts for the financial period ended 31 December 2017 together with the report of the auditors thereon.
2. To re-elect John Gordon Cluff as a director of the Company.
3. To re-elect Andrew James Nunn as a director of the Company.
4. To re-appoint BDO LLP as auditors of the Company to hold office until the conclusion of the next annual general meeting at which accounts are laid before the Company and to authorise the directors to fix their remuneration.
5. That the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company:

(a) up to an aggregate nominal amount of £738,225; and

(b) up to a further aggregate nominal amount of £738,225 provided that (i) they are equity securities (within the meaning of section 560(1) of the Companies Act 2006) and (ii) they are offered by way of a rights issue to holders of ordinary shares on the register of members at such record date as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on any such record date and to other holders of equity securities entitled to participate therein, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with treasury shares, fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the date of the passing of this resolution or, if earlier, on 7 September 2019, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

Special Resolution

6. THAT, conditional on the passing of Resolution 5, the directors be and are hereby empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities (within the meaning of section 560 of the Companies Act 2006) for cash pursuant to the authority conferred by Resolution 5 as if section 561(1) of the Companies Act 2006 did not apply to such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with an issue or offer of securities (but, in the case of the authority granted under paragraph (b) of Resolution 5, by way of a rights issue only) in favour of holders of ordinary shares on the register of members at such record date as the directors may determine where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them on any such record date but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates, or legal or practical problems under the laws of, or the requirements of any regulatory authority or stock exchange in, any territory or any other matter; and

(b) the allotment otherwise than pursuant to 6(a) above, to any person or persons of equity securities up to an aggregate nominal amount of £553,668,

and shall expire upon the expiry of the general authority conferred by Resolution 5 above, save that the Company may before such expiry make any offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuant of such offer or agreement as if this power had not expired.

Date:
27 April 2018

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

By Order of the Board

.....
Director

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 5 June 2018 (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 7 June 2018 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 27 April 2018 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 442,935,199 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 27 April 2018 was 442,935,199.
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 2017. 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 - 3)

Each of these resolutions will be proposed as an ordinary resolution. Article 85 of the Company's articles of association states that any director who was not appointed or re-appointed at one of the preceding two annual general meetings of the Company shall retire at the next annual general meeting. Accordingly, John Gordon Cluff and Andrew James Nunn are retiring and offering themselves for re-election under this provision.

Biographical details of all of the directors are set out on page 10 of the annual report and accounts of the Company.

3. Appointment and remuneration of auditors (Resolution 4)

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

4. Directors authority to allot (Resolution 5)

This resolution will be proposed as an ordinary resolution. Under the Companies Act 2006, the directors may only exercise the Company's powers to allot shares if authorised to do so in accordance with section 551 of that Act. The existing authority conferred on the directors has been substantially used and it is proposed under resolution 5 to confer on the directors authority for a further period expiring at the conclusion of the annual general meeting in 2019 or, if earlier, on 7 September 2019. The authority will be limited to shares up to a maximum nominal amount of £738,225 representing approximately one third of the Company's issued ordinary share capital as at 27 April 2018 (being the latest practicable date prior to the publication of this document).

Although at present the directors have no intention of exercising this authority, it is considered prudent to maintain the flexibility that it provides.

As at the date of this document, the Company does not hold any of its shares in treasury.

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

In previous years, the Directors have typically sought a 15% disapplication of pre-emption rights in respect of allowing the Directors to allot new ordinary shares for cash. With the results of the 30th round of licensing awards due in this quarter of 2018, the Board recommends that shareholders approve a 25% disapplication of pre-emption rights at the coming annual general meeting, in order to provide your Board with the flexibility to quickly and efficiently raise any further funds that might be necessary to pursue opportunities from the 30th round, or other relevant opportunities that present themselves.

This resolution will be proposed as a special resolution. The Companies Act 2006 also requires that equity securities which are to be allotted for cash must first be offered to existing shareholders on a pre-emptive basis in accordance with the requirements of section 561(1) of that Act. In accordance with normal practice, the directors are proposing resolution 6 as a special resolution to disapply the provisions of section 561(1) in relation to certain share issues.

Resolution 6 will, if passed, empower the directors to allot equity securities for cash otherwise than in accordance with the statutory pre-emption requirements either in connection with a rights issue or other pro rata offer or otherwise up to a maximum nominal amount of £553,668 representing approximately 25 per cent of the Company's issued ordinary share capital as at 27 April 2018 (being the latest practicable date prior to the publication of this document). The power will expire at the conclusion of the annual general meeting in 2019 or, if earlier, on 7 September 2019.

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 at 10.30 a.m. on 7 June 2018 and at any adjournment thereof.

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

Resolutions	For	Against	Vote withheld
1. To receive and adopt the annual accounts and reports of the directors and auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect John Gordon Cluff as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Andrew James Nunn as a director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. To appoint BDO LLP as auditors of the Company and to authorise the directors to fix their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the directors to allot shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. To disapply statutory pre-emption rights.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dated this _____ day of _____ 2018

Signature(s) _____

Name _____

Address _____

Notes:

- A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
- A member who wishes to appoint someone other than the chairman as his proxy should delete the words "the Chairman of the Meeting or", insert the name of his choice in the space provided and initial the alteration.
- The form of proxy should be signed and dated by the member or his attorney duly authorised in writing. In the case of a corporation, the form of proxy should be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. Any alteration made to the form of proxy should be initialled.
- In the case of joint holders, the signature of any one holder is sufficient. However, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members.
- A member should direct the proxy how to vote on the resolutions by marking the appropriate box with an X. The "vote withheld" option is provided to enable members to abstain on any of the resolutions. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" a resolution.
- If the form of proxy is returned duly signed but without any indication as to how the proxy should vote on any resolution, the proxy will exercise his discretion as to how he votes and whether or not he abstains from voting on the resolution. The proxy may also vote or abstain from voting as he thinks fit on any other business which may properly come before the meeting.
- To be valid, the duly signed and dated form of proxy, together with any power of attorney or other authority under which it is signed (or a notarially certified copy of such power or authority), must be returned in the reply paid envelope provided to the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received by no later than 10.30 a.m. on 5 June 2018.
- Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
- CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service should refer to note 4 of the notes to the notice of the annual general meeting.

Company Information

Directors

J G Cluff (Chairman)
G C Swindells (Chief Executive Officer)
A J Nunn (Chief Operating Officer)
P N Cowley (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
5 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

CAMARCO
107 Cheapside
London
EC2V 6DN

Registrar

Share Registrars Limited
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