Cluff Natural Resources Plc
Annual Report & Accounts 2018

CLUFF NATURAL RESOURCES

About us

Cliff 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 seven gas and oil licences in the Southern and Central North Sea and has recently announced a farm-in with Shell UK.

Strategy

Secure investment to drill wells on the Company's licences
High equity position in licences, high quality assets, large resource base and low exploration costs in North Sea provide strong basis to attract partners.

Grow Portfolio
Organic growth via applications for complimentary licences in UK's next (32nd) Licensing Round.

Enhance asset base
Ongoing investment to continue to upgrade existing prospects in advance of commencing further farm-outs.

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
December 2016	P50 prospective resource estimate on Licence P2252 increased fourfold
	Total Portfolio increased to 2.4 TCF recoverable gas
May 2018	Awarded 6 additional gas and oil licences in Southern and Central North Sea
February 2019	Shell UK farms in to Licence P2252
February 2019	Shell UK granted option to farm into Licence P2437

Our investment case

Quality assets
7 highly prospective licences with c. 2.4TCF of gas

Third party industry endorsement
Shell UK has farmed into Licence P2252 and has option to farm into Licence P2437

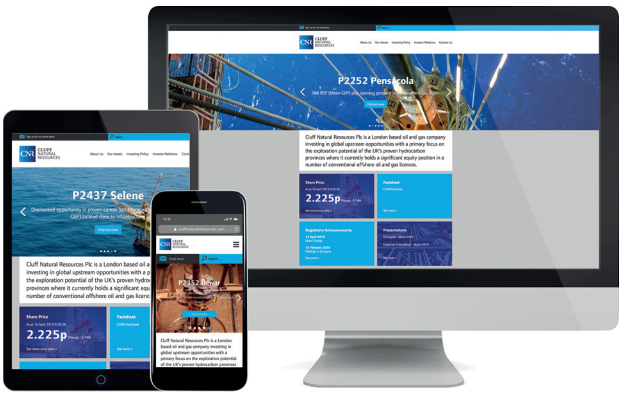
Strong fundamentals for UK Gas Exploration
- Proven gas basin with established operating environment
- Southern North Sea is a low cost operating environment
- UK gas prices are significantly higher than Henry Hub (US)

No debt or onerous work commitments

High ownership % – strong position from which to farm down

Corporate website

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



Chairman's Statement

In my last Chairman's statement, I made some commitments and predictions. These included the Company obtaining a significant number of additional licences in the 30th Round of North Sea awards and securing a farm-out of our 28th Round licences. As we reflect on 2018, not only were we awarded six additional licences in the 30th Round, but on one of them (P2437) we have already signed an option agreement with Shell which provides for them to acquire a 50% interest in the licence and to pay up to 75% of the costs of an exploration well on the Selene prospect. Shell has until 30 April 2019 to exercise this option.

Shell has also farmed into our 28th Round licence (P2252) which contains the Pensacola Prospect, and have committed to conduct a comprehensive seismic acquisition programme at their cost. The commitment also includes a contingent well. It is gratifying to have received the endorsement from Shell of our technical interpretation of both these licences.

On Licence P2248, although we were unable to achieve a further extension, it is our intention to reapply for the licence in the 32nd Licensing Round, which is expected to commence in mid-2019.

In summary, we have therefore substantially fulfilled the commitments which I made last year, which is testament to the diligence of our executive team in negotiating the two agreements with Shell, together with the expertise of our technical staff in identifying and communicating the merits of the licences. I would also like to note how stimulating and rewarding the whole process of negotiation with Shell proved to be.

There is no question that the North Sea is experiencing a revival of fortune, especially in the context of natural gas. There is the market, an infrastructure and a need which will conspire to keep the North Sea up the agenda of the UK oil & gas industry for another generation.

Earlier this month I announced my intention to retire following this year's AGM and that Mark Lappin, who has been a Director of the Company since 2016, will succeed me as Chairman.

Since stepping down as CEO last year, the Company's executive management team, with significant input from Mark, has produced a tremendous platform for the next stage of activity and growth via the successful award of six additional licences in the UK's 30th Licensing Round and delivering a transformational farm-out with Shell on one, and possibly two of the Company's licences. As a result of the farm-out with Shell, there is now a clear transition into a period of intensive oil and gas operations which will see, inter alia, the acquisition of 3D seismic in the summer of this year to support an investment decision for the drilling of at least one and potentially two wells. This is therefore the ideal time to pass the Chair to Mark whose wealth of operational experience, particularly in the North Sea, is perfectly suited to guide the business through this next exciting phase of its development.

I look forward to seeing our company continue to grow and prosper through this next stage of development.

J G Cluff
Chairman

24 April 2019

Chief Executive's Statement

The last year has undoubtedly been transformational for our company. This time last year the Company's portfolio was limited to two licences and the Company did not yet have any partners. The Company now has a significantly enhanced and diversified portfolio of investment assets totalling seven licences, and is partnered with one of the world's largest oil and gas companies as a result of securing a farm-out over one and possibly two of its licences.

The Company has also strengthened its balance sheet in the course of the year, ending the year in a stronger financial position, while continuing to drive forward investment in our portfolio.

From an operational perspective, throughout the year our technical team continued to carry out extensive technical work on our existing and new licences. This work further enhanced our understanding of the various prospects on our portfolio of licences and has ultimately led to the farm-out success recently achieved.

In May 2018 we announced that the Company had been provisionally awarded licences covering 10 full and part blocks, by the UK Oil and Gas Authority (OGA). The formal award of these licences was announced in August 2018 and the licences took effect from 1 October 2018. These blocks are viewed by the Board as being highly prospective with many containing undeveloped discoveries and exploration upside which significantly enhances both the pipeline of potential drilling opportunities and the overall prospective resources associated with the Company's investment portfolio. This has been demonstrated by the fact that despite only holding these licences for a matter of months, the terms of a farm-out of one of these licences (P2437) has already been agreed, subject to the exercise of an option by 30 April 2019.

We were delighted to have been awarded these additional licences which represented a substantial award over multiple blocks which builds on the Company's core competencies focussed primarily on the Southern North Sea. While the Company's primary focus remains on Southern North Sea gas, two of the six licences awarded were made over blocks in the Central North Sea which meant that oil prospectivity was added to the portfolio for the first time. The new licences contain a number of drilled discoveries, undrilled prospects and leads and create the potential to build scale, further diversifying the investment portfolio which we anticipate will lead to a significant pipeline of future drilling opportunities.

The Company now has an estimated P50 prospective resource in excess of 2.4 TCF of gas, equivalent to c.400 million barrels of oil. With the exception of one licence in which we are partnering with The Parkmead Group and the licences on which we are co-venturing with Shell, all our licences are held 100%, which provides maximum flexibility from which to farm down. The licences also contain multiple prospects and are located close to existing infrastructure in a proven gas basin which has enjoyed significant exploration success in recent years.

We look forward to further expanding our portfolio of licences when we apply for additional blocks in the UK's next licensing round which the Oil & Gas Authority has indicated will open in mid-2019.

Throughout 2018, exploration budgets amongst major operators remained limited as they continued to focus investment on maintaining existing production after a prolonged period of depressed oil and gas prices. However, as majors and other operators finally started to turn their attention to reserves replacement and ultimately exploration, we experienced a marked increase in the level of interest in our assets ultimately resulting in the announcement of our agreements with Shell.

In February 2019, we were delighted to announce the farm-out of Licence P2252 (which contains the Pensacola Prospect) and the terms of an option to farm out Licence P2437 (which contains the Selene Prospect) with Shell UK. This partnership is a clear endorsement of the quality of the licences in our portfolio and demonstrates the Cluff technical team's ability to identify and transform overlooked or less understood opportunities. We are particularly excited at the prospect of embarking on our partnership with Shell with both parties sharing a commitment to further development in the Southern North Sea. Most importantly, we now have direct visibility over the route to future drilling activity, and the potential to create further significant value for shareholders. We look forward to building our partnership with Shell and successfully developing these prospects.

I am also very happy to report that the Company has ended the year in a stronger financial position. The Company was able to raise funds by way of equity twice during 2018, raising a total of £2.75 million, before expenses. This allowed the Company to continue the farm-out process while, at the same time, commencing the technical and commercial evaluation of the additional Central and Southern North Sea oil and gas licences awarded in the 30th Offshore Licensing Round.

While continuing to invest in the expansion and development of our licences, we have maintained a disciplined approach to costs and ended the year with just over £1.41 million of cash. The Company remains agile, continues to have no debt or any major financial commitments and keep its overheads low. Our working capital position has improved from that which was previously guided, and the Company is now funded to the start of Q4 2019.

Chief Executive's Statement
continued

The outlook for exploration and the North Sea now appears to be improving significantly, underpinned by relatively stable commodity prices and significantly reduced costs. In 2018, only eight exploration wells were completed, however the UK sector expects to see up to 15 exploration wells drilled this year. This points to renewed confidence and crucially the budget now appears to be being made available for exploration. Of particular relevance and interest to us is that a number of these planned wells are in close proximity to the Company's existing licences. Spirit Energy are expected to drill the Andromeda and Aurora Prospects and Oranje-Nassau Energie are also expected to drill the Ossian-Darach prospect this year. Each of these three wells are in our core area of the Southern North Sea where we have our gas licences. Accordingly, any exploration success will further enhance the likelihood of success on our prospects.

The North Sea as a whole is becoming an increasingly attractive place to invest, and this has been evidenced by the increased level of M&A activity and the involvement of private equity backed businesses. The UK's regulatory and fiscal regime is now extremely favourable and with significantly reduced costs and more stable commodity prices, we believe this is an ideal time to be seeking to drill in the North Sea.

On behalf of the Board, I would like to thank our shareholders and other stakeholders for their continued commitment and support. We believe we are building a sustainable business with a strong and diversified portfolio of highly prospective oil and gas assets, with a world class partner on potentially two of the Company's licences. As such we anticipate exciting times ahead as we enter the next stage of the Company's development and continue to strive to create significant value for our shareholders.

Graham Swindells
Chief Executive Officer

24 April 2019

Operational Review

Shell Farm-out Success

Following a period of exclusivity, the Company was delighted to announce that it had signed a binding farm-out agreement in relation to Licence P2252 with Shell U.K. on 8 February 2019.

In return for a 70% working interest and operatorship of Licence P2252, Shell U.K. Ltd will pay 100% of the costs of the agreed work programme from the completion date until the earlier of 31 December 2020 or the date on which a well investment decision is made. The agreed work programme comprises the acquisition of not less than 400km^2 new 3D seismic across the Pensacola Prospect in the summer of 2019 and associated processing and petro-technical studies required to support a well investment decision.

In addition to the farm-out on P2252, the Company also granted Shell a three-month exclusive option which runs until 30 April 2019, over a 50% working interest in Licence P2437 which was formally awarded to the Company in October 2018 and contains the Selene prospect. In the event that the option is exercised, binding terms have been agreed such that the Company will receive the outstanding balance of the cash consideration of US$600,000, receivable from Shell. In addition, Shell would also pay 75% of the costs of the first well to be drilled on the licence up to a gross cost of US$25 million with any expenditure in excess of US$25 million to be shared in proportion to the working interest positions. Until a well investment decision has been finalised, the Company will retain operatorship of the licence and any expenditure incurred prior to a well investment decision will be shared with Shell in proportion to the working interest positions.

Licence Awards – 30th Licensing Round

As previously indicated, the UK Oil and Gas Authority announced the provisional award of licences in the 30th Offshore Licensing Round on 23 May 2018. These awards were formalised on 30 August 2019 and licences issued with an effective date of 1 October 2018. The Company was awarded 10 blocks, including part blocks, covering 1,376km^2 (gross) which were consolidated into six new licences. The firm work programme associated with Phase A of the initial term of the licences is restricted to data acquisition, seismic reprocessing and sub-surface studies, and is focused on providing greater clarity around prospect volumetrics and risk.

Licence P2252 – Southern North Sea

Activity during the period was almost exclusively focused on the farm-out efforts which ultimately resulted in the farm-out with Shell. We expect that 3D seismic acquisition will commence during the summer of 2019 with field operations expected to last approximately one month followed by a period of processing and re-interpretation prior to a well investment decision being finalised before the end of 2020.

The exploration well on P2252 is classed as 'contingent' by the OGA with the contingencies being restricted to demonstration of structural closure and presence of reservoir facies within closure. Given that the legacy data available over the Pensacola prospect demonstrates both structural closure and presence of reservoir facies, it is the Company's view that the acquisition of the new 3D seismic by Shell should be primarily centred around the appropriate placement and design of the exploration well on Pensacola.

Licence P2437 – Southern North Sea

Since the formal award of Licence P2437 on 1 October 2018, the Company has acquired the available legacy 3D data across the entire licence and surrounding areas. The Selene structure was identified by previous operators although issues with velocity modelling and depth conversion had historically led to significant uncertainty around the potential volumes of gas associated with the prospect.

This high-quality 3D data has allowed a re-interpretation of the Selene structure and allowed the Company, in partnership with a technology driven seismic specialist, to derive a velocity model and depth conversion which removes the volumetric uncertainty which was historically perceived to be the key risk associated with this prospect.

The Selene prospect is located approximately 20km away from Shell's existing infrastructure at Barque, which ultimately feeds Shell's Bacton processing facility near Great Yarmouth, both of which have the capacity to handle significantly higher volumes of gas than current through put due to declining production of the older fields and significant upgrades to the Clipper South hub and Bacton processing plant.

The Company continues to work closely with Shell during the option period to ensure the option can be exercised by 30 April 2019 and to allow a well investment decision to be made at the earliest practicable date.

Operational Review
continued

Licences P2428 and P2424 – Southern North Sea

During the period since the award of these licences the focus has been on identifying and acquiring all the relevant subsurface data available for the licences and surrounding areas. The Phase A work programme on both blocks requires the reprocessing of a limited amount of legacy 2D seismic data and proposals have been sought for the work programme on both licence areas. It is anticipated that reprocessing contracts will be awarded during Q2 of 2019 with results expected within five to six months of starting the reprocessing workflows.

Both blocks contain large scale opportunities in the early Carboniferous and should exploration activity on adjacent blocks, including planned drilling on the Andromeda, Darach and Aurora prospects, prove commercial volumes of gas in the early Carboniferous then the Company anticipates that there will be considerable interest in these licences from the industry.

Licences P2352 & P2384 – Central North Sea

These Central North Sea blocks are located in a relatively under explored area of the Central North Sea, adjacent to the large Marnock-Skua field, part of the Eastern Trough Area Project (ETAP) infrastructure which is operated by BP. These blocks contain multi-level oil prospectivity in the proven Forties, Pentland and Skagerrak formations and significantly diversify the portfolio.

Since award, technical work has focused primarily on the Dewar prospect which is centrally located on Licence P2352. The availability of newly reprocessed 3D Pre-Stack Depth Migration (PSDM) seismic data, obtained by the Company since the award of the licence in October 2018, has allowed a major geological re-evaluation of the Dewar prospect. New mapping indicates that the Dewar prospect is a Forties Sandstone Channel, which the Company estimates to contain STOIIP of up to 270 million barrels of light oil in a high-quality sandstone reservoir with P50 prospective resources of 39.5 million barrels. The prospect is supported by a clear Amplitude Versus Offset (AVO) anomaly and is located less than 10km from the Marnock field infrastructure. Further work to be completed during 2019 includes a rock physics study and review of commercial development options both of which are underway and will be used to support farm-out activities which are expected to commence towards the end of H1 2019.

Regionally there is significant ongoing development activity including the development of the Culzean HPHT gas field, which is expected to produce first gas during 2019, and the Seagull discovery, which was recently acquired by Neptune with first production expected in 2022.

Portfolio Management

Following the failure of our preferred bidder on Licence P2248 to demonstrate the necessary financial capacity to fund the forward work programme within a timeframe that was acceptable to the OGA, the Company relinquished the licence with effect from 29 March 2019.

We still believe that the block, and in particular the Cadence prospect, is of significant strategic value and are anticipating re-applying for the acreage in the 32nd Licensing Round under the OGA's new, more favourable Innovate licence terms, which would involve reduced licence rentals, technical work programmes and administration costs.

In the interim period, the Company will carefully monitor the planned exploration drilling of analogous structures on adjacent blocks for the next 18 months, the results of which will significantly enhance the understanding of the early Carboniferous Fell Sandstone play.

Operational Review
continued

Strategic Report

Portfolio and Resource Summary – March 2019

The Company's current licence portfolio and prospect inventory, as of the end of March 2019, is summarised below:

Licence Ref:	Block ID	CLNR Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (BCF) P90 Low	P50 Best	P10 High	GCoS %
P2252	41/5a, 41/10a & 42/1a	30%	Pensacola – Zechstein Reef	P	35	93	170	20
			Lytham – Permian	P	16	37	73	49
			Lytham – Carboniferous	P	4	13	45	30
			Fairhaven – Zechstein	P	5	14	29	43
P2437	48/8b	100%	Sloop – Leman	D	7	18	38	100
			Selene – Leman	P	105	291	688	39
			Endymion – Leman	L	36	48	62	27
			Rig & Jib – Leman	L	11	29	58	35
P2424	42/14 & 42/15b	100%	Furasta – Bunter	D	7	18	30	100
			Burbank – Bunter	P	70	200	567	32
			Cortez – Carboniferous	L	24	107	433	29
			Cortez South – Carboniferous	L	129	331	732	28
P2427	43/7 & 43/8	100%	Cubertino – Scremerston	L	69	262	914	21
			Cupertino – Fell Sandstone	L	147	558	2089	30
P2435	47/10d & 48/6c	25%	Bob (Teviot) – Leman	D	2.8	5.5	10.3	100
			Blackadder – Leman	P	17.8	28.3	42.5	45

Licence Ref:	Block ID	CLNR Equity	Project ID	Discovery (D) Prospect (P) Lead (L)	Net Prospective Resource (MMBOE) P90 Low	P50 Best	P10 High	GCoS %
P2352	22/24f & 22/25g	100%	Dewar – Forties	P	10.5	39.5	80.5	40
			Tesla – Pentland	D	To be determined – mean STOIIP estimated @ 24 mmboe			
P2384	22/19f	100%	Manhattan Complex	L	To be determined			

Future developments

The year ahead will be another busy year for the Company as it continues to progress its core exploration focused strategy and plans on making a number of applications in the 32nd UKCS Offshore Licensing Round, which is currently expected to commence during the summer of 2019, with awards expected sometime during the first half of 2020.

The Company is looking forward to its first field operations during the summer of 2019 with the acquisition of new 3D seismic data across the Pensacola prospect by Shell.

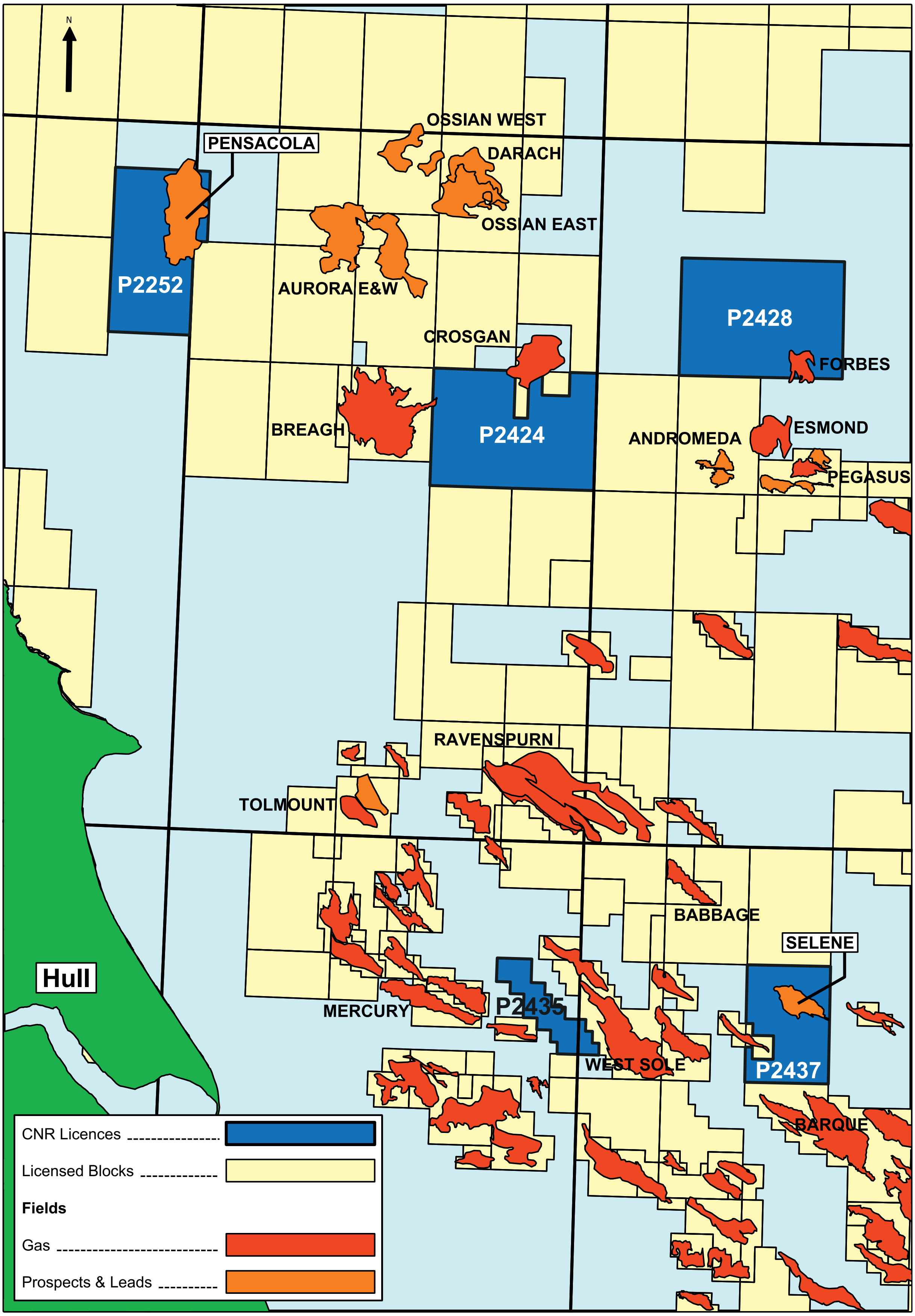
During the second half of 2019, we will begin the farm-out process on a number of the licences awarded in the 30th Licence Round which, if successful, will support potential future drilling and seismic acquisition activities.

While maintaining focus on our core strategy, the Company continues to review other potential opportunities within the UK's North Sea and adjacent basins which have the potential to create value for our shareholders in the short to medium term through near term exploration activity or potential cash flow generation.

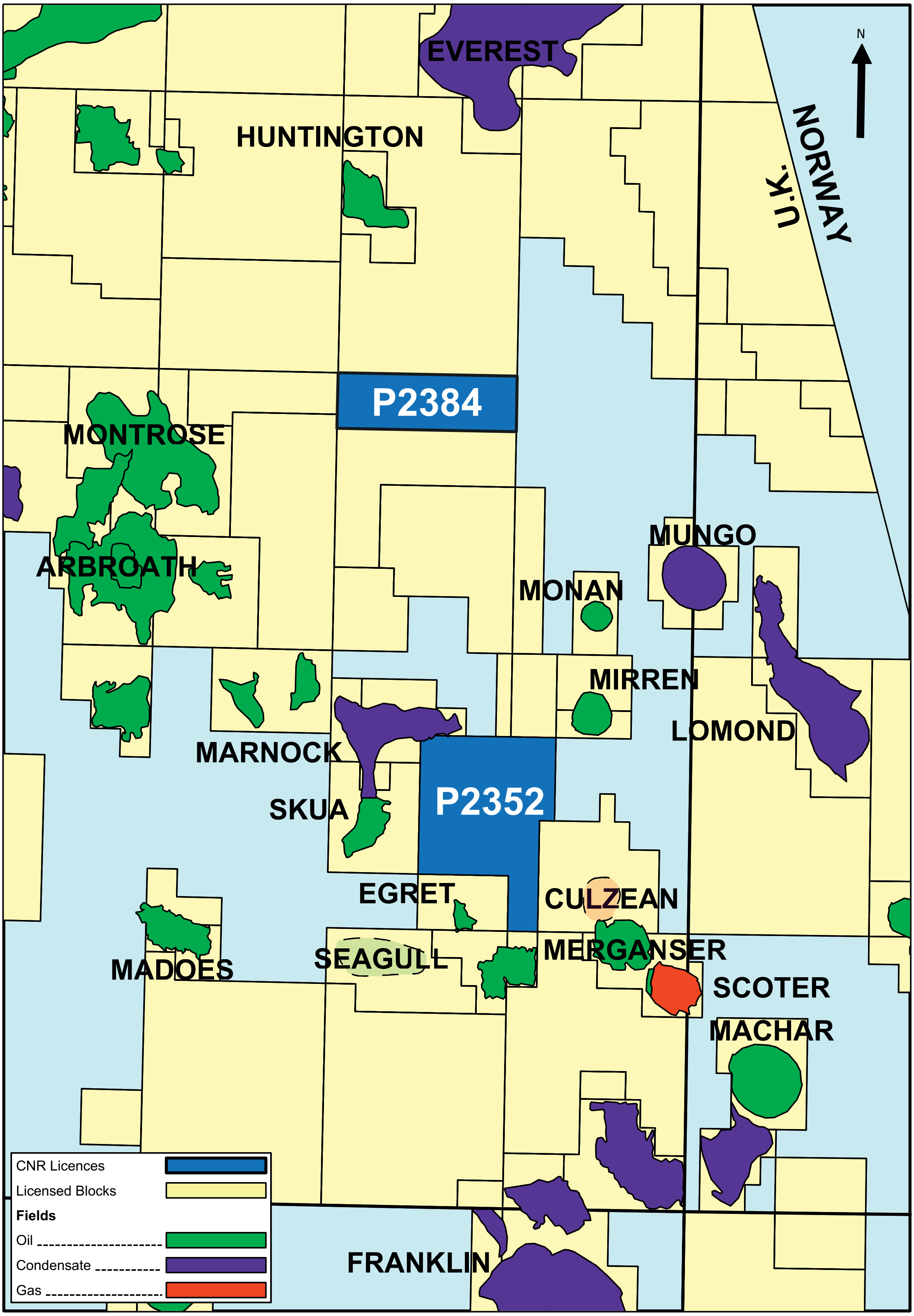
A J Nunn
Chief Operating Officer

24 April 2019

Operational Review
Our Locations - Southern North Sea



Operational Review
Our Locations - Central North Sea



Financial Review

All major expenditure in the last three years has been focused on the development of the Company's portfolio of conventional North Sea assets 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 2018 of £1,660,153 (2017: £1,590,203) which related primarily to technical and administrative expenditure. The loss for 2018 was slightly higher than the previous year as a result of higher technical and administrative expenses, in conjunction with the expansion of the investment portfolio.

Financial position

The Company's cash position was £1,425,986 at 31 December 2018 (2017: £1,016,667) with the year-on-year increase in cash being explained below. The increase in intangible assets to £1,617,087 (2017: £775,351) is mainly due to further direct investment in the North Sea licences of £825,391. Total liabilities include short-term creditors and accruals, which increased to £395,580 (2017: £212,539). The increase in total equity of £1,068,119 is due to the subscription of new ordinary shares, offset by the loss for the year, and other movements set out in the Statement of Changes in Equity on page 26.

Cash flow

In the year to 31 December 2018, net cash used in operating activities was £1,522,575 (2017: £1,428,306) and £674,729 was used in investing activities (2017: £224,729) of which £666,565 (2017: £223,508) related to expenditure on exploration assets. This was partially offset by total cash received (net of expenses) of £2,606,623 from the subscription of new ordinary shares in April 2018 and July 2018.

Consequently, in the year to 31 December 2018, the Company experienced a net cash inflow of £409,319 (2017: £691,243 outflow).

Equity fundraising

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 of 0.5p each at 1.6 pence per share. The purpose of this subscription was to fund the evaluation of any licences awarded in the UK's 30th Offshore Licensing Round, continue the process to secure a farm-out of the Company's existing licences in the Southern North Sea, complete ongoing geological and technical work, and to continue to develop well designs and planning for a prospective multi-well drilling programme on key explorations targets on its existing licences. The Company has since been awarded six new gas and oil licences in the 30th Offshore Licensing Round and has secured a farm-out over one of its existing licences. The shares were allotted and admitted to trading on AIM on 26 April 2018.

On 27 June 2018, following the award of the additional six licences in the 30th Licensing Round, the Company announced that it had raised £2 million, before expenses, through the placing and subscription of 95,238,090 new ordinary shares of 0.5p each at 2.1 pence per share with new and existing institutional and private investors. The purpose of this placing and subscription was to fund the acceleration of the technical and commercial evaluation of the additional Central and North Sea licences awarded in the UK's 30th Offshore Licensing Round, continue the process to secure a farm-out of the Company's two existing gas licences in the Southern North Sea, and to continue to develop well designs and planning for a prospective multi-well drilling programme on key explorations targets on its existing licences. The shares were allotted and admitted to trading on AIM on 4 July 2018. Following the allotment there were 538,173,289 ordinary shares in issue. The Company is now funded until the beginning of Q4 2019.

Closing cash

As at 31 December 2018, the Company held cash balances of £1.43 million (2017: £1.02 million).

Shareholders' equity

As at 31 December 2018 there were 538,173,289 (2017: 396,060,199) ordinary shares in issue. Following the exercise of share options in February 2019, the number of ordinary shares in issue increased to 548,821,998. Additionally, a total of up to 48,308,192 (2017: 40,756,901) new ordinary shares may be issued pursuant to the exercise of share options.

Subsequent events

Refer to note 19 to the financial statements for details of events subsequent to 31 December 2018.

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 subsequent receipt of funds from Shell in respect of the grant of the option over Licence P2437, and proceeds of £141,095 from the exercise of share options, the Company has adequate financial resources to cover its budgeted exploration and development programme until the beginning of the fourth quarter of 2019. Further funding will be required to allow the Company to fully implement its strategy beyond this period and it therefore anticipates that further funds will be raised, most likely by way of equity, as it has successfully done in the past.

Key performance indicators

At this stage in its development, the Company is focusing on the development of its North Sea gas and oil assets, applying for additional licences, maintaining and extending existing licences, as well as the evaluation of various oil and gas opportunities. The Directors closely monitor the levels of overheads and other administrative expenditure, exploration expenditure and cash balances, as set out above. As and when the Company's investments move into production, other KPIs will become relevant and will be measured and reported as appropriate.

Graham Swindells
Chief Executive Officer

24 April 2019

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, although these risks are currently similar to last year.

Financial

The Company's core risk is that its ability to effectively implement its business strategy and to continue as a going concern over time depends 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, or partnership arrangements, as it has successfully done in the past. 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. 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.

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

Exploration and development risk

Activities within the Company's licences may not result in commercial development or otherwise realise value. 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
- Fluctuations in gas and oil prices
- Competition and barriers to entry
- Limited diversification

Operational

- Failure to add value through exploration and development
- Failure to identify business partners and to secure future farm-outs
- Failure to discover gas or oil extractible in commercial quantities
- Licences, permits and/or approvals may be difficult to sustain
- Delays in planning approvals

Commercial

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

Human Resources and Management Processes

- Failure to recruit and retain key personnel
- Human error or deliberate negative action
- Inadequate management processes
- Insufficient timely information available to the management and the Board

Financial

- Restrictions in capital markets and other sources of funding impacting available financial resource
- Cost escalation and budget overruns
- Fraud and corruption

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

Investing Policy

In addition to the development of the 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% 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.

On behalf of the Board

J G Cluff
Chairman

24 April 2019

Graham Swindells
Chief Executive Officer

24 April 2019

Corporate Governance

Chairman's Introduction

As Chairman of the Company, I provide leadership, ensuring that the Board is performing its role effectively, and has the capacity, ability, structure and support to enable it to continue to do so.

As an AIM quoted company, the Company has chosen to follow the Quoted Companies Alliance's ("QCA") Corporate Governance Code 2018 (the 'QCA Code') published in April 2018. The Board recognises the value and importance of high standards of corporate governance and believes that this provides the most appropriate framework for a company of our size and stage of development.

This Governance section of the Annual Report provides an update on our Corporate Governance policy, and includes the Audit Committee Report, Remuneration Committee Report and the Directors' Report. In these reports we set out our governance structures and explain how we have applied the QCA Code and where we have departed from the code during the year. The QCA Code is set out in detail on the Company's website at www.cluffnaturalresources.com/investor-relations/corporate-governance-2, including an explanation as to how the Company addresses the ten key governance principles defined in the QCA Code.

In February 2018, the Company split the role of the former Executive Chairman between the positions of Chairman and the current Chief Executive Officer, improving the balance of responsibilities within the Board. During the year, the Board also recommended and approved the formation of an AIM Compliance Committee in order to improve monitoring of the Company's compliance with the AIM rules and the Market Abuse Regulation.

Corporate Governance Statement

Board responsibilities

The Board is responsible to the Company's shareholders for the leadership, control and management of the Company. It is responsible for the long-term success of the Company and for ensuring its appropriate management and operation in pursuit of its objectives.

The Board is in constant communication and meets regularly. Its responsibilities include:

- Setting the Company's strategy
- Determining policies and values
- Establishing and maintaining the Company's system of internal control and reviewing effectiveness annually
- Identifying the major business risks faced by the Company and determining appropriate risk management
- Investing decisions
- Fundraising decisions
- Management appointments

Whilst there is a formal schedule of matters specifically reserved for approval by the Board, the two executive directors have been given responsibility for specific functional aspects of the Company's affairs.

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Company's activities. These values are enshrined in the written policies and working practices adopted by all employees. An open culture is encouraged within the Company, with regular communications to staff regarding progress and staff feedback being regularly sought. This is especially important as a small company, in order to fully harness its human capital in pursuit of the effective development of the Company's assets, and so achieve the objectives and strategy set out in the Strategic Report and to seek to mitigate the risks and uncertainties described in the Business Risks section of the Strategic Report. The executive directors work closely with the small number of employees, so the Board is well placed to assess its culture. The Board are prepared to take appropriate action against unethical behaviour, violation of company policies or misconduct.

Composition of the Board

The Board currently comprises five Directors, of whom two are executive and three are non-executive. The Directors are all identified on page 17, together with a summary of their current and past experience, skills and personal qualities.

Non-executive Chairman

As Chairman, J G Cluff oversees the adoption, delivery and communication of the Company's corporate governance model and is responsible for ensuring that it is maintained in line with appropriate practice and policies agreed by the Board. He is also the Company's leading ambassador, which includes presenting the Company's aims and policies to investors and other outside parties. He promotes active communication with shareholders and other stakeholders, including speaking regularly with major investors and other stakeholders. He chairs the AGM and as chairman of the Board, he chairs Board meetings, ensuring that the Board regularly reviews the Company's strategy. He also oversees the composition and structure of the Board which involves regularly reviewing the overall size of the Board, the balance between executive and non-executive, age, experience, skills and personalities of the Directors. With effect from 22 May 2019, JG Cluff will retire and Mark Lappin, currently a Non-executive Director, will be appointed Chairman.

Corporate Governance
continued

Non-executive Directors
The two other Non-executive Directors have a responsibility to challenge independently and constructively the performance of management and to help develop proposals on strategy. They sit on the Remuneration and Audit committees, enabling them to have a role in determining the pay and benefits of the Chairman and executive directors, to review internal control and financial reporting matters, and to have a direct relationship with the external auditors.

Independence and Commitments
The two other Non-executive Directors are considered by the Board to be independent of management. The Board believes that they continue to demonstrate an independence of character in the performance of their roles as Non-executive Directors. Their director's fees are fixed, and they do not benefit from share option awards.

The Directors are expected to attend Board meetings, meetings of Board Committees of which they are members, annual general meetings, and any other shareholder meetings convened from time to time.

All Directors have disclosed any significant commitments outside their respective duties as Directors and confirmed that they have sufficient time to discharge their duties.

Appointments
The Board believes there is an appropriate balance of skills, knowledge and personal qualities on the Board, which provides a wide range of expertise on issues relating to the Company's mission, operations, strategies and its standards of conduct. The Chairman of the Board monitors the suitability of the Board's composition on a continuing basis and will make recommendations to the Board as and when appropriate.

Board support and external advice
Internal management is available to the Board to ensure all Board and Committee meetings are conducted properly and procedures are in place for distributing meeting agendas and reports so that the Directors receive the appropriate information to be discussed in a timely manner. The Directors each receive reports which include monthly finance and management results and operational updates from the Chief Executive Officer and the Chief Operating Officer. Board minutes are taken by internal management and circulated for approval at the next meeting. The Company Secretary assists the Board by maintaining statutory registers and filings and assisting with organising shareholder general meetings.

Aside from the Directors' stated roles and the role of Graham Swindells as Company Secretary, the Board members do not have any particular internal advisory responsibilities. Where it considers it necessary to do so, the Board and Board committees may utilise external professional advisors to provide advice and guidance on any matter where they consider it prudent to seek such advice, at the Company's expense. No such external advice was sought during the year.

Board performance evaluation
The Board evaluates its performance as a whole, informally on an ongoing basis. This falls under the overall responsibility of the Chairman, taking into account the Financial Reporting Council's Guidance on Board Effectiveness. Subsequent to the split in the role of the former Executive Chairman between the positions of Chairman and Chief Executive Officer in February 2018, there have been no further recommendations concerning the Board structure arising from the Company's Board appraisals over the year ended 31 December 2018.

Board meetings
The Board meets formally a minimum of eleven times a year, excluding Board committee meetings. The table below sets out the total number of meetings held by the Board and its Committees and records of attendance by each member eligible to attend during the year ended 31 December 2018:

	Board meetings		Audit committee[1]		Remuneration committee[1]	
	Possible	Attended	Possible	Attended	Possible	Attended
J G Cluff	15	15	-	-	-	-
G C Swindells	15	15	2	2	-	-
A J Nunn	15	15	-	-	-	-
P N Cowley	15	12	2	2	4	4
M S Lappin	15	13	2	2	4	4

1 Only Non-executive Directors are entitled to vote in the meetings of these Board Committees.

Corporate Governance
continued

Other senior members of the management team and external advisors will attend, at the invitation of the Board, and as appropriate to the matters under discussion.

Board committees
The Board has established an audit committee, remuneration committee and AIM compliance committee with formally delegated duties and responsibilities, as described below. Each committee's terms of reference are included on the Company's website.

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, monitoring the effectiveness of the internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings).

The audit committee comprises Peter Cowley and Mark Lappin and is chaired by Peter Cowley. The audit committee aims to meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee also meets regularly with the Company's external auditors.

Remuneration committee
The remuneration committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chairman and the executive directors 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 executive members of the Board. No Director is involved in any decision as to his or her own remuneration.

The remuneration committee comprises Peter Cowley and Mark Lappin and is chaired by Peter Cowley. The remuneration committee meets at least twice a year and otherwise as required.

AIM compliance committee
The AIM compliance committee is responsible for ensuring that the Company complies with its obligations under the AIM Rules for Companies ("AIM Rules") and the Market Abuse Regulation (Regulation EU 596/2014) ("MAR") and, in particular makes timely and accurate disclosure of all information that is required to be disclosed to meet its disclosure obligations arising from the admission of its shares to trading on AIM and, under MAR.

The AIM compliance committee comprises JG Cluff, Graham Swindells and Andrew Nunn. The AIM compliance committee meets as and when required, in order to undertake its responsibilities which, since its recent formation, has not yet been necessary.

Share dealing code
The Company has adopted a share dealing code for the Directors, persons discharging managerial responsibilities and applicable employees of the Company for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules and MAR). The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

On behalf of the Board

J G Cluff
Chairman

24 April 2019

Audit Committee Report

Overview

The audit committee met twice during the year. The external auditor, BDO LLP, also attended the meetings at the invitation of the audit committee chairman.

Financial reporting

The audit committee monitored the integrity of the annual financial statements and reviewed the significant financial reporting issues and accounting policies and disclosures in the financial reports. The external auditor attended the audit committee meetings as part of the full year accounts approval process. The process included the consideration of reports from the external auditor identifying the primary areas of accounting judgements and key audit risks identified as being significant to the 2018 financial statements.

Audit committee effectiveness

Although no formal review of the effectiveness of the audit committee has been undertaken, the Board and the chairman of the audit committee believe this to be satisfactory. The chairman of the audit committee will continue to assess whether such a formal review would be appropriate or otherwise however, it is currently not considered necessary.

External audit

The audit committee is responsible for managing the relationship with BDO LLP, the Company's external auditor since being appointed in 2012. The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and reviewing the non-audit fees payable to the auditor. Non-audit services are not performed by the auditor if this would have a material effect on, or relevance to, the production of the Company's financial statements and/or involve taking decisions or making significant subjective judgements that should be the responsibility of management. During the year, amounts paid to BDO LLP for audit related services totalled £17,681 (2017: £17,250) and £2,000 (2017: £700) for non-audit services. These non-audit services were performed by a team separate from the audit team, did not involve any subjective judgements and a member of the Company's management was identified as taking responsibility for the services provided.

Internal audit

In light of the size of the Company and its current stage of development, the committee did not consider it necessary or appropriate to operate an internal audit function during the year.

P N Cowley
Chairman, Audit committee

24 April 2019

Remuneration Committee Report

The remuneration committee reviews the scale and structure of the executive directors' remuneration and the terms of their service contracts.

The remuneration and terms and conditions of appointment of the Non-executive Directors are set by the Board.

The remuneration committee met four times during 2018 in consideration of: new service agreements, termination payment, increases in remuneration, share option awards and bonus awards.

During the year there were no changes to the Company's pay and employment conditions and all director salary increases and bonuses were approved by the remuneration committee. There was no performance-related pay scheme in operation.

Although no formal review of the effectiveness of the remuneration committee has been undertaken, the Board and the chairman of the remuneration committee believe this to be satisfactory. The chairman of the remuneration committee will continue to assess whether such a formal review would be appropriate or otherwise however, it is currently not considered necessary.

P N Cowley
Chairman, Remuneration committee

24 April 2019

Board of Directors

There is an appropriate breadth of experience, skills and personal qualities covering the key aspects of the business including technical, operational and financial. Although the Board are of the opinion that a lack of gender balance has not thus far impacted its capabilities, actions to address this remain under consideration. It is the responsibility of each Director to keep skills up to date with the assistance of the Chairman who has a core responsibility in addressing the development needs of the Board as a whole, with a view to enhancing its overall effectiveness.

Algy Cliff

Chairman

In 1972 Algy Cliff 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. Algy is also a member of the Company's AIM compliance committee.

Algy's wealth of experience and success in natural resources exploration and development, including many senior executive positions, has enabled him to provide the required leadership, guidance and support to the Board.

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 with BDO, he 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 focussed 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. Graham is also Company Secretary and chairman of the Company's AIM compliance committee.

Graham's professional, commercial and finance experience ensures that he has the necessary ability to develop and implement the Company's strategy, undertake fundraising, and oversee the management of the Company.

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 17 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. Andrew is also a member of the Company's AIM compliance committee.

Andrew's technical and operational experience and professional qualifications ensure that he has the necessary ability to lead and manage the Company's technical development and operational matters.

Peter Cowley

Non-Executive Director

Peter Cowley is a geologist with 46 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 was previously Managing Director of Ashanti Exploration Limited and Group Technical Director of Cluff Resources Plc. He holds M.Sc. and MBA degrees and is a Fellow of I.M.M.M. He was also a Non-executive Director of Amara Mining Plc. Peter is also chairman of the Company's audit and remuneration committees.

Peter's many years of technical experience and senior management positions within the resources sector ensure that he has the ability to support the executive directors, challenge strategy and decision-making, and to scrutinise performance.

Mark Lappin

Non-Executive Director

Mark Lappin has over 36 years of experience in the oil and gas industry. Mark was until recently 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. Mark is also a member of the Company's audit and remuneration committees. Mark will take on the role of Non-Executive Chairman following the retirement of Algy Cluff on 22 May 2019.

Mark's extensive technical, commercial and senior management experience in the oil and gas sector ensures that he has the ability to support the executive directors, challenge strategy and decision-making, and to scrutinise performance. His experience will further serve to support his future role as Non-Executive Chairman as the Company enters its next stage of development.

Report of the Directors

The Directors present their report with the financial statements of the Company for the year ending 31 December 2018.

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 and oil licences in the Southern and Central 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 2018 (2017: 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 2018 are set out below:

	Ordinary shares		Share options	
	2018	2017	**2018**	2017
J G Cluff	**13,038,502**	13,038,502	18,648,709	18,648,709
G C Swindells	**323,406**	323,406	18,654,096	9,654,096
A J Nunn	**235,294**	235,294	18,654,096	10,454,096
P N Cowley	**447,059**	447,059	-	-
M S Lappin	**-**	-	-	-
	14,044,261	14,044,261	55,956,901	38,756,901

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the year ended 31 December 2018 for the individual Directors who held office in the Company during the year.

	2018 Salaries and fees £	**2018 Bonus payments £**	**2018 Termination payment £**	**2018 Pension £**	**2018 Benefits in Kind £**	**2018 Total £**	2017 Total £
J G Cluff	**66,667**	**20,000**	**50,000**	**-**	**26,212**	**162,879**	222,560
G C Swindells	**157,833**	**32,000**	**-**	**15,783**	**3,896**	**209,512**	161,218
A J Nunn	**149,500**	**30,000**	**-**	**14,950**	**2,177**	**196,627**	161,017
P N Cowley	**20,000**	**-**	**-**	**-**	**-**	**20,000**	20,000
The Earl De La Warr DL.[1]	**-**	**-**	**-**	**-**	**-**	**-**	15,000
M S Lappin	**20,000**	**-**	**-**	**-**	**-**	**20,000**	20,343
	414,000	**82,000**	**50,000**	**30,733**	**32,285**	**609,018**	600,138

1 Resigned 25 September 2017

J G Cluff was additionally paid consulting fees of £25,000 in 2018 (2017: £nil) in relation to business development and other assistance provided to the Company.

Report of the Directors
continued

Share options and warrants

The share-based payment of £119,175 (2017: £106,482) to Directors represents the share-based expense relating to unvested share options during the year.

The following share options table comprises share options and warrants held by Directors who held office during the year ended 31 December 2018:

	Options held at 31 December 2017	Options granted in period	Options exercised in period	**Options held at 31 December 2018**	Exercise price (p)	Exercisable from	Exercisable to
J G Cluff	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	-	9,000,000	-	**9,000,000**	2.32	07 June 2019	07 June 2028
	2,200,000		-	**2,200,000**	3.75	30 April 2015	30 April 2024
	7,454,096		-	**7,454,096**	1.325	10 June 2017	10 June 2026
A J Nunn	-	8,200,000	-	**8,200,000**	2.32	07 June 2019	07 June 2028
	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 18.

Financial Instruments

Details of the use of financial instruments by the Company are contained in the Strategic Report and note 16 of the financial statements.

Subsequent Events

Events subsequent to 31 December 2018 are set out in note 19 to the financial statements on page 42.

Political Contributions

No payments to political parties have been made during the year (2017: nil).

Business Risks

A summary of the principal and general business risks can be found in the Strategic Report on page 10 and in note 16 to the financial statements

Key Performance Indicators

At this stage in its development, the Company is focusing on the development of its North Sea gas and oil assets, applying for new licences, maintaining and extending existing licences, as well as the evaluation of various oil and gas opportunities. The Directors closely monitor certain financial information, in particular the levels of overheads and other administrative expenditure, exploration expenditure and cash balances, as set out in the Financial Review. As and when the Company moves into production, other financial, operational, health and safety and environmental KPIs will become relevant and will be measured and reported as appropriate.

Disclosure of Information to Auditors

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

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

24 April 2019

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 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and 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 2018 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.

Material uncertainty relating to going concern
We draw attention to 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 beginning of the fourth quarter of 2019. These circumstances indicate the existence of a material uncertainty which may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 set out in note 1, the cash flow forecasts prepared by the Directors indicate that the Company will require additional funding beyond the beginning of the fourth quarter of 2019. As described above this indicates a risk over going concern.

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

- We obtained and reviewed the latest cash flow forecasts for the Company which included the period of 12 months from the date of approval of these financial statements. In doing so we challenged and corroborated Management's key assumptions included in the cash flow forecasts. This included comparing forecast operating costs to historical cost levels and evaluating 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 fundraisings.

Other key audit matters
In addition to the matter described in the material uncertainty related to going concern section, 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 eight licences represent the key assets on the Company's statement of financial position (Refer to note 8).

During the year the Company obtained six-month licence extensions to licences P2252 and P2248 through to May 2019. 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 2019. On 8 February 2019, the Company announced agreements with Shell U.K. Limited ("Shell") in respect of its Southern North Sea licence P2252. The Company has entered a binding, conditional farm-out agreement in relation to this licence.

The Company announced on 8 February 2019 that it would relinquish Licence P2248 unless a farm-out could be agreed by 28 February 2019. No farm-out was agreed and therefore the licence was relinquished with effect from 29 March 2019, which management concluded represented a non-adjusting event as disclosed in note 19.

Key audit matter (continued**)**

Carrying value of exploration assets (continued)

Management performed an impairment indicator review in accordance with relevant accounting standards and accounting policies set out in note 1, to assess whether there were any indicators of impairment for the exploration assets. Following this assessment, the Board concluded that no impairment was required at 31 December 2018, 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.

How we addressed the key audit matter:

- We reviewed the licence documentation to satisfy ourselves that the licences remained valid at 31 December 2018, as well as to confirm the dates of expiry and licence obligations.
- We evaluated management's impairment indicator review by considering 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 checked the agreements with Shell in respect of Licence P2252 to confirm the terms of the binding conditional farm-out agreement and discussed the nature of the remaining steps to completion of the farm-out for this licence with management and the audit committee. We considered the progress of the Company's technical work to date on its licences, together with budgeted works, against the licence extension obligations and due dates.
- We evaluated management's conclusion that the decision to relinquish Licence P2248 was made subsequent to year end and therefore did not represent an adjusting subsequent event under relevant accounting standards and industry practice. We made specific inquiries of management and the Board, obtained evidence that demonstrated that exploration costs continued to be incurred subsequent to year end and that the Company was actively pursuing a farm-out during early 2019.
- 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.

We found the disclosures in the financial statements to be in line with accounting standards.

Our application of materiality

	Materiality for FY	Basis for materiality
FY 2018	£55,000	1.75% of total assets
FY 2017	£34,000	1.75% 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 £41,250 (2017: £25,500) which represents 75% (2017: 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 £2,750 (2017: £1,700). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We carried out a full scope audit of the Company whose principal operations and corporate head office function is located in the UK. Our audit approach is risk based and we set out above the risks that had the greatest impact on our audit strategy and scope.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the 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 in relation to which 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 Statement of Directors' Responsibilities set out on page 20, 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.

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.

Ryan Ferguson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

24 April 2019

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

Income Statement
for the year ended 31 December 2018

Continuing Operations	Notes	2018 £	2017 £
Administrative expenses		**(1,661,121)**	(1,591,701)
Operating loss		**(1,661,121)**	(1,591,701)
Finance income		**968**	1,498
Loss before tax	4	**(1,660,153)**	(1,590,203)
Income tax expense	6	**-**	-
Loss for the year		**(1,660,153)**	(1,590,203)
Loss per share from continuing operations expressed in pence per share:			
Basic and diluted	7	**(0.35)p**	(0.46)p

Statement of Comprehensive Income
for the year ended 31 December 2018

	2018 £	2017 £
Loss for the year	**(1,660,153)**	(1,590,203)
Other comprehensive income	**-**	-
Total comprehensive expense for the year attributable to the equity holders of the Company	**(1,660,153)**	(1,590,203)

Financial Statements

The notes on pages 28 to 42 form part of the financial statements.

Balance Sheet
as at 31 December 2018

	Notes	2018 £	2017 £
Assets			
Non-current Assets			
Intangible assets	8	**1,617,087**	775,351
Property, plant and equipment	9	**11,788**	4,350
Other receivables	10	**53,688**	53,688
Total non-current assets		**1,682,563**	833,389
Current assets			
Other receivables	10	**82,265**	89,198
Cash and cash equivalents		**1,425,986**	1,016,667
Total current assets		**1,508,251**	1,105,865
Total assets		**3,190,814**	1,939,254
Capital and reserves attributable to the equity holders of the Company			
Shareholders' equity			
Share capital	11	**2,690,866**	1,980,300
Share premium		**10,286,493**	8,390,436
Share-based payment reserve	18	**749,487**	627,838
Accumulated retained deficit		**(10,932,012)**	(9,271,859)
Total equity		**2,794,834**	1,726,715
Liabilities			
Current liabilities			
Trade and other payables	13	**395,980**	212,539
Total liabilities		**395,980**	212,539
Total equity and liabilities		**3,190,814**	1,939,254

The financial statements of Cluff Natural Resources Plc, registered number 7958581, were approved by the Board of Directors on 24 April 2019 and were signed on its behalf by:

Graham Swindells
Chief Executive Officer

The notes on pages 28 to 42 form part of the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital £	Share premium £	Share-based payment reserve £	Accumulated retained deficit £	Total equity £
Balance at 1 January 2018	1,980,300	8,390,436	627,838	(9,271,859)	1,726,715
Comprehensive income for the year					
Loss for the year	-	-	-	(1,660,153)	(1,660,153)
Total comprehensive loss for the year	-	-	-	(1,660,153)	(1,660,153)
Contributions by and distributions to owners					
Issue of share capital	710,566	2,039,434	-	-	2,750,000
Expenses of issue	-	(143,377)	-	-	(143,377)
Share-based payment	-	-	121,649	-	121,649
Total contributions by and distributions to owners	710,566	1,896,057	121,649	-	2,728,272
Balance at 31 December 2018	**2,690,866**	**10,286,493**	**749,487**	**(10,932,012)**	**2,794,834**
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**

The notes on pages 28 to 42 form part of the financial statements.

Statement of Cash Flows
for the year ended 31 December 2018

	2018 £	2017 £
Cash flows used in operating activities		
Loss before tax	**(1,660,153)**	(1,590,203)
Investment income	**(968)**	(1,498)
Share-based payment	**121,649**	113,885
Depreciation	**2,893**	1,864
Amortisation	**4,943**	2,655
Impairment of investment in subsidiary	**-**	1,491
	(1,531,636)	(1,471,806)
Decrease in other receivables	**6,933**	53,838
Increase/(decrease) in trade and other payables	**2,128**	(10,338)
Net cash used in operating activities	**(1,522,575)**	(1,428,306)
Cash flows used in investing activities		
Purchase of intangible assets	**(665,565)**	(223,508)
Purchase of property, plant and equipment	**(10,132)**	(2,328)
Interest received	**968**	1,498
Investment in subsidiary	**-**	(390)
Net cash used in investing activities	**(674,729)**	(224,729)
Cash flows from financing activities		
Proceeds of share issue	**2,750,000**	1,000,000
Expenses of share issue	**(143,377)**	(38,208)
Net cash from financing activities	**2,606,623**	961,792
Increase/(decrease) in cash and cash equivalents	**409,319**	(691,243)
Cash and cash equivalents at beginning of year	**1,016,667**	1,707,910
Cash and cash equivalents at end of year	**1,425,986**	1,016,667

The notes on pages 28 to 42 form part of the financial statements.

Notes to the Financial Statements
for the year ended 31 December 2018

1. Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and factors that are believed to be reasonable under the circumstance, the result of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from this estimate. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed later in this note.

Operating loss is stated after charging and crediting all items excluding finance income and expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period or in the period of revision and future periods if the revision affects both current and future periods.

Going concern

The Company is dependent on its existing cash resources and its ability to raise additional funding in order to develop its assets. Based on the cash balance at year end and the Company's commitments, the Directors are of the opinion that the Company has sufficient funds to cover its budgeted exploration and development programme and to meet its other operational obligations as they fall due until the beginning of the fourth quarter of 2019. 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 beginning of the fourth quarter of 2019. 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 Company was unable to continue as a going concern which would principally relate to impairment of the Company'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:
IFRS 2: Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRS 9: Financial Instruments: Classification and Measurement	1 January 2018
IFRS 15: Revenue from Contracts with Customers & Clarifications to IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRIC 22: Foreign currency transactions and advance consideration	1 January 2018

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 commencing after 1 January 2019 or later periods and which the Company has decided not to early adopt. These include:

	Effective period commencing on or after:
IAS 1: Amendments to IAS 1 and IAS 8: Definition of Material	1 January 2020
IFRS 3: Amendment to IFRS 3 Business Combinations	1 January 2020
IFRS 16: Leases	1 January 2019
Annual Improvements to IFRSs (2015-2017 Cycle)	1 January 2019

New/revised International Financial Reporting Standards which are not considered to potentially have a material impact on the Company's financial statements going forwards have been excluded from the above.

1. Accounting Policies (continued)

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement.

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 adopted IFRS 16 on 1 January 2019 for periods beginning on or after that date. The requirements of IFRS 16 will extend to the Company's operating leases for land & buildings (note 14) and as such the Company expects a material impact with these leases being recognised on the balance sheet.

The estimated impact of the implementation of this standard is set out below:

- Recognition of a lease liability and right of use asset, the initial impact of which is an increase in property, plant and equipment and in total liabilities of £377,568. The impact on net assets is not material.
- A new finance expense due to the lease finance charge, estimated to be £32,618 in 2019 but reducing thereafter.
- Increased annual depreciation of property, plant and equipment of £111,365 for the duration of the lease.
- Elimination of the former operating lease rental expense, which amounted to £128,174 in 2018.

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 for the year ended 31 December 2019 based on current activities.

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 is determined at the date of grant, taking into account market based vesting conditions and non-vesting conditions. The fair value of goods and services received is measured by reference to the fair value of options.

The fair values of share options and warrants are measured using an appropriate valuation methodology. 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 or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting 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 2018

1. Accounting Policies (continued)

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 assesses each licence as a separate 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 charge 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 2018

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

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- amortised cost.
- fair value through profit or loss (FVTPL).
- fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both:

- the entity's business model for managing the financial asset.
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items.

Notes to the Financial Statements
for the year ended 31 December 2018

1. Accounting Policies (continued)

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows.
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

The Company assesses the expected credit losses on a forward-looking basis, defined as the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the simplified approach permitted by IFRS 9 is applied, which requires expected lifetime losses to be recognised from initial recognition of the receivables. Losses are recognised in the income statement. When a subsequent event causes the amount of impairment to decrease, the decrease in impairment is reversed through the income statement.

Classification and measurement of financial liabilities

The Company's financial liabilities include trade and other payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

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 17, 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 with reference to IFRS 6 indicators of impairment. This assessment involves judgement as to the status of licences and the likelihood of renewal of licences which expire in the near future including the ability to meet licence obligations, budgets and plans for future exploration activity and expenditure, the results of exploration activity, and assessments of future recoverable values upon development.

Notes to the Financial Statements
for the year ended 31 December 2018

1. Accounting Policies (continued)

Where impairment indicators are identified, an impairment test is performed which requires judgment regarding factors such as:

(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 2018. In forming this assessment, the Company considered external and internal competent person's reports, the status of the licences, the extent of ongoing exploration activity and steps to secure farm-in partners and other financing which supported the carrying value. No indicators of impairment were identified at 31 December 2018.

As detailed in note 19, subsequent to year end the Company decided to relinquish its P2248 licence and will record an impairment charge of approximately £806,000 in 2019 accordingly. In determining that this represented a non-adjusting subsequent event, management considered the remaining term on the licence, the continued activity and expenditure on the licence beyond 31 December 2018, and the active search for a farm-in partner, which continued until the end of February 2019.

Estimates

Determination of share-based payment costs (note 18)

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. Estimates were required including the expected life of the option and volatility. In addition, management were required to assess the extent to which the minimum share price vesting criteria would be met and the most likely period over which those criteria would be met. Management concluded that the vesting criteria would be met, and the most likely outcome was that the share price vesting criteria would be met within one year for 9,100,000 options and two years for 9,100,000 options as detailed in note 18. In reaching this conclusion management considered factors including the historical share price performance, recent announcements in respect of its licences and their assessment of potential outcomes as a result of the Shell option over Licence P2437.

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

	2018	2017
	£	£
Wages and salaries	**607,639**	623,472
Short-term non-monetary benefits	**38,747**	37,169
Termination payments	**50,404**	-
Defined contribution pension costs	**35,115**	29,050
Social security costs	**83,139**	77,930
Share-based payment expense	**121,649**	113,885
	936,693	881,506

	2018	2017
The average monthly number of employees during the year was as follows:		
Directors	**5**	6
Administrative	**3**	3
	8	9

Notes to the Financial Statements
for the year ended 31 December 2018

3. Employees (continued)

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.

	2018 £	2017 £
Salaries	**496,000**	543,510
Short-term non-monetary benefits	**32,285**	27,813
Termination payment	**50,000**	-
Consulting fees	**25,000**	-
Defined contribution pension costs	**30,733**	28,817
Social security costs	**71,566**	69,915
Share-based payment expense	**119,175**	106,482
	824,759	776,537

Directors' remuneration is disclosed in the Directors' Report on page 18, including the remuneration of the highest-paid director.

Details regarding share options and warrants are set out in note 18 to the financial statements.

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

4. Loss before Tax

	2018 £	2017 £
The loss before tax is stated after charging:		
Other operating lease rentals – land and buildings	**128,174**	111,209
Amortisation of software assets	**4,943**	2,655
Impairment of investment in subsidiary	**-**	1,491
Depreciation – owned assets	**2,893**	1,864

5. Auditors' Remuneration

	2018 £	2017 £
Fees payable to the Company's auditors for the audit of the Company's financial statements	**17,681**	16,750
Fees payable to the Company's auditors for non-audit related services	**2,000**	700
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:

	2018 **£**	2017 £
Loss on ordinary activities before taxation	**(1,660,153)**	(1,590,203)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (19%) (2017: 19.25%)	**(315,429)**	(306,114)
Effects of:		
Capital allowances in excess of/(less than) depreciation	**29**	(169)
Expenses not deductible for tax purposes	**1,838**	1,980
Adjustment in relation to share based payment	**23,113**	21,923
Unrelieved losses carried forward	**290,449**	282,380
Income tax expense	**-**	-

A deferred tax asset of £1,962,503 (2017: £1,672,054) in respect of trading losses of £10,328,965 (2017: £8,800,286) 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 18.

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 58,956,901 (2017: 40,756,901) 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

	2018	2017
Loss per share from continuing operations	**(0.35)p**	(0.46)p

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

	2018 **£**	2017 £
Loss used in the calculation of total basic and diluted loss per share	**(1,660,153)**	(1,590,203)

Number of shares

	2018 **Number**	2017 Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**475,394,019**	343,914,080

Notes to the Financial Statements
for the year ended 31 December 2018

8. Intangible Assets

	Exploration & evaluation assets £	Software licences £	Total £
Cost			
At 1 January 2017	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
Additions	825,391	21,288	846,679
At 31 December 2018	**2,250,212**	**39,257**	**2,289,469**
Amortisation			
At 1 January 2017	655,197	9,587	664,784
Charge for year	-	2,655	2,655
At 31 December 2017	655,197	12,242	667,439
Charge for year	-	4,943	4,943
At 31 December 2018	**655,197**	**17,185**	**672,382**
Net Book Value			
At 31 December 2018	**1,595,015**	**22,072**	**1,617,087**
At 31 December 2017	769,624	5,727	775,351
At 1 January 2017	546,116	8,382	554,498

The net book value of exploration and evaluation assets at 31 December 2018 and 2017 relates solely to the Company's North Sea Licences.

Additions of £846,679 (2017: £223,508) differ to the cash flows in the Statement of Cash Flows owing to increases in trade and other payables of £181,114 (2017: £nil) relating to intangible assets.

Refer to note 19 for details of a subsequent event impairment arising in respect of exploration and evaluation assets.

9. Property, Plant and Equipment

	Fixtures and fittings £	Computer equipment £	Total £
Cost			
At 1 January 2017	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
Additions	1,332	8,999	10,331
Disposals	-	138	138
At 31 December 2018	**7,854**	**12,999**	**20,853**
Depreciation			
At 1 January 2017	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
Charge for year	1,039	1,854	2,893
Disposals	-	138	138
At 31 December 2018	**5,580**	**3,485**	**9,065**
Net Book Value			
At 31 December 2018	**2,274**	**9,514**	**11,788**
At 31 December 2017	1,981	2,369	4,350
At 1 January 2017	2,737	1,148	3,885

10. Trade and Other Receivables

	2018 £	2017 £
Current:		
Other receivables	**315**	2,429
Other tax receivables	**9,516**	12,459
Prepayments	**72,434**	74,310
	82,265	89,198
Non-current:		
Rental deposit	**53,688**	53,688
Total receivables	**135,953**	142,886

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 1 June 2022 (or on 1 June 2020 if a break clause is exercised). The effect of discounting is immaterial.

During the year no impairments were recognised. The Directors consider that the carrying amount of trade and other receivables approximate their fair value.

11. Share Capital

Allotted, issued and fully paid

Year ended December 2018		Number	£
At beginning of the year	Ordinary shares of 0.5 pence each	**396,060,199**	**1,980,300**
Issue of shares		**142,113,090**	**710,565**
At end of the year	Ordinary shares of 0.5 pence each	**538,173,289**	**2,690,865**

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

On 20 April 2018, the Company announced that it had raised approximately £750,000, before expenses, through the subscription of 46,875,000 new ordinary shares at 1.6 pence per share. The shares were allotted and admitted to trading on AIM on 26 April 2018.

On 27 June 2018, the Company announced that it had raised approximately £2,000,000, before expenses, through the aggregate placing and subscription of 95,238,090 new ordinary shares at 2.1 pence per share. The shares were allotted and admitted to trading on AIM on 4 July 2018.

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.

12. 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 26.

Notes to the Financial Statements
for the year ended 31 December 2018

13. Trade and Other Payables

	2018 £	2017 £
Current:		
Trade payables	**268,970**	112,465
Social security and other taxes	**36,230**	23,773
Other payables and accruals	**90,780**	76,301
	395,980	212,539

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

14. Operating Lease Arrangements

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

Land and buildings:	2018 £	2017 £
Less than one year	**139,813**	139,813
Between one and five years	**302,927**	442,740

During the year £128,174 (2017: £111,209) was recognised as an expense in the income statement in relation to the operating lease.

15. 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.

A loan receivable of £21,774 under a former secured facility was due from Cluff Africa Associates UK Limited (CAA) as at 31 December 2016. During the year ended 31 December 2017, the Company received full repayment of £22,022 including interest accrued at 3% per annum. JG Cluff was a director of CAA for the duration of the loan.

16. Financial Instruments

Principal financial instruments

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

	2018 £	2017 £
Financial assets		
Cash and cash equivalents – all amounts held in Sterling	**1,425,986**	1,016,667
Rental deposit	**53,688**	53,688
Other receivables	**315**	2,429
	1,479,989	1,072,784
Financial liabilities		
Trade payables	**268,970**	112,465
Other payables & accruals	**90,780**	76,301
	359,750	188,766

The financial liabilities are all payable within one year.

16. Financial Instruments (continued)

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 applies IFRS 9 to measure expected credit losses for receivables, these are regularly monitored and assessed. Receivables are subject to an expected credit loss provision when it is probable that amounts outstanding are not recoverable as set out in the accounting policy. The impact of expected credit losses was immaterial.

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 banks with high credit-ratings assigned by international credit-rating agencies.

No financial assets have indicators of impairment.

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

Borrowings and interest rate risk

The Company 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. The effect of variable interest rates is not significant.

Liquidity risk

During the year ended 31 December 2018, 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.

16. Financial Instruments (continued)

The table below shows the undiscounted cash flows on the Company's financial liabilities as at 31 December 2018 and 31 December 2017 on the basis of their earliest possible contractual maturity.

	Total £	Within 2 months £	Within 2 -6 months £
At 31 December 2018			
Trade payables	**268,970**	**268,970**	**-**
Other payables & accruals	**90,780**	**-**	**90,780**
	359,750	**268,970**	**90,780**
At 31 December 2017			
Trade payables	112,465	112,465	-
Other payables & accruals	76,301	-	76,301
	188,766	112,465	76,301

17. 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 2018 following equity fundraising in April 2018 and June 2018. Based on the cash balance at year end and the Company's commitments, and following the subsequent receipt from Shell in respect of the grant of the option over Licence P2437 and proceeds of £141,095 from the exercise of share options, 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 beginning of the fourth quarter of 2019. 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.

18. 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.

18,200,000 options were granted during the year to 31 December 2018 under the scheme (2017: nil) and no options expired (2017: nil).

Notes to the Financial Statements
for the year ended 31 December 2018

18. Share-Based Payments (continued)
The Company recognised a total share-based payment expense of £121,649 in the year ended 31 December 2018 (2017: £113,885) in respect of share options.

The inputs to the Black-Scholes model for options issued in the current and prior year were as follows:

Black Scholes Model	7 June 2018	7 June 2018	25 September 2018	25 September 2018
Share Price	2.32p	2.32p	2.08p	2.08p
Exercise price	2.32p	2.32p	2.00p	2.00p
Expected Volatility	65.74%	65.74%	67.92%	67.92%
Risk Free Rate of Interest	1.0529%	1.0529%	1.1858%	1.1858%
Expected Dividend Yield	0.00%	0.00%	0.00%	0.00%
Expected Life	5.5 years	6.0 years	5.5 years	6.0 years
Number of options issued	8,600,000	8,600,000	500,000	500,000

Under the terms of the options granted during the year, 9,100,000 options will vest following a share price increase of 50% above the grant date price for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, but no earlier than 12 months after the grant date. The remaining 9,100,000 options will vest following a share price increase of 100% above the grant date price for 30 consecutive days at any time prior to expiry of the options, 10 years from the grant date, but no earlier than 24 months after the grant date. The fair value includes the effect of this vesting condition. Management determined that the above options would be most likely to vest at the earliest possible dates, being 12 and 24 months from grant date as detailed above. The fair value of the options is therefore being amortised over those time periods.

Expected volatility was determined based on the historic volatility of the Company.

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

Year ended December 2018	Number of options	WAEP P
Outstanding at the beginning of the year	**40,756,901**	**2.46**
Issued	**18,200,000**	**2.30**
Outstanding at the year end	**58,956,901**	**2.41**
Number exercisable at 31 December 2018	**40,756,901**	**2.46**

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

The weighted average remaining contractual life of options outstanding as at 31 December 2018 was 7.5 years (2017: 7.7 years). The range of exercise prices relating to options outstanding at 31 December 2018 was 1.325p to 8p (2017: 1.325p to 8p).

The Company recognised an expense of £nil in the year ended 31 December 2018 (2017: £nil) in respect of warrants granted. All warrants expired during the prior year on 22 May 2017.

19. Subsequent Events
On 8 February 2019, the Company announced agreements with Shell U.K. Limited ("Shell") in respect of its Southern North Sea licences P2252 and P2437. The Company has entered a binding, conditional farm-out agreement in relation to Licence P2252 and has granted Shell a three-month exclusive option to acquire a 50% working interest in Licence P2437. The Company has received payment from Shell in respect of the grant of the option over Licence P2437, which will be recognised as a gain in the Income Statement. The Company will receive a further payment upon completion of this transaction. If the option is exercised, the total payment (including that already received) will be US$600,000.

On 15 February 2019, the Company issued 10,648,709 shares at a price of 1.325p per share, following the exercise of share options by J G Cluff, generating proceeds of £141,095.

19. Subsequent Events (continued)

Following the failure of the preferred bidder on Licence P2248 to demonstrate the necessary financial capacity to fund the forward work programme within a timeframe that was acceptable to the OGA, the Company relinquished the licence with effect from 29 March 2019. As a consequence, in the subsequent period, the Company has recognised an impairment of the exploration asset relating to Licence P2248 and has recorded an impairment charge of approximately £805,000. As the decision to relinquish the licence was made in 2019, this is considered a 'non-adjusting' event and so the impairment charge will be reflected in the Income Statement in the 2019 financial report.

There were no other significant events subsequent to 31 December 2018.

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 22 May 2019 at 10.30 a.m. for the purpose of considering and, if thought fit, passing resolutions 1 to 4 as ordinary resolutions and resolution 5 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 2018 together with the report of the auditors thereon.

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

3. 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.

4. 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 £914,703; and

   (b) up to a further aggregate nominal amount of £914,703 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 22 August 2020, 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

5. THAT, conditional on the passing of Resolution 4, 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 4 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 4, 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 5(a) above, to any person or persons of equity securities up to an aggregate nominal amount of £686,027,

   and shall expire upon the expiry of the general authority conferred by Resolution 4 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 pursuance of such offer or agreement as if this power had not expired.

Date:
24 April 2019

Registered Office:	By Order of the Board
Third Floor	
5-8 The Sanctuary	
London	....
SW1P 3JS	Director

Notice of Annual General Meeting
continued

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 20 May 2019 (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 22 May 2019 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 24 April 2019 (being the latest practicable date prior to the publication of this notice), the Company's issued share capital consisted of 548,821,998 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 24 April 2019 was 548,821,998.

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 2018. 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 (Resolution 2)
This resolution will be proposed as an ordinary resolution. Article 85 of the Company's articles of association states that any Director who was not appointed or re-appointed at one of the preceding two annual general meetings of the Company shall retire at the next annual general meeting. Accordingly, Peter Nigel Cowley is retiring and offering himself for re-election under this provision.

Biographical details of all of the Directors are set out on page 17 of the Annual Report and Accounts of the Company.

3. Appointment and remuneration of auditors (Resolution 3)
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 4)
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 4 to confer on the Directors, authority for a further period expiring at the conclusion of the annual general meeting in 2020 or, if earlier, on 22 August 2020. The authority will be limited to shares up to a maximum nominal amount of £914,703 representing approximately one third of the Company's issued ordinary share capital as at 24 April 2019 (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 5)
In line with the previous year, the Directors seek a 25% disapplication of pre-emption rights in respect of allowing the Directors to allot new ordinary shares for cash. 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.

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 5 as a special resolution to disapply the provisions of section 561(1) in relation to certain share issues.

Resolution 5 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 £686,027 representing approximately 25 per cent of the Company's issued ordinary share capital as at 24 April 2019 (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 2020 or, if earlier, on 22 August 2020.

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 22 May 2019 and at any adjournment thereof.

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

Resolutions	For	Against	Vote withheld
1. To receive and adopt the annual accounts and reports of the Directors and auditors thereon.	☐	☐	☐
2. To re-elect Peter Nigel Cowley as a Director of the Company.	☐	☐	☐
3. To appoint BDO LLP as auditors of the Company and to authorise the Directors to fix their remuneration.	☐	☐	☐
4. To authorise the Directors to allot shares.	☐	☐	☐
5. To disapply statutory pre-emption rights.	☐	☐	☐

Dated this ______________ day of ______________ 2019

Signature(s) ____________________________

Name ____________________________

Address ____________________________

Notes:

1. A member entitled to attend the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise rights attached to different shares. A member may not appoint more than one proxy to exercise rights attached to any one share. A proxy need not be a member of the Company.
2. A member who wishes to appoint someone other than the chairman as his proxy should delete the words "the Chairman of the Meeting or", insert the name of his choice in the space provided and initial the alteration.
3. The form of proxy should be signed and dated by the member or his attorney duly authorised in writing. In the case of a corporation, the form of proxy should be executed under its common seal or under the hand of an officer or attorney duly authorised in writing. Any alteration made to the form of proxy should be initialled.
4. In the case of joint holders, the signature of any one holder is sufficient. However, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members.
5. A member should direct the proxy how to vote on the resolutions by marking the appropriate box with an X. The "vote withheld" option is provided to enable members to abstain on any of the resolutions. However, it should be noted that a "vote withheld" is not a vote in law and will not be counted in the calculation of the proportion of votes "for" or "against" a resolution.
6. If the form of proxy is returned duly signed but without any indication as to how the proxy should vote on any resolution, the proxy will exercise his discretion as to how he votes and whether or not he abstains from voting on the resolution. The proxy may also vote or abstain from voting as he thinks fit on any other business which may properly come before the meeting.
7. To be valid, the duly signed and dated form of proxy, together with any power of attorney or other authority under which it is signed (or a notarially certified copy of such power or authority), must be returned in the reply paid envelope provided to the Company's registrars, Share Registrars Limited, The Courtyard, 17 West Street, Farnham, Surrey, GU9 7DR so as to be received by no later than 10.30 a.m. on 20 May 2019.
8. Completion and return of a form of proxy will not preclude a member from attending the meeting and voting in person.
9. CREST members who wish to appoint a proxy or proxies by using the CREST electronic appointment service should refer to note 4 of the notes to the notice of the annual general meeting.

Company Information

Directors
J G Cluff (Chairman)
G C Swindells (Chief Executive)
A J Nunn (Chief Operating Officer)
P N Cowley (Non-Executive)
Mark Lappin (Non-Executive)

Secretary
G C Swindells

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London
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Registered Number
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Nominated Adviser & Corporate Broker
Allenby Capital
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London
EC3A 6AB

Auditors
BDO LLP
55 Baker Street
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W1U 7EU

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

Financial Public Relations
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EC2V 6DN

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