



**CLUFF
NATURAL
RESOURCES**

WEDNESDAY



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**Annual Report & Accounts
for the period
21 February 2012 to 31 December 2012**

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Company Information

Directors	J G Cluff (<i>Executive Chairman & Chief Executive Officer</i>) N W Berry (<i>Non-Executive</i>) P N Cowley (<i>Non-Executive</i>) Dr R V Danchin (<i>Non-Executive</i>) The Earl De La Warr DL. (<i>Non-Executive</i>) B A FitzGerald (<i>Non-Executive</i>)
Secretary	Gravitas Company Secretarial Services Limited
Registered Office	Third Floor 5-8 The Sanctuary London SW1P 3JS
Registered Number	07958581 (England and Wales)
Nominated Adviser	Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU
Corporate Broker	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
Auditors	BDO LLP 55 Baker Street London W1U 7EU
Solicitors	K&L Gates LLP 15th Floor One New Change London EC4M 9AF
Financial Public Relations	St Brides Media & Finance Chaucer House 38 Bow Lane London EC4M 9AY
Registrar	Share Registrars Limited 9 Lion and Lamb Yard Farnham GU9 7LL

Chairman's Statement

Chairman and Chief Executive's Statement

At the time Cluff Natural Resources was admitted to AIM in May 2012 your Board had two acquisitions in contemplation in the oil and gas sector and research was being conducted into the potential for a new technology (in the UK) for extracting synthetic gas from coal known as Deep Underground Coal Gasification ('Deep UCG'). Your Board judged the risks of the two potential oil and gas acquisitions to be too great and the Company has since focused on Deep UCG with two immediate objectives in mind; firstly to assemble a portfolio of Deep UCG licences in the UK, and secondly to raise the profile of Deep UCG by explaining the outstanding potential benefits for the UK energy sector which could derive from Deep UCG both offshore and onshore. Two licences, as described later in this report, have been awarded to your Company and applications are extant for four more in the UK. Your Board believes that Deep UCG will evolve into a major contributor to the UK's energy future and that Cluff Natural Resources is in the vanguard of this process.

The characteristics of Deep UCG provide many technical and economic advantages compared with coal, natural gas, coal bed methane and surface gasification. Amongst these are that Deep UCG is a cleaner and safer process and will enable billions of tonnes of so-called 'stranded' coal to be exploited. The capital costs are highly competitive vis-à-vis all other processes and gas turbines burning Deep UCG gas should yield significantly more electricity than those using either natural gas or coal bed methane. There are virtually no exploration risks as the presence and quality of the coal has already been established from the major coal mining database available.

Your Board therefore is resolved to invest primarily in this new and highly promising sector and our activities will be largely focused on Deep UCG both offshore and onshore the UK. In January 2013 your Company made its first investment consisting of two Deep UCG Licences in the UK covering 11,160 hectares of Carmarthenshire and the Dee Estuary on the North Wales/Merseyside border. These licences were selected based on the thickness and quality of the coal and relative shallowness for drilling depths to access the coal seams. We intend to carry out scoping studies on the licences and identify an area for test production. The Company is well funded to achieve its immediate objectives.

It is my aim to update shareholders during the coming twelve months on the planning progress with regards to our two Deep UCG licence areas in the UK and potentially reporting on the award of additional licences as we look to grow our portfolio of assets. Interestingly, later this year another Deep UCG focused company will be drilling an important directionally drilled well into North Sea coal from the coast of Northumberland. We maintain close relations with this company, Five-Quarter, a private company, and with its Chairman and Chief Executive Professor Harry Bradbury. The result of this well has very important implications for the future energy supply in the UK since it should demonstrate further the economic viability of the Deep UCG process. To quote Professor Bradbury:

"This relatively small area (Offshore Northumberland) contains more potential energy than has yet been extracted from North Sea gas to date from the whole of the North Sea"

Along with Five-Quarter, we aim to be at the forefront in the development of this compelling new technology in the UK. With this in mind, I look forward to reporting on these developments in due course.

Chairman's Statement

Corporate Review

I am pleased to welcome Graham Swindells to our management team as Chief Financial Officer. Graham, who was appointed in May 2013, is a qualified Chartered Accountant with significant natural resources experience having acted as nominated adviser and broker to a variety of companies in the sector while at Arbutnot Securities. He joins our team at a crucial time for your Company as we assess potential oil and gas assets as well as develop our Deep UCG licences.

Outlook

2013 is set to be an interesting year as we seek to acquire further Deep UCG licences in the UK and we await the result of the first hole to be drilled horizontally from the Northumberland Coast into the North Sea coal deposits by a private company, Five-Quarter. In the meantime we continue to evaluate other oil and gas projects as we aim to build a portfolio of resource assets and build value for shareholders. I would like to take this opportunity to thank all shareholders for your support, we are striving to reward it by becoming an important player in the development of this compelling new Deep UCG technology.

J G Cluff
Chairman

29 May 2013

Operational Review

As stated in the Chairman's Statement, the Company has begun to refine its strategy with the primary focus being Deep UCG in the UK. These efforts in the period have culminated in the Company being awarded two Deep UCG licences in January 2013, one in Carmarthenshire and the other in the Dee Estuary on the North Wales/Merseyside border

About Deep UCG

Underground coal gasification is the conversion of in situ coal into a mixture of gases often referred to as "syngas" which can be used for power generation or other purposes. The concept of underground coal gasification is not new, with trials taking place as long as a century ago, and subsequent trials, primarily in coal seams lying close to the surface (less than 200m deep). However the significant change in the development of UCG technology became apparent with the European trial in the Teruel Region of Spain (1992-1998) which demonstrated that using recent developments from the oil industry it was possible to undertake directional drilling within a coal seam some 500m beneath the surface and gasify the coal. In addition there appeared to be advantages in gasifying at greater depth, in terms of gas quality.

As the United Kingdom is well placed within Europe having large resources of indigenous coal still remaining both onshore and offshore in the North Sea, these resources have the potential to provide security of future energy supplies long after North Sea oil and gas are exhausted. Given the decline in conventional coal mining operations in the United Kingdom and the increasing dependence on imported energy supplies, your Board believes that it is important to apply the latest UCG technology to the remaining deep coal seams to generate cleaner energy from our indigenous coal. Furthermore UK Government policy is supportive in encouraging the development of cleaner coal technologies stating that "the potential for UCG in the UK relates not only to reducing environmental emissions but also to ensuring security of energy supply and maintaining an acceptable level of diversity of energy supply" (Department of Energy & Climate Change website).

Licences awarded to the Company

Cluff Natural Resources has decided to invest in a portfolio of Deep UCG licence areas that are considered suitable for the development of UCG in deep coal seams, deliberately avoiding the application of UCG to seams at shallow depth. The licence areas will have a wide range of coal thickness, coal type, depth and geographical location to provide a robust opportunity to create a viable series of operations. These favourable licences were also selected since the drill hole platforms could be located on land rather than offshore on more costly facilities.

In January 2013, the Company was awarded 100 per cent ownership of two conditional Deep UCG Licences, by the UK Coal Authority totalling 11,160 hectares as follows.

Operational Review

Dee Estuary

The map below shows the area of the Company's Deep UCG licence in the Dee Estuary.

The Dee Estuary Project, located on the borders of Merseyside and Northern Wales, consists of an area of 6,953 hectares

Operational Review

Loughor Estuary

The map below shows the area of the Company's Deep UCG licence in the Loughor Estuary

The Loughor Estuary Project, located in Carmarthenshire, Wales, consists of a licence area of 4,207 hectares.

Additional licences

Four other potential licence areas have been identified and submitted to the Coal Authority for determination

As and when the licences are granted by the Coal Authority the areas will be studied to identify the preferred location for a Deep UCG project. Initially this will involve a study of the previous mining history and geology within the licence areas, negotiations with landowners and the securing of Town and Country Planning and other consents. The technical team for the development of the licences will be led by Keith Leighfield, a highly experienced coal professional and former Chief Surveyor and Minerals Manager for British Coal and former Director of Licencing at the Coal Authority

J G Cluff
Chairman and Chief Executive

29 May 2013

Financial Review

Loss for the period

In the period to 31 December 2012 the Company incurred expenditure in the assessment and appraisal of a number of opportunities in accordance with the Company's investment strategy, in addition to administrative expenditure

The Company incurred a loss for the period to 31 December 2012 of £821,730

Cash flow

On listing on AIM in May 2012 the Company issued 75 million shares by way of a placing of Ordinary Shares at 5 pence per share and a placing of 35,000,000 Warrants to subscribe for new Ordinary Shares, raising net proceeds of £3.4 million

Cash used in operations totalled £767,695, in addition to £27,249 in investing activities

Closing cash

As at 31 December 2012, the Company held cash balances of £2.6 million.

Graham Swindells
Chief Financial Officer

29 May 2013

Board of Directors and Senior Management

Algy Cluff

Chairman and Chief Executive

In 1972 Algy Cluff formed CCP North Sea Associates to bid for North Sea oil licences in the UK sector and subsequently Cluff Oil Ltd, which acted as the management company for CCP. CCP discovered the Buchan Field, the 14th commercial oil field in the UK North Sea, in 1975. He then founded and became Chairman of Cluff Resources plc. From the early 1980s, Cluff Resources plc began to focus on mineral exploration in Africa and made several significant discoveries including the largest gold discovery in Africa since the Second World War (subsequently the Geita Mine in Tanzania), the Freda Rebecca Mine in Zimbabwe and the Ayanfun Mine in Ghana, prior to the acquisition of Cluff Resources plc by Ashanti Goldfields Company Limited in 1996. In the same year, backed by Anglo American Corporation, Algy Cluff founded Cluff Mining Limited (subsequently re-named Ridge Mining Limited), which was admitted to AIM in May 2000. Ridge Mining Plc was acquired by Aquarius Platinum Limited in 2009. Algy Cluff was the Founder, Chairman and Chief Executive of Cluff Gold plc from 2004 to December 2010, Executive Chairman until July 2011 and subsequently Non-Executive Chairman up to April 2012, when he stepped down to concentrate on Cluff Natural Resources.

Graham Swindells

Chief Financial Officer

Graham Swindells joined the Company in May 2013, having previously been a Director in Mergers and Acquisitions at Ernst & Young. Graham has worked in corporate finance for the past 12 years, during which time he specialised in advising mid and small-cap public companies. Previously, Graham was a Director in Corporate Finance at Arbutnot Securities where he gained significant natural resources experience acting as nominated adviser and broker to various companies in the sector. He qualified as a Chartered Accountant in Scotland with BDO Stoy Hayward and subsequently spent two years at PricewaterhouseCoopers specialising in corporate recovery and restructuring. Graham graduated from the University of Glasgow with a Bachelor of Accountancy Degree.

Nicholas William Berry

Deputy Chairman

Nicholas Berry is the controlling shareholder and Chairman of Stancroft Trust Limited and Intersport Switzerland, PsC, and a Director and founder of Mintel International Group Limited, a family business. Nicholas Berry is also a Non-executive Director of The Daily Mail and General Trust plc.

Peter Nigel Cowley

Non-Executive Director

Peter Cowley is a geologist with 40 years of international experience in the minerals industry and has been involved in the discovery and development of a number of gold mines in Africa. Peter Cowley is also President and CEO of Loncor Resources Inc and a Director of Banro Corporation, and was previously Managing Director of Ashanti Exploration Limited and Group Technical Director of Cluff Resources plc. He holds M.Sc and MBA degrees and is a Fellow of I M M M. He is currently a Non-executive Director of Amara Mining Plc.

Board of Directors and Senior Management

Dr Robert Victor Danchin

Non-Executive Director

Robert Danchin has over 40 years' experience in the exploration industry. He was Chief Executive Officer of Anglo American plc's Exploration and Acquisition Division and the Anglo American Group's Deputy Technical Director (Geology). From 1997 to 2002, he was an Executive Director of Anglo American Corporation of South Africa Limited. In 1980, he joined Stockdale Prospecting Limited (an Australian subsidiary of De Beers) as Chief Geologist based in Australia. He remained with that company for 15 years, eventually becoming Exploration Manager heading up its Australian based diamond exploration programme. He is currently a Non-executive Deputy Chairman of Mineral Deposits Limited.

The Earl De La Warr DL

Non-Executive Director

William De La Warr has 35 years' experience in the securities industry. He was Director of Credit Lyonnais Securities (Broking) Ltd, formerly Laing & Cruickshank, both in institutional sales and corporate broking. Most recently he has worked at Shore Capital Stockbrokers, having particular involvement with the natural resources team.

Brian Anthony FitzGerald

Non-Executive Director

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

Report of the Directors

The Directors present their report with the financial statements of the Company for the period 21 February 2012 to 31 December 2012.

INCORPORATION

The Company was incorporated on 21 February 2012 and commenced trading on AIM on 22 May 2012

The Company passed a special resolution on 19 April 2012 changing its name from Cluff Natural Resources Limited to Cluff Natural Resources Plc. The Company was admitted to trading on AIM on 22 May 2012

PRINCIPAL ACTIVITY

The Company's principal activity is the exploration, evaluation and development of mineral exploration targets, with a principle focus on coal

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 Operational and Financial Reviews on pages 2 to 7

DIVIDENDS

No dividends will be distributed for the period ended 31 December 2012

DIRECTORS

The Directors of the Company during the period and their beneficial interest in the Ordinary shares of the Company at 31 December 2012 were as follows

	Ordinary Shares
J G Cluff (Executive Chairman and Chief Executive) – appointed 21 February 2012	10,000,000
N W Berry (Non-Executive Director) – appointed 19 April 2012	400,000
P N Cowley (Non-Executive Director) – appointed 19 April 2012	400,000
Dr R V Danchin (Non-Executive Director) – appointed 19 April 2012	400,000
The Earl De La Warr DL (Non-Executive Director) – appointed 19 April 2012	1,000,000
B A FitzGerald (Non-Executive Director) – appointed 19 April 2012	400,000

During the period ended 31 December 2012, 5,000,000 warrants were issued to J G Cluff. No share options were issued in the period. See note 18 for further information.

Report of the Directors

Director's Remuneration

The following table sets out an analysis of the pre-tax remuneration for the period ended 31 December 2012 for the individual Directors who held office in the Company during the period

	Salary/fees £	Benefits in Kind £	Share Based Payment £	Total £
J G Cluff	73,692	10,163	90,749	174,604
N W Berry	13,333	-	-	13,333
P N Cowley	13,333	-	-	13,333
Dr R V Danchin	13,333	-	-	13,333
The Earl De La Warr DL	13,333	-	-	13,333
B A FitzGerald	13,333	-	-	13,333
	140,357	10,163	90,749	241,269

The share based payment of £90,747 represents the share based expense relating to a Long Term Incentive Plan and warrants, both of which were put in place on 4 May 2012. Further details are set out in Note 18

Qualifying Third Party Indemnity Provision

The Company has not obtained any third party indemnity for its Directors

SUBSTANTIAL SHAREHOLDERS

The Company has been notified of the following interests of 3 per cent or more in its issued share capital as at 24 May 2013

Shareholders	Number of Shares	Percent (%)
John Gordon Cluff	10,500,000	12.07
Mercantile Investment Trust	8,700,000	10.00
Clients of Guinness Asset Management	6,000,000	6.90
Brewin Dolphin Nominees Limited	4,205,000	4.83
Hargreaves Lansdown Nominees Limited	4,169,482	4.79
Mr D and Mrs M Newlands	3,500,000	4.02
WB Nominees Limited	3,367,950	3.87
Pershing Nominees Limited	3,145,000	3.61

COMPANY'S POLICY ON PAYMENT OF CREDITORS

It is the Company's policy to make payments, where possible, to suppliers in accordance with agreed terms provided that the supplier has performed in accordance with the relevant terms and conditions. Trade payables of the Company at 31 December 2012 were equivalent to 21 days' purchases, based on the average daily amount invoiced by suppliers during the period.

FINANCIAL INSTRUMENTS

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

Report of the Directors

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company has made a charitable donation of £500, no payments to political parties have been made during the period.

CORPORATE GOVERNANCE

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

The Board, so far as practicable, follows the recommendations set out in the corporate governance guidelines for smaller quoted companies published by the Quoted Companies Alliance. The Company holds regular board meetings and the Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and acquisitions. The Board currently comprises six Directors, of whom one is executive and five are non-executive. The Board has an audit committee and remuneration committee with formally delegated duties and responsibilities, as described below.

Audit Committee

The audit committee is responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). The audit committee comprises The Earl De La Warr DL and Peter Cowley and is chaired by Brian FitzGerald. 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 Chief Executive Officer and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive Directors is a matter for the Chairman and the Chief Executive Officer. No Director is involved in any decision as to his or her own remuneration. The remuneration committee comprises Peter Cowley and Dr Robert Danchin and is chaired by Nicholas Berry. The remuneration committee meets at least twice a year and otherwise as required.

Share Dealing Code

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

Report of the Directors

PRINCIPAL RISKS AND UNCERTAINTIES

The Company operates in an uncertain environment and is subject to a number of risk factors. The Directors consider the following risk factors are of particular relevance to the Company's activities and to any investment in the Company. It should be noted that the list is not exhaustive and that other risk factors not presently known or currently deemed immaterial may apply.

The risk factors are summarised below

Exploration and development risk

The Company will be dependent on the ability of the Directors to identify suitable investment opportunities and to implement the Company's strategy. There is no assurance that the Company's activities will be successful in acquiring a suitable investment that will ultimately be developed.

Environmental and other regulatory requirements

Conducting exploration, development of coal, other mineral or oil and gas activities has or will involve the requirement to comply with various procedures and approval formalities. It may not be possible to comply or obtain waivers of all such formalities. The Company may need to obtain waivers or permits to commence or carry on activities in projects in which the Company has invested. In certain cases where it is not possible for the Company to comply, or it cannot obtain a waiver, it may incur a temporary or permanent disruption to its activities and a loss of part of its interest in a lease or licence.

Financing

The development of the Company's properties may depend upon the Company's ability to obtain financing primarily through the raising of new equity capital, or through bringing in partners to assist funding exploration and development costs. The Company's ability to raise further funds may be affected by the success of existing and acquired investments. The Company may not be successful in procuring the requisite funds on terms which are acceptable to it (or at all) and, if such funding is unavailable, the Company may be required to reduce the scope of its investments or the anticipated expansion. Further, Shareholders' holdings of Ordinary Shares may be materially diluted if debt financing is not available.

KEY PERFORMANCE INDICATORS

At this stage in its development, the Company is focussing on the evaluation of various oil and gas opportunities in addition to the development of its existing licences. As and when the Company moves into production, financial, operational, health and safety and environmental KPIs will become relevant and will be measured and reported as appropriate.

STATEMENT AS TO 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.

Report of the Directors

AUDITORS

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

On behalf of the Board



J G Cluff
Chairman and Chief Executive

29 May 2013

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that 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.

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 ongoing integrity of the financial statements contained therein.

Report of the Independent Auditors

We have audited the financial statements of Cluff Natural Resources Plc for the period ended 31 December 2012 which comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flows statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- Give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the period then ended,
- Have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or

The Company financial statements are not in agreement with the accounting records and returns, or

Report of the Independent Auditors

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.

BDO LLP

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

29 May 2013

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

Income Statement

for the Period 21 February 2012 to 31 December 2012

	Notes	£
CONTINUING OPERATIONS		
Revenue	2	-
Administrative expenses		(822,578)
OPERATING LOSS		(822,578)
Finance income		848
LOSS BEFORE TAX	4	(821,730)
Tax	6	-
LOSS FOR THE PERIOD		(821,730)
Loss per share expressed in pence per share		
Basic and diluted	7	(1 29)p

Statement of Comprehensive Income

for the Period 21 February 2012 to 31 December 2012

	£
LOSS FOR THE PERIOD	(821,730)
OTHER COMPREHENSIVE INCOME	
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(821,730)

Balance Sheet

as at 31 December 2012

	Notes	£
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	8	5,750
Property, plant and equipment	9	19,200
Other receivables	10	53,688
		<hr/>
		78,638
CURRENT ASSETS		
Other receivables	10	295,637
Cash and cash equivalents	11	2,602,127
		<hr/>
		2,897,764
TOTAL ASSETS		<hr/>
		2,976,402
EQUITY		
SHAREHOLDERS' EQUITY		
Share capital	12	435,000
Share premium	13	2,867,376
Warrant reserve	13	232,195
Retained deficit	13	(730,981)
		<hr/>
TOTAL EQUITY		2,803,590
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	14	172,812
		<hr/>
TOTAL LIABILITIES		172,812
TOTAL EQUITY AND LIABILITIES		<hr/>
		2,976,402

The financial statements were approved by the Board of Directors on 29 May 2013 and were signed on its behalf by



J G Cluff
Chairman and Chief Executive

Statement of Changes in Equity

for the Period 21 February 2012 to 31 December 2012

	Share Capital £	Retained deficit £	Share premium £	Warrant reserve £	Total equity £
Changes in equity					
Issue of share capital and warrants	435,000	-	3,232,805	232,195	3,900,000
Expenses of issue	-	-	(365,429)	-	(365,429)
Share based payment	-	90,749	-	-	90,749
Loss for the period	-	(821,730)	-	-	(821,730)
Balance at 31 December 2012	435,000	(730,981)	2,867,376	232,195	2,803,590

Cash Flow Statement

for the Period 21 February 2012 to 31 December 2012

	Notes	£
Cash flows from operating activities		
Cash used in operations	1	(767,695)
Net cash used in operating activities		(767,695)
Cash flows used in investing activities		
Purchase of intangible fixed assets		(6,000)
Purchase of property, plant and equipment		(21,249)
Net cash used in investing activities		(27,249)
Cash flows from financing activities		
Proceeds of share issue	2	3,762,500
Expenses of share issue		(365,429)
Net cash from financing activities		3,397,071
Increase in cash and cash equivalents		2,602,127
Cash and cash equivalents at beginning of period	3	-
Cash and cash equivalents at end of period	3	2,602,127

Notes to the Cash Flow Statement

for the Period 21 February 2012 to 31 December 2012

1. RECONCILIATION OF LOSS BEFORE INCOME TAX TO CASH GENERATED FROM OPERATIONS

	£
Loss before income tax	(821,730)
Depreciation charges	2,299
Share based payment	90,749
Directors' remuneration settled in shares	66,665
	(662,017)
Increase in trade and other receivables	(278,490)
Increase in trade and other payables	172,812
Cash used in operations	(767,695)

2. PROCEEDS OF SHARE ISSUE

The amounts disclosed on the statement of cash flow in respect of the proceeds of the share issue:

	£
Total value of shares issued	3,900,000
Less subscription shares issued	(100,000)
Less cash to be received in respect of share capital	(37,500)
Total cash proceeds of share issue	3,762,500

3. CASH AND CASH EQUIVALENTS

The amounts disclosed on the statement of cash flow in respect of cash and cash equivalents are in respect of this statement of financial position amount

Period ended 31 December 2012

	31 December	22 February
	2012	2012
	£	£
Cash and cash equivalents	2,602,127	-

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with international Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the EU and 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.

Loss from operations is stated after charging and crediting all items excluding finance income and expenses.

The estimates and underlying assumptions are reviewed on an ongoing 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.

Certain new standards, amendments to standards and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning after 1 January 2013 or later periods to which the Company has decided not to adopt early when early adoption is available. These are

		Effective Date
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IFRS 13	Fair Value Measurement	1 January 2013
IAS 27	Separate Financial Statements	1 January 2014
IAS 28	Investments in Associates and Joint Ventures	1 January 2014
IAS 19	Employee Benefits	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013
IFRS 1*	Amendment – Government Loans Improvements to IFRS	1 January 2013
IFRS 1, IAS 1, 16 and 32	Annual Improvements to IFRSs (2009-2011 Cycle)	1 January 2013
IFRS 10, 11 and 12	Amendments – Transition Guidance	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IFRS 10, 12 and IAS 27*	Amendments – Investment Entities	1 January 2014
IFRS 9*	Financial Instruments	1 January 2015

* Not yet endorsed by the European Union

Notes to the Financial Statements (continued)

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors.

Share-based payments

Equity-settled share-based payments to employees and Directors are measured at the fair value of the equity instrument. The fair value of the equity-settled transactions with employees and Directors is recognised as an expense over the vesting period. The fair value of the equity instruments are determined at the date of grant, taking into account market based vesting conditions.

The fair value of the warrants is measured using the Black Scholes model. The fair value of the Long Term Incentive Plan is measured using Monte Carlo simulations of the basic Black Scholes model. The expected life used in the models is adjusted, based on management's best estimate of the effects of non-transferability, exercise restrictions and behavioural considerations.

Property, plant and equipment

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

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

Computer equipment	33%
Fixtures and Fittings	20-25%

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

Intangible assets

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

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

Impairment

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

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

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

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

Notes to the Financial Statements (continued)

Operating leases

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

Provisions

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

Exploration and evaluation assets

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

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

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

Taxation

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

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

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

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

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

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

Financial Instruments

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

Notes to the Financial Statements (continued)

Financial Assets

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

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

Loans and receivables

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

Cash and cash equivalents

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

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

Financial Liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Company classifies its financial liabilities only as held at amortised cost.

Financial liabilities including trade payables and borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Share Capital

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 disclosures given in note 17, the Company considers its capital to be total equity.

The Company is subject to an externally imposed capital requirement of maintaining a minimum of £50,000 authorised share capital.

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 balance sheet date. Exchange differences arising from the restatement of monetary assets and liabilities at the closing rate of exchange at the balance sheet 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.

Notes to the Financial Statements (continued)

(1) *Impairment of exploration and evaluation assets*

Impairment tests on exploration and evaluation assets are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

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

(2) *Useful lives of non-current assets*

Non-current assets are depreciated over their useful lives. Useful lives are based on the management's estimates of the period in which the assets will generate revenue. Values and useful lives are reviewed periodically and adjusted if appropriate. Changes to estimates can result in significant variations on the carrying value and amounts charged to the statement of comprehensive income and expenditure in the specific period.

(3) *Determination of share based payment costs*

The determination of these costs is based on financial models. The inputs to these models are based on the directors' judgements and estimates and are not capable of being determined with precision.

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 decisions, 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.

Notes to the Financial Statements (continued)

3. EMPLOYEES AND DIRECTORS

	£
Wages and salaries	203,783
Social security costs	23,014
Share based payment	90,749
	<hr/> 317,546

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

Directors	6
Administrative	3
	<hr/> 9
Directors' remuneration	£
Salaries and fees	140,357
Health benefits	10,163
	<hr/> 150,520

Details regarding share options and warrants are set out in note 18 to the financial statements. The highest paid director in the period was J G Cluff who received £83,855

4. LOSS BEFORE TAX

The loss before income tax is stated after charging

	£
Other operating leases	46,397
Depreciation – owned assets	2,299

5. AUDITORS' REMUNERATION

	£
Fees payable to the Company's auditors and their associates for the audit of the Company's financial statements	12,000

Notes to the Financial Statements (continued)

6. TAX

Analysis of tax expense

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

Factors affecting the tax expense

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

	£
Loss on ordinary activities before income tax	(821,730)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK (24%)	(197,215)
Effects of:	
Accelerated capital allowances	(3,287)
Expenses not deductible for tax purposes	2,307
Adjustment in relation to share based payment	21,780
Unrelieved losses carried forward	176,416
Tax expense	-

A deferred tax asset in respect of trading losses of £735,067 and share based payments of £90,749 has not been recognised due to the uncertainty and timing of future profits. The unprovided deferred tax asset of £189,937 is recoverable against suitable trading future profits.

7. LOSS PER SHARE

The calculation of basic loss per Ordinary share attributable to equity holders of the Company is based on a loss of £821,730 and on 63,549,547 Ordinary shares, being the weighted average number of Ordinary shares in issue during the period.

There is no difference between the diluted loss per share and the basic loss per share as the Company reported a loss for the period. 33,371,629 potential Ordinary shares have been excluded from the calculation of loss per share on the basis that they are anti-dilutive.

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.

Notes to the Financial Statements (continued)

8. INTANGIBLE ASSETS

	Software licences £
COST	
Additions	6,000
At 31 December 2012	6,000
DEPRECIATION	
Charge for period	250
At 31 December 2012	250
NET BOOK VALUE	
At 31 December 2012	5,750

9. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £	Computer equipment £	Totals £
COST			
Additions	4,004	17,245	21,249
At 31 December 2012	4,004	17,245	21,249
DEPRECIATION			
Charge for period	309	1,740	2,049
At 31 December 2012	309	1,740	2,049
NET BOOK VALUE			
At 31 December 2012	3,695	15,505	19,200

10. TRADE AND OTHER RECEIVABLES

	£
Current	
Other receivables	159,555
Amounts receivable from related parties	42,420
Prepayments	93,662
	295,637
Non-current	
Rental deposit	53,688
Aggregate amounts	349,325

Included within amounts receivable from related parties are amounts due from Cluff Africa Associates UK Limited of £42,420 and an amount due from Cluff Coal Limited of £1,984. The amount due from Cluff Coal has been provided for. The amount due from Cluff Africa Associates UK Limited is secured by a fixed charge over the assets of that company.

Notes to the Financial Statements (continued)

11. CASH AND CASH EQUIVALENTS

	£
Cash in hand	326
Bank accounts	2,601,801
	<hr/> 2,602,127

12. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid

Number:	Class.	Nominal Value.	£
87,000,000	Ordinary	£0.005	435,000

On 3 April 2012, the Ordinary share issued at incorporation of £1.00 was subdivided into 200 shares of £0.005 each

On 3 April 2012, 9,999,800 Ordinary shares were issued

On 22 May 2012, 75,000,000 £0.005 Ordinary shares were issued at £0.05 each and 2,000,000 Ordinary shares were issued to the Non-Executive Directors at £0.05 each pursuant to the 'Subscription letter'. See note 16 for further details

The share warrants issued in the period are disclosed in note 18

13. RESERVES

Reserves	Description and purpose
Share Capital	Nominal value of shares issued
Share Premium	Amount subscribed for share capital in excess of nominal value
Warrant Reserve	Fair value of warrants issued in connection with share placing
Retained Deficit	Cumulative net losses recognised in the statement of comprehensive income

Details of movements in each reserve are set out in Statement of changes in equity on page 21

14. TRADE AND OTHER PAYABLES

	£
Current	
Trade creditors	16,280
Social security and other taxes	28,635
Other payables and accruals	127,897
	<hr/> 172,812

Notes to the Financial Statements (continued)

15. LEASING AGREEMENTS

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

	Land and Buildings £
Less than one year	89,480
Between one and five years	126,763

During the period £46,397 was recognised as an expense in the income statement in relation to the operating lease

16. RELATED PARTY DISCLOSURES

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

Disclosure regarding remuneration of the Directors is given in the Director's Report

The non-executive directors agreed to receive a reduction from the agreed £30,000 annual remuneration in exchange for an amount of £20,000 each, (a total of £100,000 per annum for all the non-executive directors). This amount was paid in advance for the year to 30 April 2013 in May 2012 and was set off against the shares issued to the non-executive Directors, being 2,000,000 £ 005 shares issued at £0.05 each. A prepayment of £33,335 was recognised for the amount related to the period to 31 December 2012 and is included in other debtors in note 10.

An amount of £37,500 is included in other debtors representing cash to be received from J G Cluff in respect of his subscription for Ordinary Shares.

The Company has made the following loans to companies connected to the Directors on an interest free basis:

- £42,420 was loaned to Cluff Africa Associates UK Limited. J G Cluff, N Berry and P Cowley are Directors of the Cluff Africa Associates UK Limited. No amounts were repaid in the year (see note 10). The total facility available under the loan agreement with Cluff Africa Associates UK Limited is £50,000 of which £42,420 has been drawn to date. Interest is charged at a rate of 3% per annum on the outstanding balance. In the period to 31 December 2012, £848 of interest was received by the Company from Cluff Africa Associates UK Limited.
- £1,984 was loaned to Cluff Coal Limited on an interest free basis. J G Cluff, N Berry, and P Cowley are the Directors of Cluff Coal Limited. No amounts were repaid in the year (see note 10). A provision has been made against the amount loaned of £1,984.

An amount of £61,900 has been accrued at 31 December 2012 in relation to the transfer of UCG licence applications from Cluff Coal Limited to the Company.

Notes to the Financial Statements (continued)

17. FINANCIAL INSTRUMENTS

Principle financial instruments

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

	£
Financial Assets	
Cash and cash equivalents – all amounts held in Sterling	2,602,127
Other receivables	201,975
	<hr/> 2,804,102
Financial Liabilities	
Trade Payables	16,280
Other Payables	156,510
	<hr/> 172,812

The financial liabilities are all payable within one year

General Objectives and Policies

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

Policy on financial risk management

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

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

Capital risk management

The Company was financed by equity in the period ended 31 December 2012. 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.

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.

Notes to the Financial Statements (continued)

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

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

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

Liquidity risk

During the period ended 31 December 2012, the Company was financed by cash raised through equity funding. Funds raised surplus to immediate requirements are held as 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.

Borrowings and interest rate risk

The Company's exposure to interest rate risk is not material as it currently has no borrowings.

18. SHARE BASED PAYMENTS

Long Term Incentive plan ('LTIP')

The Company entered into an LTIP agreement with J G Cluff on 4 May 2012 pursuant to which J G Cluff may be awarded Ordinary Shares at nil cost equal to 3 per cent. of the Company's issued share capital as at 31 December, in each of the financial years from 2012 to 2016, subject to meeting specific share price targets for each of the years from 2012 to 2016 as follows:

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

No award was made under the LTIP in respect of the period to 31 December 2012, however an amount of £12,247 has been recognised as share based expenses in the period, as the fair value of the award relating to 2012. The fair value of the LTIP was measured using Monte Carlo simulations of the basic Black Scholes model.

Rights granted under the LTIP Agreement are non-transferable except in the case of death, in which case outstanding LTIP Rights may be exercised by Mr Cluff's personal representatives.

Share Option Plan

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.

Any employed Director or employee of the Company is eligible to receive grants under the Share Option 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 Share Option 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 or any member of its group.

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.

Notes to the Financial Statements (continued)

No awards were made under the scheme during the period to 31 December 2012. Options granted post year end are disclosed in note 19.

Warrants

The movement on issued warrants during the period is as follows

Granted during the period	Number of Warrants	Weighted Average Exercise Price (p)
J G Cluff	5,000,000	5.00
Shore Capital and Corporate Shareholders	4,340,000	5.00
Shareholders	37,500,000	10.00
	46,840,000	9.45

The Company recognised an expense of £232,195 in respect of warrants granted in the period ended 31 December 2012. No options were granted in this period. Of this amount £219,948 relates to the issue of the shares at the time of admission to AIM and has been included in the share premium account. £78,502 relates to a share based payment to J G Cluff and is included within the loss incurred in the period.

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 period has been derived through applying the Black Scholes model.

The inputs to the Black-Scholes model were as follows

Black Scholes Model

Share Price	4.12p
Exercise price	5.00-10.00p
Expected Volatility	50%
Risk Free Rate of Interest	0.86%
Expected Dividend Yield	0%
Expected Life	2.4-5 years

Warrants

The following Warrants were issued

Shore Capital and Corporate Limited (SCS) Warrant

Pursuant to a warrant instrument dated 11 May 2012, the Company granted to Shore Capital and Corporate Limited, the Company's nominated adviser, warrants to subscribe for 4,340,000 Ordinary Shares at a subscription price of £0.05 per new Ordinary share. SCS may exercise the warrants to subscribe for Ordinary shares at any time during the exercise period which ends 22 May 2017. The Company must notify SCS in the event of a takeover offer. The SCS warrants are not transferable except within the Shore Capital Group of companies.

Existing Warrant Deed

Pursuant to a warrant instrument dated 4 May 2012, the Company granted J G Cluff warrants for 5,000,000 Ordinary Shares at a subscription price of £0.05 per new Ordinary Share. The Company must obtain the consent of J G Cluff before undertaking certain actions which will affect the Ordinary Shares and notify J G Cluff in the event of a takeover offer. The existing warrants are not transferable except with the prior written consent of the Company.

Placing Warrant Deed

Pursuant to the warrant instrument dated 4 May 2012, the Company granted to each placee who subscribed for Ordinary Shares pursuant to the placing one warrant to subscribe for an Ordinary share at a subscription price of £0.10 for every two placing

Notes to the Financial Statements (continued)

shares subscribed. Each warrant holder may exercise the warrant to subscribe for Ordinary Shares at any time during the exercise period which ends on 22 May 2015. The Company must obtain the consent of 75 per cent. of the holders of the Placing warrants present at a meeting of the warrant holders before undertaking certain actions which will affect the Ordinary Shares and it must notify each holder of the Placing Warrants in the event of a takeover offer. The Placing warrants are not transferable except with prior written consent of the Company.

19. POST BALANCE SHEET EVENTS

On 23 January 2013, 4,500,000 options over Ordinary shares of £0.005 each in the Company were granted. These share options have a weighted average exercise price of £0.0641 per share and amount to 5 per cent. of the total issued share capital. The share options vest in 12 months and are exercisable over 10 years. On 4 April 2013, 1,500,000 of the options lapsed on the cessation of employment. The remaining share options have a weighted average exercise price of £0.074.

On 14 January 2013 following a formal offer from The Coal Authority, sponsored by the UK Department of Energy & Climate Change, the Company was awarded Conditional Underground Coal Gasification Licences for two prospects in the UK. The Loughor Estuary Project, located in Carmarthenshire Wales, consists of a 4,207 hectare area and the Dee Estuary Project, located on the borders of Merseyside and Northern Wales, consists of a 6,953 hectare licence area. Cluff Natural Resources has a 100 per cent. working interest within the licences.