

Evolution and Growth

Company Number 4822520  
Cluff Gold plc

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## Our Strategy

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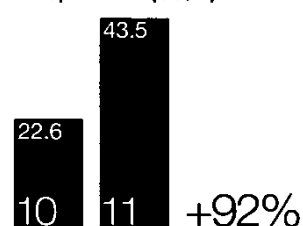
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Transition to mid-tier  
producer through the  
exploration and  
development of our  
key assets

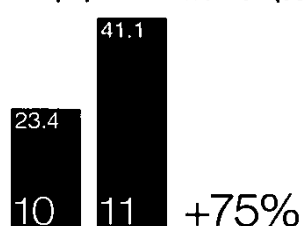
## Our Highlights

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Group EBITDA (US\$m)



Group operational cash flow (US\$m)



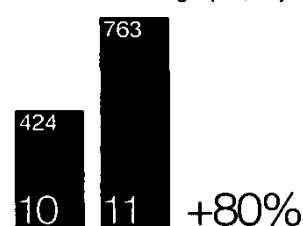
Kalsaka production

71,505oz

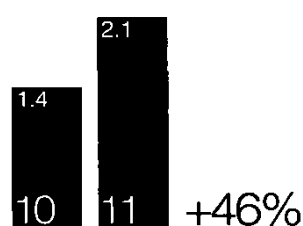
Group exploration and development expenditure

US\$21.7m

Kalsaka cash margin (US\$/oz)



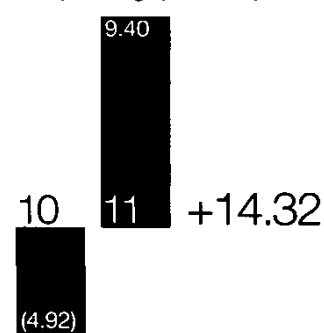
Baomahun, measured and indicated (Moz)



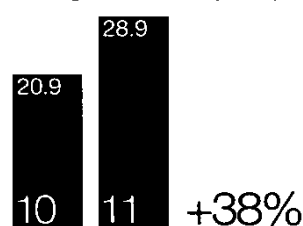
2012 production target (oz)

60-70,000

Group earnings per share (USc/share)



Closing cash balance (US\$m)



## Our Operations West Africa

- > Cash flow from the Kalsaka mine underpins Group exploration expenditure
- > Development of Baomahun delivers near-term production growth
- > Long term resource growth potential at Yaoure

### **Kalsaka/Sega, Burkina Faso**

Kalsaka is Cluff Gold's primary cash generator, producing 71,505oz in 2011, exceeding its 70,000oz target for the second consecutive year

Located in Burkina Faso, the project is expected to produce 60-70,000oz in 2012. Its production profile was enhanced by the recent acquisition of the neighbouring Sega gold project. The Group also controls four new exploration licences in Eastern Burkina Faso, providing a pipeline of future projects to the Group.

### **Baomahun, Sierra Leone**

Baomahun is Cluff Gold's primary development asset in Sierra Leone. With a current resource base of 2.1Moz indicated and 0.9Moz inferred, the project is advancing towards feasibility study completion. The project has potential for operating cost savings from hydro-electric power, and considerable scope for further long term resource and production growth both along strike and underground.

### **Yaoure, Côte d'Ivoire**

The Yaoure project in Côte d'Ivoire is in an ideal location for a low cost CIL/CIP operation. Local infrastructure includes a 150MW hydroelectric power plant capable of supplying cheap power to the mine. With a current sulphide resource base of 292,000oz and promising results from the 2011 drilling campaign, the Company is confident of delivering significant resource growth in 2012.

## Our Operations 2011 Achievements

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### Kalsaka/Sega, Burkina Faso

- > 2011 production 71,505oz, exceeding its 70,000oz target for the second consecutive year
- > Record EBITDA of US\$51.9m underscores improved operational performance
- > Record gold price achieved, average realised gold price US\$1,586/oz
- > Strong cash margin of US\$763/oz
- > The addition of the Sega project is expected to provide mine life extension with additional exploration potential

### Sega resources

450,366oz  
indicated  
147,344oz  
inferred

### Baomahun, Sierra Leone

- > Significant resource increase to 2.1Moz indicated category (46% increase over the previously announced measured and indicated resources), and 0.9Moz of inferred
- > Accelerated investment in 2011 increased by over US\$10m to US\$16.3m as the project transitions to construction
- > Environmental permit issued 19 April 2012
- > Feasibility study completion expected in H1 2012

### Targeted average annual production

135,000oz

### Yaoure, Côte d'Ivoire

- > Drill results from 2011, announced in early 2012, confirm the potential for a large, mineralised, sulphide ore body underlying oxide deposits
- > Drilling results included 28.35 metres at 3.24 g/t, 31.60 metres at 1.97 g/t and 13.25 metres at 4.14 g/t
- > Drilling continues to focus on an extension to the known mineralised zone

### Existing measured and indicated sulphide resources

292,000oz

## Chairman's Statement

I firmly believe the stage is set for the Company to add significant value to its entire asset base over the next few years, and intend to remain invested to capitalise on that growth.

I founded Cluff Gold in 2003, the fourth in a series of natural resource companies commencing with Cluff Oil in 1972. The others were acquired by third parties when they had become established producers of oil or gold. As Cluff Gold seeks to establish itself as a mid-tier producer, I have come to the conclusion that the Company now requires a strengthening of its executive team with an Executive Chairman based in London, since our Chief Executive is quite properly based in West Africa.

I am pleased to have secured an Executive Chairman with exceptional technical and financial knowledge and experience to replace me. I look forward to working with the entire executive team as a consultant over the next 12 months during a critical phase of development across our asset base.

The company has a portfolio of excellent production, development and exploration assets distributed through four West African countries and I, with the considerable help and support from my fellow directors, have negotiated the acquisition of these properties and raised the necessary capital to advance them. I have put in place a management team possessed not only of the appropriate disciplines but also with the collaborative temperament essential for a good team. I leave the company with a strong, debt free balance sheet. I can assure shareholders that our team of mostly African engineers, mine managers and geologists is of the highest calibre. I firmly believe the stage is set for the Company to add significant value to its entire asset base over the next few years, and intend to remain invested to capitalise on that growth.

Over the past thirty five years I have led teams, which variously have discovered an offshore oil field in the North Sea, discovered and brought into production numerous gas fields in the USA, Canada and Australia, discovered and developed five gold mines in Zimbabwe, Ghana, Burkina Faso, Côte d'Ivoire and Sierra Leone, and discovered what is now the Gerta Mine in Tanzania, the largest gold discovery in Africa for many years. I now feel the entrepreneurial urge to continue this process and look forward to leading another team at a new natural resource company charged with making more discoveries. I am excited at resuming the entrepreneurial challenge of building another company, safe in the knowledge that I leave Cluff Gold in an exciting position of future growth with strong operational hands to manage the next phase of its development.



JG Cluff  
Non-Executive Chairman  
27 April 2012

## Chairman Elect's Statement

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We are now well placed financially and regionally to continue to grow the Company both organically and through asset acquisition. Together I believe we can move the Company forward to unlock the latent value of its people and projects.

I am delighted to be joining the Cluff Gold team at this point in the Company's development. The Company has secured continued production at Kalsaka through the acquisition of Segla, and has the potential for significant future growth from Baomahun, Yaoure and other exploration and development targets in the region. I believe that my background and experience from within the mining industry as well as banking complements the skills of the other executives. Together I believe we can move the Company forward to unlock the latent value of its people and projects.

Over the past nine years, the Company has established itself in one of the world's great gold regions and has assembled a number of quality assets. We are now well placed financially and regionally to continue to grow the Company both organically and through asset acquisition. Adopting a rigorous approach where we weigh up our portfolio in light of economic, geological and mining inputs will ensure that we continue to deliver value to shareholders. With a strong management team led by Mr Peter Spivey, whose development and operational capabilities are well proven, I have no doubt we can deliver on our expansion plans.

The Company is also at a point where its current cash position and strong cash flow from producing assets allows it to self-fund its existing exploration and has the capacity to grow this further. With this in mind, the Company is set to strengthen its exploration team to accelerate progress amongst its growth projects.

Furthermore, we have an experienced team of country managers in West Africa and we will continue to focus our efforts in this region, where I believe there are many world class gold projects yet to be discovered.

To allow the Company to effectively and economically exploit its current asset base, and to take advantage of opportunities that may arise as we continue to move through difficult markets, we have conducted a thorough review of the Board, its structure and its effectiveness. As recently announced, a number of changes have already been made and, in time, we will be making some further changes to reflect the Company's transition to a mid-tier gold producer.

I would also like to thank Mr Algy Cluff for his vision and efforts in building the Company, gathering the assets, and nurturing a team of people that are ready to take the Company to the next stage of development. I look forward to drawing on his knowledge in his capacity as a consultant to the Company and wish him well as he embarks on a new venture in the natural resources space.



John McGloin  
Chairman Elect  
27 April 2012



## Chief Executive's Statement

I am pleased to report that we have exceeded production guidance for the second year running. The combination of constrained cash costs and a robust gold price has generated a healthy cash margin for the Company and this is a testament to both the management team and the work force at all the operations.

Over the past twelve months, my priority as Chief Executive has been to ensure the effective implementation of Cluff Gold's strategy focused on the successful development of the Company's mining assets. At an operational and corporate level we have had significant success in progressing our full asset portfolio, with a number of key milestones achieved. Additionally Cluff Gold has delivered a strong set of financial results for the period, which has strengthened our financial position and which will contribute to our development plans looking forward as we look to take Cluff Gold through to the next phase of growth. The work undertaken to implement and strengthen the management systems, such as the improvement of the supply chain and inventory management, has enabled Kalsaka to achieve strong operational performance over the twelve month period. I am also pleased to report that we have exceeded production guidance for the second year running. The combination of constrained cash costs and a robust gold price has generated a healthy cash margin for the Company and this is a testament to both the management team and the work force at all the operations.

The acquisition of Segla in January of this year has assisted us in achieving our objective of significantly increasing the oxide life at Kalsaka to deliver and maintain near term production. The final approval from the government which completes the Segla transaction is due shortly. Continuing to deliver significant operational cashflow at Kalsaka is fundamental as we further our exploration programme across all of our mining operations.

Our flagship project, Baomahun, continues to progress well, and is now at a pivotal time in its development. Indicated resources increased by 46% in September and we look forward to the updated resource statement due for completion later this month. Following the receipt of the environmental permit, we are now well positioned to complete the environmental impact assessment and the feasibility study remains on track for completion in June 2012. The work undertaken for the run-of-river hydro-electric power project has demonstrated that it could provide substantial savings in operating costs, in addition to de-coupling the project economics from the long term oil price.

In Côte d'Ivoire, we have delivered on our strategy to focus on the sulphide potential at the Yaoure mine, with extremely encouraging drilling results. This is a new and exciting opportunity for the Company and it seems fitting to distinguish this new project from the previous small heap leach oxide property, which is the reason why we have re-named the project.



## Chief Executive's Statement continued

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Going forward, the Company's focus of concentrating on assets capable of sustaining over 100,000 ounces of annual gold production, rather than smaller heap leach plants, re-iterates our stated aim for becoming a mid-tier producer

In March 2012, the Company successfully completed a £23 million fundraising. It was encouraging to see the investor support, which was oversubscribed, from both existing and new shareholders. The Company has further strengthened its balance sheet, which will assist Cluff Gold in bringing Segha into production and fully capitalising on the significant growth opportunities that exist across our asset portfolio.

Good assets can only be realised by the right people. This year we have continued to strengthen the management team both in London and in West Africa. Of critical importance has been the strengthening of our exploration team. The appointment of Peter Brown as Group Exploration Manager has already delivered in terms of the progress we are seeing in Côte d'Ivoire. We have also appointed a new country manager for Côte d'Ivoire, Mr Moussa Senfou, to re-inforce our commitment to that country. On the project development side, Mr Richard Quarumby has joined the Executive Committee as Group Project Manager. Not only is he taking a leading role in the Baomahun feasibility study, we have also relied heavily on his expertise to complete our understanding of the Segha project, and have entrusted him to manage the plans to bring Segha into production.

Additionally, we warmly welcome John McGloin to the Cluff Gold team.

The appointment of John is a necessary step for Cluff Gold. The Company has now reached a stage in its development where it needs an Executive Chairman who can spend significant time liaising with shareholders and the wider financial community in both London and North America. His role will also be to help to define the future corporate strategy of the business, as I continue to focus on building the operations and identify other business opportunities in Africa. His technical and financial experience will be of significant value to the Board, as we look to maximise returns for our shareholders and emerge as one of the leading gold producers in West Africa.

Finally, on behalf of the Board and all our employees, I would like to thank Algy Cluff, as the founder of Cluff Gold, for his invaluable contribution to the Company. He has secured a strong portfolio of assets and built a leading management team that has enabled the Company to achieve a strong and stable platform for significant future growth. We wish Algy every success for the future, and look forward to his continued support in his new role as a consultant.



Peter Spivey  
Chief Executive  
27 April 2012



## **Review of Operations**

### **Kalsaka/Sega, Burkina Faso**

Kalsaka is the Company's key cash flow generator, having produced 71,505oz in 2011. The acquisition of the Sega project provides an opportunity to increase Kalsaka's production profile and mine life with limited upfront capital.

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## **Review of Operations** Kalsaka/Sega, Burkina Faso

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### **Key facts**

2011 production

71,505oz

2011 cash cost per ounce

US\$823

2011 EBITDA

US\$51.9m

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## Review of Operations Kalsaka/Sega, Burkina Faso

Kalsaka delivered excellent results in 2011, exceeding production guidance for the second consecutive year by pouring over 71,505 ounces of fine gold and generating US\$51.9m in EBITDA

### 2012 exploration budget

US\$7.9m

### 2012 drilling programme

120,000m

### Acquired Sega indicated resources

450,366oz

### Sega High grade mineralised core

The Company's cash generating asset, Kalsaka, delivered excellent results in 2011, exceeding production guidance for the second consecutive year by pouring over 71,500 ounces of fine gold. This generated EBITDA of US\$51.9m, an increase of 78% from the previous year, to fund the Company's activities. This significant EBITDA generation was assisted by the robust gold price, with an average price of US\$1,586 per ounce realised in 2011, representing a 30% increase on the previous year. Cash costs were well contained, at US\$823 per ounce, a 4% increase compared to the prior year. Cash margins were therefore very strong, at US\$763 per ounce for the year, representing a 78% increase compared to 2010.

This EBITDA performance reflects a strong operational performance for the mine during the year. The mining team delivered a total of 1.90Mt of ore in 2011, a 23% increase compared to the prior year, at a strip ratio of 6.67. The strip ratio represented an 8% reduction compared to 2010 reflecting a natural reduction at depth in the primary mining zones. A total of 1.65Mt of ore was stacked in 2011, a 6% increase on 2010, reflecting good ore availability and utilisation of the plant throughout the year to reduce plant downtime.

The average reported head grade of 1.45g/t was slightly lower than achieved in 2010, reflecting lower grade areas of the mine which were processed in H1. This variation in grade is reflected in the comparative performance in H1 and H2, with 56% of production generated in the second half at a time of higher gold prices.

#### 2012 Expectations

Kalsaka is forecast to produce between 60,000 and 70,000 ounces of gold in 2012, slightly below the performance in 2011. This is based on 1.6Mt of ore being processed at an average head grade of approximately 1.4g/t.

The forecast production range takes into account the nature of the ore the Company is expecting to process in 2012. During Q4 2011, a crushing circuit was successfully installed at the Kalsaka mine, allowing previously stockpiled quartz material to be processed alongside more quartz rich material being encountered in one of the pits. This quartz material has a longer leach cycle than the softer ore with which it is being blended. Accordingly, we have set out a production range which will allow for a larger gold lock-up in working capital at 31 December 2012 than previously experienced and we expect 2012 production to be stronger in the second half of the year.

### Sega

The existing known reserves and stockpiles at Kalsaka are expected to be stacked until Q1 2013. Some mine life extension is expected from near term exploration targets currently under evaluation, together with the processing of transitional ore. However, the Board is keenly aware of the importance of on-going operational cash flow during the construction phase at Baomahun. Accordingly, on 3 February 2012, the Company announced the legally binding, conditional acquisition of the Sega project from Orezone Gold Corporation ("Orezone"). Completion of the acquisition remains conditional on the approval of the Government of Burkina Faso, which the Company expects to receive shortly. The acquisition will provide an immediate mine life extension at Kalsaka to ensure that production continues past 2013. The Sega project has an area of 313k sq. km across two adjacent licences, which host an indicated mineral resource of 450,366 ounces (8.3Mt at 1.7g/t) and an inferred mineral resource of 147,344 ounces (2.9Mt at 1.6g/t) with additional exploration potential.

To optimise the exploitation of the Sega ore body, it is intended that the oxide and transitional resources will be processed through the existing Kalsaka heap leach plant. This will keep capital expenditure to a minimum, reduce the environmental footprint and ensure a rapid start to production. Whilst the total resources at Sega have a similar grade to the existing Kalsaka operation at 1.7g/t, the deposit actually contains a higher grade core of mineralisation averaging over 2g/t that is expected to have positive operating cost implications once production commences. Detailed metallurgical test work completed by Orezone has indicated average heap leach recoveries of 85% for oxide and transitional ore with favourable agglomeration properties. Therefore, the cash cost per ounce from the processing of the Sega ore, including the costs of haulage, is expected to be lower than currently incurred at Kalsaka.

Work has commenced on a Preliminary Economic Assessment to confirm the technical plans to mine and process the Sega resources, which is expected to be completed in May 2012. Work is currently underway in respect of an environmental and social impact assessment, under the guidance of Digby Wells, to ensure that the licensing of the Sega property can be concluded in good time to allow a smooth transition for processing from Kalsaka to Sega ore sources.

#### Exploration

The Company believes there is a strong potential to further increase oxide resources across its combined current and recently

## Review of Operations Kalsaka/Sega, Burkina Faso

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Annual Production Statistics

|                             |           | 2011       | 2010       | % Change |
|-----------------------------|-----------|------------|------------|----------|
| Ore mined                   | (t)       | 1,898,711  | 1,539,557  | 23%      |
| Waste mined                 | (t)       | 12,670,996 | 11,135,933 | 14%      |
| Total tonnage mined         | (t)       | 14,569,707 | 12,675,490 | 15%      |
| Strip ratio                 | (ratio)   | 6.67       | 7.23       | (8%)     |
| Ore processed               | (t)       | 1,848,166  | 1,550,373  | 6%       |
| Average ore head grade      | (g/t)     | 1.45       | 1.56       | (7%)     |
| Gold production             | (oz)      | 71,505     | 74,073     | (3%)     |
| Cash costs excl. royalties  | (US\$/oz) | 823        | 793        | 4%       |
| Average realised gold price | (US\$/oz) | 1,586      | 1,221      | 30%      |

acquired licences, thereby extending the life of the existing heap leach operations at Kalsaka. The acquisition of the Sega project does not diminish the focus on exploration, with the recent acceleration of activity to be maintained. Exploration targets will be generated and prioritised systematically across the various licences in the vicinity.

In 2011, a total of 36,546m of RAB and 39,859m of RC drilling was completed across the Kalsaka and Yako licences. Promising results were received at the Zoungwa and Rondo prospects, which are expected to add to the oxide mine life at Kalsaka. In 2012, drilling has continued within both the Kalsaka and Yako licence areas. In addition, Orezone has completed 10,000m of RC drilling at the Sega property focusing on a number of new targets for which results are expected soon.

The Company's near term strategy at Kalsaka is to maintain the heap leach operation, which does not require significant high cost power consumption usually associated with milling. In the longer term, the exploration team are tasked with demonstrating the sulphide potential across the region, with a view to developing a CIL plant once grid power is available in the region.

Kalsaka Reserves and Resources as at 31 December 2011 <sup>1</sup>

|   | Tonnes (Mt) | Grade (g/t Au) | Ounces  |
|---|-------------|----------------|---------|
| <b>Resources at 0.5g/t Au cut off</b>                                       |             |                |         |
| Oxide and Transitional  |             |                |         |
| Measured  | 0.7         | 1.6            | 36,000  |
| Indicated   | 4.0         | 1.4            | 177,000 |
| Measured and Indicated  | 4.7         | 1.4            | 213,000 |
| Inferred  | 0.8         | 1.4            | 36,000  |
| <b>Sulphide</b>   |             |                |         |
| Measured  | 0.2         | 1.6            | 8,000   |
| Indicated   | 1.0         | 1.7            | 55,000  |
| Measured and Indicated  | 1.2         | 1.7            | 63,000  |
| Inferred  | 2.3         | 1.5            | 111,000 |
| <b>Reserves at 0.5g/t Au cut off and US\$950/oz gold price <sup>1</sup></b> |             |                |         |
| Oxide, Transitional and Stockpile   |             |                |         |
| Proven  | 0.4         | 1.6            | 20,300  |
| Probable  | 1.3         | 1.5            | 61,700  |
| Proven & Probable   | 1.7         | 1.5            | 82,000  |

Sega Resources as at 18 January 2010 <sup>1</sup>

|                        | Tonnes (Mt) | Grade (g/t Au) | Ounces  |
|------------------------|-------------|----------------|---------|
| <b>Indicated</b>       |             |                |         |
| Oxide and Transitional | 4.9         | 1.6            | 257,572 |
| Sulphide               | 3.4         | 1.8            | 192,794 |
| Total indicated        | 8.3         | 1.7            | 450,366 |
| <b>Inferred</b>        |             |                |         |
| Oxide and Transitional | 1.2         | 1.5            | 56,258  |
| Sulphide               | 1.7         | 1.6            | 91,066  |
| Total inferred         | 2.9         | 1.6            | 147,344 |

## **Review of Operations**

### **Baomahun, Sierra Leone**

Baomahun is the Company's primary development asset with 2.1Moz in the indicated category and 0.9Moz in the inferred category. The project is expected to commence construction in late 2012 with the first gold pour in 2014

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## **Review of Operations** Baomahun, Sierra Leone

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### **Key facts**

Significant resource increase of +46% to

**2.1Moz**  
indicated

2011 exploration and  
development expenditure

**US\$16.3m**

HEP Study completed

**Q3 2011**

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## Review of Operations Baomahun, Sierra Leone

The Company's investment at Baomahun has significantly accelerated in 2011, with the annual expenditure increasing by over US\$10m to US\$16.3m as the project enters a pivotal stage transitioning to construction.

Feasibility study expected

H1 2012

Construction commencement planned

Q4 2012

First gold pour expected

2014

Baomahun is the Company's wholly owned flagship development project in Sierra Leone, with 2.1 million ounces of indicated mineral resources (25.6Mt at 2.5g/t) and a further 0.9 million ounces of inferred mineral resources (9.6Mt at 2.8g/t) defined to date. The Company's investment at Baomahun has significantly accelerated in 2011, with the annual expenditure increasing by over US\$10m to US\$16.3m as the project enters a pivotal stage transitioning to construction.

The Company's strategy at Baomahun is two-fold

- Progressing towards open-pit production focused on the currently defined resources
- Demonstrating the long term potential for resource and production growth, both along strike and underground

### Feasibility Study expected June 2012

A number of milestones were achieved at Baomahun in 2011, including an updated resource statement in September 2011 setting out a 46% increase in indicated resources. This resource was optimised into an open pit by SRK Consulting Limited, demonstrating that the project is capable of producing at 135,000 ounces per annum for a robust eight year mine life. In the optimal economic scenario, the steeply dipping nature of ore body generates a high strip ratio, estimated at 12:1. With nearly 100,000 ounces of inferred resources contained within this open pit being treated as waste, the Company believes that there is good scope for the recently completed in-fill drilling programme to have reduced this figure by converting some of the inferred resources into measured or indicated categories. Resource modelling is underway and an updated resource statement is expected to be completed later in April 2012. This is the next key milestone for the project.

Baomahun is a straightforward project relative to other West African mining projects. It has a clean ore with good recovery from a conventional CIL plant and no significant impediments to mine development. Following the receipt of the environmental permit on 19 April 2012, the Company is now well positioned to complete the environmental impact assessment for Baomahun, one of the last outstanding parts of the feasibility study which is due for completion in H1 2012.

To allow a smooth transition from the feasibility study to the construction phase, early infrastructure investment commenced in Q4 2011 and is progressing in 2012. The 17km

access road to site is being upgraded along with the exploration camp, which will be ready before the next rainy season commences to accommodate the construction team. Following delivery of the feasibility study and financing, construction is planned to commence in November 2012 after the rains ease with an 18 month construction period expected. The first gold pour is therefore expected in 2014 with steady state production anticipated in 2015.

### Hydro-electric power

In parallel with the mine feasibility study, a separate study has been completed for a 24MW run-of-river hydro-electric power generation project within 40km of Baomahun. This is estimated to have sufficient capacity to provide the project's power needs for 72% of the year, with a heavy fuel oil power station required for the height of the dry season. During the wet season there will be surplus power available for external sale, and accordingly the Company plans to utilise an independent power producer structure to finance the opportunity without the need for significant up-front investment from Cluff Gold.

For a conventional CIL plant, the power requirements for grinding are a significant element of the total production costs. Accordingly, hydro-electric power can provide substantial savings in operating costs compared to the high cost of power from oil. The hydro-electric power opportunity will also de-couple the project economics from the long term oil price, creating an effective mechanism to contain cash costs into the future.

### Financing

The financing of Baomahun will be a key milestone for the Company, and there is a clear appetite for financing this project through debt funding from a number of institutions that will help minimise equity dilution. Management is committed to delivering the most cost effective means of financing the project in the interest of shareholders, which could mean a mixture of debt and equity. Discussions are on-going with a number of potential financiers, and the Company intends to announce the preferred financing solution alongside the feasibility study.

### Long Term Potential

In addition to the initial open pit, which will be the subject of the feasibility study, the Baomahun project has considerable scope for further long term resource and production growth both along strike and underground.

High grade core in current resource area



## Review of Operations Baomahun, Sierra Leone

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### Feasibility Study – Proposed Initial Operational Parameters

|                      |  |
|----------------------|--|
| Mine type            | Initial open pit based on US\$1 150/oz pit shell |
| Total LOM Production | 1.1 Moz  |
| Average grade        | 2.23g/t  |
| Strip ratio          | 12.6:1   |
| Average production   | 135,000oz p.a.                                   |
| Mine life            | 8 years  |

### Baomahun Resources as at 5 September 2011<sup>4</sup>

|           | Tonnes (Mt) | Grade (g/t Au) | Content (Oz) |
|-----------|-------------|----------------|--------------|
| Indicated | 25.6        | 2.5            | 2,070,000    |
| Inferred  | 9.6         | 2.8            | 860,000      |

Initial analysis shows that the resources at depth are high grade, suitable for exploitation via underground mining techniques. The ore body remains open at depth, with potential for significant resource growth in high grade areas. The management team's preference is to focus on growth along strike in the near term as the optimal path to adding value. However, the Company will also examine the potential for economic extraction of deeper higher grade zones post the commissioning of the project in 2014 to ensure that the full value of the project is demonstrated to the satisfaction of all stakeholders.

The Company's main focus has been on the potential to delineate gold along strike from the presently defined resources. In addition to work in the Baomahun mining lease and Victoria exploration licence, the recent award of the Makong South licence, north of the existing exploration licence, further enhances the Company's opportunity for expansion.

A series of high priority drill targets were originally identified through a geophysical VTEM survey, which was completed in 2010. These targets highlighted possible conductors which had the potential to be caused by

sulphide minerals associated with gold as in the resource area. An initial drilling campaign in 2011 had mixed success. Targets located 1.5km to 3.5km north of the resource area were shown to be associated with pyrrhotite and arsenopyrite with some gold mineralisation, close to banded iron formation-schist contacts, as seen in the resource area. However, conductors in areas to the northwest of the licence were demonstrated to be caused by pyrite-dominated sulphide mineralisation in a different geological setting (granite-schist contacts) and no gold was found.

Following these initial results, a more detailed 3D inversion technique was used to refine the geophysical targets to the north of the resource area. Drill results in the area 300m to 900m north of the resource area have confirmed the presence of gold. Multiple intercepts, which have previously been reported, include 5m at 2.1g/t from 17m, 10m at 1.5g/t from 37m and 8m at 1.5g/t from 118m all within a single drill hole.<sup>3</sup> Further drilling is continuing as part of the Company's initially planned 9,000m diamond programme in 2012. This is expected to increase as results dictate.

Drill results in the target area 300m to 900m north of the resource area have confirmed the presence of gold.

## **Review of Operations**

### **Yaoure, Côte d'Ivoire**

The Yaoure gold project in Côte d'Ivoire has significant exploration potential for resource growth. Its close proximity to existing infrastructure including an abundant water source, and a nearby hydroelectric dam capable of supplying low cost power, makes the project one of the best located gold projects in West Africa.

## **Review of Operations**

### **Yaoure, Côte d'Ivoire**

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#### **Key facts**

Measured and indicated  
sulphide mineralisation

292,000oz

Inferred sulphide mineralisation

25,000oz

2012 exploration budget

US\$10.9m

## Review of Operations Yaoure, Côte d'Ivoire

### Significant drill results

From 35.3m

28.4m @  
3.24g/t

From 31.8m

31.6m @  
1.97g/t

As drill results began to emerge this year confirming the potential for a large, mineralised, sulphide deposit underlying oxide deposits at the Angovia property in Côte d'Ivoire, the project was renamed Yaoure. This was done in order to distinguish the previous small heap leach oxide property from the larger underlying sulphide target. Whilst sulphide mineralisation had been identified early on and formed part of the resource base, the Company previously focused on bringing an oxide operation into production rapidly, ignoring the significant sulphide potential. There is currently a measured and indicated sulphide resource totalling 292,000 ounces at Yaoure (3.4Mt at 1.5g/t measured and 2.2Mt at 1.7g/t indicated).<sup>5</sup> In the Yaoure Central pit, this resource was based upon RC drilling to a depth of 100m below the original surface, extending approximately 60m below the current pit floor.

The favourable infrastructure in the area including access via sealed roads from Abidjan to within a few kilometres of the mine, easy access to water, and most importantly, cheap hydro-electric power from the nearby Kossou barrage, make Yaoure an ideal third operation in the Cluff Gold portfolio. It provides the opportunity to establish the Company as a mid-tier producer from the development of its existing assets.

Diamond drilling at Yaoure in 2011 totalled 3,067m in 29 holes, with a further 18 holes completed in 2012 to date. The focus of this drilling has been on the northern half of the existing Yaoure Central pit over a strike length of 700m down to a depth of 275m. The drilling targeted both the main shallow-dipping North-South structure in which gold is mainly associated with disseminated pyrite in greenstones and subsidiary East-West subvertical structures in which visible gold is more associated with quartz veining. This drilling has continued to demonstrate the continuity of a shallow-dipping (25 -35 degrees to the east) mineralised zone over significant widths - up to 31m thick. The best results received to date, as previously announced, include 28.35m at 3.24g/t gold and 31.60m at 1.97g/t gold, at depths of 25m to 60m below the current pit.<sup>6</sup> Initial metallurgical testwork has indicated that the mineralisation is non-refractory and suitable for treatment in a conventional CIL/CIP circuit.

Recent drilling results continue to support our hypothesis of a low-strip open-pit target. We have therefore recently decided to double the number of diamond drill rigs on site to four, in order to rapidly test the upside potential, stepping out along the entire 1.1km length of the existing pit as well as testing for parallel ore-bodies. We hope to be in a position to announce an upgraded resource in the second half of this year.

The Yaoure Central pit covers only a third of a substantial +200ppb gold in soil anomaly stretching over 3.0km within the Mount Yaoure exploitation permit. In addition to the two diamond drill rigs currently focusing on Yaoure Central, the Company is continuing exploration along a separate 2.25km long soil anomaly with one RAB drilling rig and two RC drilling rigs.

In addition to drilling within the exploitation permit, an airborne magnetic survey has recently commenced covering the Company's entire 367 square kilometre exploration and exploitation permits. This, in conjunction with a remote sensing imagery interpretation, will be used to help define exploration targets outside of the presently identified geochemical anomalies and ensure that the entire permit areas are appropriately explored.

## Review of Operations Yaoure, Côte d'Ivoire

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### Yaoure Resources as at 31 December 2011<sup>a</sup>

| Resources at 0.5g/t cut-off  | (Mt) | (g/t) | (Oz)    |
|------------------------------|------|-------|---------|
| Latent                       |      |       |         |
| Measured & Indicated         | 2.4  | 0.6   | 46,000  |
| Inferred                     | 0.5  | 0.5   | 8,000   |
| Other Oxide and Transitional |      |       |         |
| Measured & Indicated         | 4.2  | 1.4   | 179,800 |
| Inferred                     | 0.8  | 1.4   | 38,000  |
| Sulphide                     |      |       |         |
| Measured & Indicated         | 5.6  | 1.6   | 292,000 |
| Inferred                     | 0.5  | 1.5   | 25,000  |

### Existing operations

The existing heap leach operations at Yaoure were placed on care and maintenance in Q1 2011. Stacking of previously mined ore and spraying of the previously stacked heaps re-commenced in Q3 2011. Overall, Yaoure produced 6,470 ounces of gold in 2011, providing useful on-going cash flow to sustain the operations.

The Company intends to re-commence operations utilising the existing heap leach infrastructure in 2012. This will produce a small amount of gold from near mine latent oxide targets, which are simple to mine and process and that have been identified close to the existing operation. A full technical study is expected to be completed during H1 2012. By re-commencing heap leach operations, the Company will be able to demonstrate its commitment to the local population and the government of Côte d'Ivoire. This commitment will ensure that our existing workforce is retained and enable the Company to maintain our operating licences, whilst focusing on bringing a larger operation to account.

Yaoure's sulphide potential

## Review of Operations Mamoudouya, Mali

### Key facts

#### Licence area

109 sq km

The Mamoudouya exploration licence in Mali contains a number of early stage exploration targets and forms part of our renewed focus on building a pipeline of assets from early stage exploration through development to production. The licence, covering an area of 109 square kilometres, was granted in early 2011 for an initial term of three years.

geophysical survey, generating a number of drill targets, which the Company began to test with a 10,000m RC drilling program in March 2012. This program is currently on-going. Whilst our personnel were unaffected by the recent disturbances in Mali, our drill contractor did suspend operations. With the imminent return to constitutional rule in early April, we expect to recommence drilling shortly and anticipate releasing results in H2 2012.

#### Defined gold anomaly

2.8 sq km

The licence is situated in the southwest of the country in the highly prospective Kedougou-Kenieba inlier, a belt of Birimian greenstones associated with a regional-scale shear zone which is host to some of West Africa's largest deposits. Regional mapping, trenching and geochemical sampling of termite mounds defined a 3.5km by 0.8km gold anomaly in early 2011. This was followed up by a ground-based induced polarisation (IP)

#### 2012 RC drilling programme

10,000m

Substantial gold in soil anomaly at Mamoudouya

# Financial Report

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The year under review has seen the Company capitalise upon the continued record gold price and the operational performance at the Kalsaka mine in Burkina Faso to record an annual profit after tax for the first time. This financial performance has enabled the Company to self-fund exploration work across its growing asset base, move towards completion of the feasibility study on Baomahun, and plan and commence early stage infrastructure construction work at Baomahun.

Cash generated by the operating mine at Kalsaka provided a year-end cash balance of US\$28.9m. Subsequently, some of this cash was utilised to complete the acquisition of the Segla gold project in Burkina Faso. The placing of 25m shares at 92p in March 2012 has ensured that the cash element of the acquisition consideration does not constrain the Company's strategy going forward.

## Financial Highlights

| US\$000                       | 2011    | 2010    | 2009     |
|-------------------------------|---------|---------|----------|
| Revenue                       | 121,684 | 115,804 | 39,659   |
| Gross profit                  | 46,978  | 21,628  | 4,574    |
| EBITDA                        | 43,544  | 22,626  | 4,261    |
| Profit/(loss) before taxation | 25,376  | (976)   | (35,495) |
| Basic EPS (cents per share)   | 9.40    | (4.92)  | (30.25)  |

|                               |          |          |          |
|-------------------------------|----------|----------|----------|
| Cash generated from/(used in) |          |          |          |
| operating activities          | 41,104   | 23,444   | (8,816)  |
| Net cash inflow/(outflow)     | 7,998    | 18,634   | (2,143)  |
| Total cash                    | 28,905   | 20,907   | 2,273    |
| Total assets                  | 140,698  | 122,001  | 113,871  |
| Total liabilities             | (28,535) | (24,995) | (27,564) |

Kalsaka's revenue rose 26% in 2011 from US\$90.6m to US\$114.2m from similar production levels to 2010, due to an increase in the average gold price from c. US\$1,200/oz to c. US\$1,550/oz. Cash costs per ounce at Kalsaka rose only marginally to US\$823/oz from US\$793/oz in 2010 despite inflationary pressures. Increases were evident for fuel (irrecoverable VAT was charged on fuel for the first time in 2011), labour and processing reagents. These were countered by operational efficiencies, with lower stripping ratios for mining and greater plant throughput off-setting a small decrease in head grade. As a result, Kalsaka recorded EBITDA totalling US\$51.9m in 2011, an increase of 78% on 2010.

At Yaoure, revenue totalled approximately US\$10m from production in Q1 and leaching operations which resumed in Q3. Overall, the operation recorded a small loss in the year as a result of the political crisis and cessation of mining activities.

Total corporate overheads amounted to US\$6.4m in 2011, an increase of US\$0.8m. Other operating overheads relate to costs of administration, site and country management in Burkina Faso and Cote d'Ivoire which are not contained within cost of sales as they do not wholly relate to direct costs of gold production. These costs are included within EBITDA reported for both the Kalsaka and Yaoure mines. Total other operating costs rose to US\$12.4m from US\$11.8m. The US\$7.4m total tax charge, of which US\$1m relates to deferred tax, relates wholly to Burkina Faso.

Total EBITDA of US\$43.5m represents nearly double the 2010 result. This improvement is also seen in all other metrics, including a maiden profit after tax of US\$12.4m attributable to equity shareholders of the Company, equating to 9.4c per share.

## Cash flow

The strong operational performance combined with the high gold price environment ensured excellent cash generation throughout the year. Total operating cash inflow was US\$35.9m (net of US\$5.2m taxation paid in Burkina Faso), of which US\$24.8m was utilised for capital expenditure and exploration projects across the asset base. A further US\$3.4m was paid as dividends to minority shareholders of the Kalsaka mine. As a result, the total increase in cash in the year was US\$8.2m before exchange differences.

## Capital expenditure

Total capital expenditure in the year was US\$25.6m, of which US\$6.8m was incurred at Kalsaka and US\$16.3m at Baomahun. At Kalsaka, US\$4.1m related to exploration programmes focusing on oxide targets to extend the mine life. At Baomahun, expenditure focused on in-fill and along strike drilling, together with work to complete the feasibility study. Overall, exploration expenditure increased by 257% compared to 2010, reflecting the Company's renewed focus on its exploration activities across all assets.

| US\$000  | Intangible assets | Property, plant and equipment | Total  |
|----------|-------------------|-------------------------------|--------|
| Kalsaka  | 4,140             | 2,674                         | 6,814  |
| Yaoure   | 1,617             | 353                           | 1,970  |
| Baomahun | 15,613            | 736                           | 16,349 |
| Other    | 325               | 144                           | 469    |
|          | 21,695            | 3,907                         | 25,602 |

## Assets and liabilities

In previous years, the Company has faced significant difficulties recovering VAT from both operational jurisdictions. It has been pleasing to note that following the resolution of the political unrest in Cote d'Ivoire we have received a steady stream of repayments. As a result, the Company has reversed a significant proportion of the provision against VAT and reallocated US\$1.8m of the debt as being due within one year. Matters in Burkina Faso are now fully resolved and all but a small amount of VAT is deemed fully recoverable.

The Company remains debt free and subsequent to the year-end raised a further £21.6m (after expenses) by issuing 25m new ordinary shares. This fund-raising enables the Company to complete the acquisition of the Segla gold project in Burkina Faso whilst maintaining a fully funded exploration programme for the remainder of the year.

## Corporate Social Responsibility

Our goal is to achieve a socially responsible business that balances economic prosperity with environmental stewardship and ethical business practice.

Cluff Gold is committed to working with communities in the countries within which it operates. Our goal is to achieve a socially responsible business that balances economic prosperity with environmental stewardship and ethical business practice. Taking this approach allows Cluff Gold to ensure that a positive and sustainable legacy is left beyond the lives of our mining operations.

### Burkina Faso

In line with the Company's stated CSR mandate, education and support for women's communities remained key focus areas in Burkina Faso in 2011, accounting for over 70% of the annual community expenditure. Construction of four additional classrooms at the local Kalsaka school commenced in 2011 which, upon completion in 2012, are expected to house 240 students. Literacy training was provided for 70 women, who were selected by the consultative committee across multiple villages. An additional 33 women received technical training and initial seed funding for sheep fattening businesses, a programme which has been well received throughout the community and is a real opportunity to create a source of income for women. The Company was also a proud sponsor of the local International Women's Day celebrations in 2011 commemorating women's emancipation.

As a result of the regional drought experienced in 2011, there has been an increased need for food and water supply for the local farmers' livestock. To improve livestock productivity, a water reservoir was constructed at Tapré and ten tons of rice were donated to the local communities.

Healthcare was another key focus for the Company in 2011, following a government mandate aimed at reducing HIV/AIDS. A medical officer was provided at the Kalsaka village, and a local awareness campaign was organized and funded by the Company.

The Company also continued to strengthen its partnership with local communities by providing support to the local Town Hall, Prefecture and police and, on a regional scale, the Northern Governorate. Such support included facility maintenance and operational support, and the ongoing provision of office equipment and supplies.

In 2012, the Company will continue to work with the local communities to ensure that their needs are met, building particularly on education, women's communities, and healthcare. The Company will also look to expanding its CSR work to a regional scale following the completion of the Segha acquisition, with local employment and supply procurement being a key priority as the Segha project comes into production.



## 3 million man-hours worked at Kalsaka without any lost time injury.

### Sierra Leone

In Sierra Leone, the Company's education and youth programmes continued to focus on the future generations of the local communities in 2011. A classroom block was constructed for the Baomahun Community School. In continuation of our work in 2010, food and toys were provided to 2,000 school children in the Bo District. During the year, scholarships were provided to 125 secondary students in the Bo District who were selected on the basis of their family circumstances and/or academic performance, as well as a university scholarship which, in 2011, was awarded to a blind student from the Valunia Chiefdom. In Freetown, where youth assistance is a key focus, financial support was also provided to various youth organisations.

Employment opportunities are one of the key benefits to a country from industrial development. In 2011, scholarships were provided to seven Sierra Leonean students to pursue their Master of Mining Engineering degrees in Ghana. These students were selected by a panel comprising of representatives from the Office of the Chief of Staff, the Ministry of Education, the Ministry of Mineral Resources, the Parliament as well as Cluff Gold; it is anticipated that these students will be employed by the Company in Sierra Leone upon their graduation. By creating a newly-skilled generation of Sierra Leoneans capable of taking up employment, the goal is to create a local workforce to fuel the country's growing economy and ensure a legacy of local mining knowledge and working experience.

Other community activities in 2011 included the rehabilitation of local drinking water wells and the construction of a police station at the Baomahun village.

In continuation of the educational theme of our work to date, one new initiative in 2012 is our partnership with Planting Promise to embark on a community agricultural programme dedicated to the development of education, whereby the farms owned by the organisation employ local families who grow and harvest crops to fund the construction and maintenance of local schools, thereby giving the families the chance to fund their own futures.

Other initiatives will also be developed over the course of the year. As part of the upcoming feasibility study which is targeted for June 2012, Cluff Gold has appointed AMEC Earth and Environmental in the UK together with CEMMATS in Sierra Leone to undertake the development of a framework for Environmental and Social Management Plans. As part of the framework, a community development plan is being developed in participation with the communities surrounding the Baomahun project area. Through understanding the communities' needs, together with acquiring knowledge about their contexts, environmental and social, we will continue to devise a strategy as well as projects that are sustainable, relevant and locally appropriate. This community development plan will further build on the initiatives Cluff Gold is supporting in neighbouring communities as well as contributions made at the chiefdom, regional and national levels.

### Côte d'Ivoire

As a result of the political crisis in early 2011 and the period of insecurity which followed, the Company's planned community activities for the year were put on hold. As peace is gradually restored and operating activities resume at Yaoua in 2012, the Company will also look to resume the deferred community and social plans, the most predominant being the rehabilitation of village roads which have been rendered inaccessible especially during rainy seasons, namely:

- Angovia-N'dakoffiyobouekro 6 km
- Angovia-Bozi 9 km
- Angovia Kossou Dam 8 km
- Toumbokro-Kossou 12 km

It is anticipated that the rehabilitation will develop the Angovia village as a regional hub by opening up the local infrastructure, thereby improving business and other community developments.

To ensure that an ongoing dialogue is maintained amongst all the stakeholders, an update meeting was recently held with five neighbouring village chiefs to discuss the villages' concerns. Issues discussed included regional security concerns, illegal mining activities and youth employment, amongst others. As a result of the meeting, the Company has reviewed the need for a new gendarmes station post at the Angovia village, particularly following the post-election crisis, and will look to contribute to its construction. This new gendarmes station post will cover the five neighbouring villages and the mine site area. Other community concerns raised will continue to be addressed throughout 2012 and beyond. To strengthen constructive partnership, local authorities as well as community and Cluff Gold representatives have planned regular meetings to follow up on progress the implementation of mutually agreed initiatives and to address concerns.

### Safety

The Company is committed to the highest standards of safety at each of its operations. A comprehensive safety system is in place, in accordance with ISO 18001, at both the Kalsaka and Yaoua mines. Safety has also been incorporated within the bonus scheme to reinforce the importance of safe working practices to all staff. Our philosophy is based on the principle of personal responsibility with regard to safety, focusing on the need for each individual to practise a high level of safety in the workplace. All employees are required to undertake safety training prior to commencing work, with regular ongoing safety training conducted for all staff.

At Kalsaka, we are proud to report that we incurred 3 million man-hours, or equivalent to 1 year, 9 months and 17 days, worked without a lost time injury on 29 June 2011. This significant achievement is the result of our employees and contractors taking personal ownership for their safety and the safety of their colleagues, and demonstrates the benefits from Cluff Gold's disciplined approach to implementing strict safety standards.

## Board of Directors

### **Algy Cluff**

#### **Non-Executive Chairman**

Mr Cluff established Cluff Gold plc in November 2003 following 31 years of establishing natural resources businesses. He formed CCP in 1972 to bid for North Sea oil licences and subsequently Cluff Oil Limited. He then founded and was chairman of Cluff Resources plc which focused on mineral exploration in Africa and made several significant discoveries prior to its acquisition by Ashanti Gold. Mr Cluff co-founded Cluff Mining Limited (Ridge Mining plc which is now part of Aquarius Platinum Limited), which was admitted to AIM in May 2000. In May 2004 he turned his full attention to the business of Cluff Gold. Mr Cluff is a governor of the Commonwealth Institute. Mr Cluff will be stepping down at the Company's Annual General Meeting on 28 May 2012 but will remain available to the Board as a consultant after the conclusion of the Annual General Meeting to ensure continuity, specifically in relation to African politics.

### **John McGloin**

#### **Executive Director**

Mr McGloin joined the Group on 3 April 2012 as an Executive Director, and will be appointed Executive Chairman at the Company's Annual General Meeting. A geologist and graduate of Camborne School of Mines, Mr McGloin worked for many years in Africa within the mining industry before moving into consultancy. Mr McGloin joined Arbutnot Banking Group following 4 years at Evolution Securities as their mining analyst. Over the years, Mr McGloin has acted for many mining companies including African Platinum, Randgold Resources, Avocet Mining, European Goldfields and Titanium Resources Group. His most recent position was Head of Mining at Collins Stewart which he held from July 2010 to the time he joined Cluff Gold.

### **Peter Sprvey**

#### **Chief Executive Officer**

Peter Sprvey joined the Group on 1 January 2010. An experienced mine developer and operator with nearly 30 years' experience, he was previously Chief Operating Officer of Mineral Deposits Limited, and was responsible for developing the Sabodala Gold Mine and Grande Côte Mineral sands projects in Senegal. Since 1998 he has held a variety of senior positions in Indonesia, Tanzania and Senegal. Mr Sprvey is based in West Africa, where he splits his time between the Group's three projects, he travels to London regularly.

### **Pete Gardner**

#### **Finance Director**

Pete Gardner joined the Group on 1 October 2009. Previously Chief Finance Officer for Alexander Mining plc and Corporate Finance Manager at PKF (UK) LLP, he is a qualified chartered accountant with a breadth of experience in financial management and corporate finance in the natural resources sector. Since joining the Group, he has implemented a number of improvements to the financial reporting systems and procedures. Based in the London office, he travels to West Africa regularly.

### **Catherine Apthorpe** **Company Secretary**

Catherine Apthorpe joined the Group on 1 July 2009, having previously worked as an adviser to the Group since 2005 in her capacity as senior solicitor at MacLay Murray & Spens, LLP. Her role at Cluff Gold incorporates in-house legal counsel, all general commercial matters and company secretarial matters. She is based in the London office and travels to West Africa regularly.

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## Non Executive Directors

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### Nicholas Berry

#### Non-Executive Deputy Chairman

Mr Berry joined the Group in November 2004. He 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. Mr Berry is also a non-executive director of The Daily Mail and General Trust plc.

### Bobby Danchin

#### Non-Executive Director

A geologist and chemist, Mr Danchin joined the Group in November 2004. He served in many senior management roles at Anglo American plc, including CEO of the exploration and acquisition division. He was also Exploration Manager of the De Beers Australian subsidiary, Stockdale Prospecting, and is currently non-executive chairman of Mineral Deposits Limited.

### Tim Wadeson

#### Non-Executive Director

Mr Wadeson joined the Group in November 2004 following an extended career as a mining engineer, mainly with the Anglo American Group. He has served as the CEO of Konkola Copper Mines, Zambia, Group Technical Director of Anglo American Corporation, and the Technical Director of Minorco SA. He has also been a non-executive director of Highland Gold Mining Limited and of Mwana Africa plc.

### Peter Cowley

#### Non-Executive Director

Peter Cowley joined the Group in January 2008. He 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. Mr 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 M B.A. degrees and is a Fellow of I M M M.

### Ronald Winston

#### Non-Executive Director

Mr Winston joined the Group in October 2008 and is the chairman of Baomahun Gold Limited. He is also the Honorary Chairman of Harry Winston Diamonds Inc and has over 30 years' experience in building and running a major commercial enterprise, together with a wide range of experience in Africa, particularly Sierra Leone.

### Geoff Stanley

#### Non-Executive Director

A Fellow of the AusIMM and SEG, Mr Stanley joined the Group in October 2008. He has 26 years of international experience in the minerals industry. He has worked in exploration in Australia and as a gold analyst with a number of securities firms before moving to New York where he worked for S G Warburg J B Were Ltd and BMO Capital Markets. He is a director of Crescent Gold Limited, Riverfield Capital Limited, Indo Gold Limited and Bannerman Resources Limited.

### Hendrik Faul

#### Non-Executive Director

Mr Faul joined the Group in May 2012. As the current Group Head of Mining at Anglo American, Mr Faul brings over 20 years of experience in surface and underground mining, processing, logistics and marketing, both in Africa and across the world. He has previously held several senior roles in the mining industry, including having served as Chief Executive Officer for Anglo American's zinc operations and General Manager for the Lisheen Mine in Ireland. Mr Faul is a Non-Executive Director of Palabora Mining Company, and holds a Bachelor of Mining Engineering from the University of Pretoria and a South African Mine Manager's Certificate for metalliferous mines. He is an Associate Member of the South African Institute of Mining and Metallurgy, and is registered with the South African Council for Project and Construction Management Professionals as a professional construction project manager.

## Directors' Report

CLUFF GOLD PLC  
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The Directors present their report and the audited financial statements for the year ended 31 December 2011.

The Directors present their report and the audited financial statements for the year ended 31 December 2011

### Principal activities

Cluff Gold is a gold mining and exploration company with assets in West Africa. Further information is included in the Chairman's Statement, Chief Executive's Statement and Business Review

### Business review and future developments

The Business Review is presented on pages 8 to 23 of this Annual Report. The Business Review contains certain forward-looking statements, particularly concerning the anticipated production at the Yaoure and Kalsaka mines, the development plans at the Baomahun project as well as increases in resources anticipated at the Company's various projects. These statements have been made by the Directors in good faith based on the information available at the time of the approval of the Annual Report.

By their nature, such forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that will or may occur in the future. Actual results may differ from those expressed in such statements depending on a variety of factors such as, inter alia, increased costs, possible variations in mineral resources, grades or recovery rates, disruption of supplies, failure of equipment or processes to operate as anticipated, a weaker gold market and changes in exchange rates.

### Key performance indicators

The Group's key performance indicators are monitored on a monthly basis (and more frequently as required) and reported to the Board of Directors. They focus on production statistics, resource and reserve updates and exploration expenditure, these are set out in the Business Review.

### Results and dividends

The Group made a consolidated profit after taxation for the year of US\$17.2m (2010: US\$4.4 million loss). The Directors do not recommend the payment of a dividend (2010: nil).

### Share capital and share options

Details of the share capital of the Company are set out in note 13 to the financial statements. Details of share options outstanding at 31 December 2011, together with options granted during the year, are set out in note 19 to the financial statements.

### Directors

The Directors of the Company who held office during the year are as follows:

J G Cluff  
P Spry  
P Gardner  
N Berry  
D Chikohora (resigned 24 February 2011)  
P Cowley  
R Danchin  
G Stanley  
T Wadeson  
R Winston

JG Cluff will step down from the board at the Annual General Meeting ("AGM") to be held on 28 May 2012. J McGloin was appointed to the Board in April 2012 and will be appointed Executive Chairman at the AGM. H Faul was appointed in May 2012 as a Non-Executive Director. In compliance with the Company's articles of association, J McGloin, H Faul, G Stanley and R Winston will retire by rotation at the Company's AGM and, being eligible, all will offer themselves for re-election.

During the year, directors' and officers' liability insurance was maintained for the Directors and other officers of the Company as permitted by the Companies Act 2006.

Details of Director's interests in the share capital of the Company and outstanding share options are given in the Remuneration Report on pages 31 to 32.

# Directors' Report

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## Substantial shareholdings

As at 31 March 2012, the Company was aware of the following holdings of 3 per cent or more in the Company's issued share capital

| Name                                 | Shareholding | % <sup>1</sup> |
|--------------------------------------|--------------|----------------|
| Ingalls and Snyder                   | 17,652,936   | 11.24          |
| Libra Advisors LLP                   | 13,787,727   | 8.78           |
| J P Morgan Asset Management          | 13,503,508   | 8.60           |
| Mr R Winston                         | 12,442,010   | 7.92           |
| Macquarie Bank                       | 8,047,210    | 5.12           |
| BlackRock Investment Management (UK) | 6,283,134    | 4.00           |
| Sprott Asset Management              | 5,380,500    | 3.43           |

<sup>1</sup> Based on 157,047,937 shares issued and outstanding as at 31 March 2011

## Creditor payment policy

It is the Group's policy to settle all amounts due to creditors in accordance with agreed terms and conditions, provided that all trading terms and conditions have been complied with. The Group's average creditor payment period at 31 December 2011 was 30 days (2010: 16 days). The Company's average creditor payment period at 31 December 2011 was 16 days, (2010: 20 days).

## Financial instruments

The Group's exposure to financial risks and its policies in relation to the use of financial instruments are explained in note 17 to the financial statements.

## Donations

During the year the Group made charitable donations totalling US\$17,123 (2010: US\$25,439). Further work carried out under the Group's corporate social responsibility programme is detailed on page 23.

## Post-balance sheet events

Details of post-balance sheet events are set out in note 22 to the financial statements.

## Health and safety

The Group remains committed to the highest standards of health and safety. Details are provided in the Corporate Social Responsibility review on page 23.

## Corporate governance

A report on corporate governance is provided on pages 28 to 30.

## Going concern

After reviewing the Group's operations, financial position and short and long term cash flow forecasts, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its financial obligations as they fall due for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis for the preparation of these financial statements.

## Provision of information to auditor

In the case of each of the Directors who are Directors of the Company at the date when this report is approved:

- So far as they are individually aware, there is no relevant audit information which the Company's auditor is unaware of; and
- They have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Auditor

PKF (UK) LLP has confirmed its willingness to continue in office, and a resolution for its reappointment will be proposed at the forthcoming AGM.

## Directors' Report Corporate Governance

### Corporate Governance

The Board acknowledges the importance of the guidelines set out in the UK Corporate Governance Code (formerly the Combined Code) and the Quoted Companies Alliance (QCA) published Corporate Governance Guidelines and complies with these so far as is appropriate having regard to the size and nature of the Company

The Company has during the year put in place appropriate guidance, training and implementation of procedures to ensure compliance with the UK Bribery Act.

### Board of Directors and independence

The Company supports the concept of an effective board leading and controlling the Company. The Board is responsible for approving Company policy and strategy. It holds monthly board meetings and is supplied with appropriate and timely information in order to discharge its duties. Briefing papers are distributed to all Directors in advance of board meetings, and all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The articles of association provide that any Director who was not appointed or re-appointed at one of the preceding two annual general meetings will be subject to re-election.

The Board currently comprises ten Directors, three of whom are executive and hold the key operational positions. The seven remaining non-executives (including the Chairman) bring a breadth of experience and knowledge. Mr J McGloin was appointed an executive director on 2 April 2012.

The UK Corporate Governance Code requires that small companies should have at least two independent non-executive Directors. The Board considers all non-executive Directors to be independent with the exception of Mr R Winston due to his significant personal shareholding in the Company.

The Chairman of the Board Mr JG Cluff, became non-executive Chairman on 1 August 2011 having previously held the role of executive Chairman. On 2 April 2012 it was announced that Mr Cluff will be stepping down as non executive Chairman following completion of the Company's annual general meeting to be held on 21 May 2012. Mr J McGloin will assume the position of Executive Chairman from this date.

### Board meetings and sub-committees

The full Board met on 11 occasions during the period (including a strategy week), the attendance record of the Directors at the full board and other committees is shown below.

|           | Full<br>board | Audit<br>committee | Remuneration<br>committee |
|-----------|---------------|--------------------|---------------------------|
| JG Cluff  | 11            | n/a                | n/a                       |
| P Spry    | 11            | n/a                | n/a                       |
| P Gardner | 10            | n/a                | n/a                       |
| N Berry   | 5             | 2                  | 2                         |
| P Cowley  | 10            | 4                  | 3                         |
| R Danchin | 11            | n/a                | 3                         |
| G Stanley | 10            | 4                  | n/a                       |
| T Wadson  | 11            | n/a                | n/a                       |
| R Winston | 5             | n/a                | n/a                       |

The Nominations Committee was not required to meet during the year.

The Board has established appropriately constituted Audit, Remuneration, and Nominations Committees with formally delegated responsibilities.

### Audit Committee

The Audit Committee is chaired by Mr P Cowley, the other members being Mr N Berry and Mr G Stanley. The Audit Committee may examine any matters relating to the financial affairs of the Group and the Group's audits. This includes reviews of the annual financial statements and announcements, internal control procedures, accounting procedures, accounting policies, the appointment, independence, objectivity, terms of reference and fees of the external auditor and other related functions as the Board may require. The external auditor has direct access to the members of the Audit Committee, without the presence of the executive Directors, for independent discussions.

## Directors' Report

### Corporate Governance

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#### Remuneration Committee

The Remuneration Committee is chaired by Mr N Berry, Mr P Cowley and Dr R Danchin being the other members. It determines the terms and conditions of employment and annual remuneration of the executive and non-executive Directors. It takes into consideration external data and comparative third party remuneration and has access to professional advice outside the Company. The key policy objectives of the Remuneration Committee in respect of the Company's executive Directors and other senior executives are (a) to ensure that individuals are fairly rewarded for their personal contribution to the Company's overall performance, and (b) to ensure that due regard is given to the interests of the Company's shareholders and to the financial and commercial health of the Company. Remuneration of executive Directors comprises basic salary, discretionary bonuses, participation in the Company's share option schemes or other equity based remuneration schemes, pension plan contributions and other benefits. The Company's remuneration policy with regard to options and other equity based remuneration schemes is to maintain an amount of not more than 10 per cent of the issued share capital in options or other equity incentives for the Company's management and employees, which may include the issue of new options or other equity incentives in line with any new share issues.

#### Nominations Committee

The Nominations Committee, which leads the process for Board appointments and makes recommendations to the Board, is chaired by Mr JG Cluff, the other members being Mr N Berry, Mr T Wadeson and Dr R Danchin.

#### Service contracts

The Chief Executive Officer and Finance Director are on permanent employment contracts with notice periods of one year and six months respectively. Non-executive Directors have formal letters of appointment setting out their duties and are three year service contracts terminable at one months notice.

#### Relations with shareholders

The Company fully values the views of its shareholders and is committed to maintaining the highest standards of disclosure ensuring that all investors and potential investors have the same access to high quality, relevant information in an accessible and timely manner to assist them in making informed decisions.

Members of the Board attempt to regularly meet with investors, brokers and other institutions to inform them of short and long term objectives of the Group. The AGM also enables both institutional and private investors to communicate with the Board and are encouraged to ask questions.

The Company operates and updates its website [www.cluffgold.com](http://www.cluffgold.com) regularly, uploading recent investor presentations, resource information and financial reports in a timely manner. The Company is assisted in its public relations strategy by Pelham Bell Pottinger and Farm Street Communications.

#### Internal control

The Board is responsible for establishing and maintaining a sound system of internal control to safeguard shareholders' investment and the Company's assets. These internal controls are designed to provide reasonable assurance to users and stakeholders regarding the reliability of the Group financial statements. Inherent limitations in control systems mean that only reasonable, and not absolute, assurance can be provided against material misstatement or loss.

Taking account of the size and nature of the Group the Board has implemented processes for identifying and evaluating the key operational, financial and compliance risks facing the Group. Under the direction of the Chief Executive Officer and Finance Director, and with guidance from the non-executive Directors, this process continues to evolve as the Group grows in size. Where weaknesses are identified appropriate amendments are made to the control systems.

Details of the key risks that the Group is exposed to are set out overleaf.

## Directors' Report Corporate Governance

### Principal risks and uncertainties

#### Operational risks

Mining operations generally involve a high degree of risk. Unexpected events could result in damage to the Company's property or otherwise give rise to financial liability which could affect the ability of the Company to continue to operate profitably.

A violation of health and safety laws or regulations could have a material adverse effect on the Company's business due to a requirement to implement new compliance measures, shut down all or a portion of a mine, or the loss of the right to mine.

Mining operations have inherent risks and liabilities associated with environmental laws and regulations, which are constantly evolving. There may be unforeseen environmental issues under existing or updated legislation which could expose the Company to additional liabilities and have a material adverse effect on the Company's operations.

#### Exploration and development risks

The success of the Company is dependent on the discovery and/or acquisition of mineral reserves and mineral resources and the successful development of mines therefrom. Significant risk exists within technical, legal and financial aspects of the development of mines, which may have an adverse effect on the Company's business.

A note of the risks associated with ore reserve estimates is set out within the Critical Accounting Estimates and Judgements within the accounting policies.

#### Financing risks

The Group is exposed to commodity price risk as detailed in note 17 to the financial statements. In addition, reserve calculations and life-of-mine plans using significantly lower gold prices could result in material write downs of the Company's investments in mining properties.

The Company requires substantial funds for exploration and development of mineral properties (including the proposed development of the Baomahun project). The Company may also incur major unanticipated liabilities or expenses. The Company's access to capital is largely determined by its ability to compete for investor support for its projects. There can be no assurance that the Company will be able to obtain the necessary financing in a timely manner on acceptable terms to complete its investment strategy.

#### Political risks

The Company's activities are subject to various laws and regulations governing the mining industry. Although all activities are currently carried out in material compliance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's current activities and development plans and have a material adverse impact on the Company's financial position.

The Company's activities are focused on West Africa and the success of the Company will be influenced by associated legal and political risks. Countries in the region have experienced political instability and economic uncertainty in the past. Government policy in the countries in which the Company operates can be unpredictable, and the institutions of government and market economy may be unstable and subject to rapid change, which may result in a material adverse effect on the Company's operations.

The Company currently has in place political risk insurance covering expropriating acts and contingent currency inconvertibility or exchange transfer embargo with respect to the Yaoure, Kalsaka and Baomahun properties.

#### Corporate social responsibility

A review of the Group's corporate and social responsibility values, objectives and actions is set out in the Business Review on page 22.



# **Directors' Report** **Remuneration report**

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## **Remuneration report**

### **Remuneration policy**

The Company's policy is to ensure that the members of the Board are fairly remunerated with regard to responsibilities undertaken and with reference to comparable pay levels in the UK and in the mining industry. In addition, the Company has a flexible approach to the awarding of discretionary cash bonuses and share options to ensure that it is able to attract, motivate and retain Directors (and senior management) of the calibre necessary to ensure that the Company meets its objectives.

The awarding of salary increases, bonuses and share options to Board members is reviewed and confirmed by the Remuneration Committee following guidance from the Chairman and Chief Executive Officer.

Total remuneration of Directors serving in the year

| 2011 US\$000             | Salary | Bonus | BIK | Aggregate emoluments | Pension | Share based payment | Loss of office | Total |
|--------------------------|--------|-------|-----|----------------------|---------|---------------------|----------------|-------|
| JG Cluff <sup>1</sup>    | 447    | 964   | 29  | 1,440                | 45      | 177                 | -              | 1,662 |
| P Spivey                 | 311    | 40    | 128 | 479                  | 26      | 67                  | -              | 572   |
| P Gardner                | 231    | 34    | 3   | 268                  | 23      | 83                  | -              | 374   |
| N Berry                  | 47     | -     | -   | 47                   | -       | 12                  | -              | 59    |
| D Chikohora <sup>2</sup> | 14     | -     | 2   | 16                   | -       | 50                  | -              | 66    |
| P Cowley                 | 51     | -     | -   | 51                   | -       | 16                  | -              | 67    |
| R Danchin                | 41     | -     | -   | 41                   | -       | 12                  | -              | 53    |
| G Stanley                | 42     | -     | -   | 42                   | -       | 11                  | -              | 53    |
| T Wadeson                | 43     | -     | -   | 43                   | -       | 12                  | -              | 55    |
| R Winston                | 41     | -     | -   | 41                   | -       | 11                  | -              | 52    |
|                          | 1,268  | 1,038 | 162 | 2,468                | 94      | 451                 | -              | 3,013 |

| 2010 US\$000           | Salary | Bonus | BIK | Aggregate emoluments | Pension | Share based payment | Loss of office | Total |
|------------------------|--------|-------|-----|----------------------|---------|---------------------|----------------|-------|
| JG Cluff               | 438    | 252   | 37  | 727                  | 44      | 169                 | -              | 940   |
| P Spivey <sup>3</sup>  | 125    | 126   | 152 | 403                  | 13      | 52                  | -              | 468   |
| P Gardner <sup>3</sup> | 106    | 125   | -   | 231                  | 11      | 57                  | -              | 299   |
| N Berry                | 50     | -     | -   | 50                   | -       | 27                  | -              | 77    |
| D Chikohora            | 171    | -     | 6   | 177                  | 47      | 66                  | 104            | 394   |
| E Carr <sup>4</sup>    | 15     | -     | -   | 15                   | -       | 45                  | 156            | 216   |
| P Cowley               | 53     | -     | -   | 53                   | -       | 36                  | -              | 89    |
| R Danchin              | 45     | -     | -   | 45                   | -       | 27                  | -              | 72    |
| G Stanley              | 61     | -     | -   | 61                   | -       | 14                  | -              | 75    |
| T Wadeson              | 47     | -     | -   | 47                   | -       | 27                  | -              | 74    |
| R Winston              | 45     | -     | -   | 45                   | -       | 14                  | -              | 59    |
|                        | 1,156  | 503   | 195 | 1,854                | 115     | 534                 | 260            | 2,763 |

1 bonus payment made on becoming non-executive Chairman

2 resigned 24 February 2011, in addition gains of \$175,000 on the exercise of share options made in 2010

3 appointed 29 June 2010

4 resigned 31 January 2010

## Directors' Report Remuneration report

### Directors' shareholdings

The Directors and their beneficial interests in the shares of the Company were as follows

|   | Ordinary shares of 1p each |                     |
|---|----------------------------|---------------------|
|   | At 31 December 2011        | At 31 December 2010 |
| J G Cluff                               | 1,872,981                  | 1,870,000           |
| P Spivey                                | 50,000                     | -                   |
| P Gardner                               | 41,180                     | 10,000              |
| N Berry                                 | 433,740                    | 426,585             |
| D Chikohora (resigned 24 February 2011) | -                          | 539,545             |
| P Cowley                                | 33,775                     | 26,620              |
| R Danchin                               | 58,740                     | 51,585              |
| G Stanley                               | 22,056                     | 14,901              |
| T Wadeson                               | 83,740                     | 76,585              |
| R Winston                               | 12,442,010                 | 12,434,855          |

As at 31 December 2011 the following Directors held options to subscribe for ordinary shares in the Company

| Name      | Number of<br>share options<br>31 December 2011 | Number of<br>share options<br>31 December 2010 | Exercise price                       | Exercise period  |
|-----------|--|--|--------------------------------------|--|
| JG Cluff  | 250,000<br>300,000<br>300,000<br>1,000,000     | 250,000<br>300,000<br>300,000<br>-             | 55 00p<br>74 00p<br>83 00p<br>71 75p | 30 November 2006 - 29 November 2014<br>27 April 2009 - 26 April 2016<br>05 June 2011 - 04 June 2018<br>05 July 2013 - 04 July 2020 |
| P Gardner | 150,000<br>350,000                             | 150,000<br>-                                   | 69 00p<br>71 75p                     | 01 October 2012 - 30 September 2019<br>05 July 2013 - 04 July 2020   |
| P Spivey  | 300,000<br>200,000                             | 300,000<br>-                                   | 63 50p<br>71 75p                     | 01 January 2013 - 31 December 2020<br>05 July 2013 - 04 July 2020  |
| N Berry   | 100,000<br>75,000<br>75,000                    | 100,000<br>75,000<br>75,000                    | 55 00p<br>83 00p<br>74 00p           | 30 November 2006 - 29 November 2014<br>05 June 2011 - 04 June 2018<br>27 April 2009 - 26 April 2016                                |
| P Cowley  | 100,000  | 100,000  | 83 00p                               | 05 June 2011 - 04 June 2018  |
| R Danchin | 75,000<br>100,000<br>75,000                    | 75,000<br>100,000<br>75,000                    | 74 00p<br>55 00p<br>83 00p           | 27 April 2009 - 26 April 2016<br>30 November 2006 - 29 November 2014<br>05 June 2011 - 04 June 2018                                |
| G Stanley | 100,000  | 100,000  | 28 50p                               | 03 October 2011 - 02 October 2018  |
| T Wadeson | 75,000<br>75,000<br>100,000                    | 75,000<br>75,000<br>100,000                    | 74 00p<br>83 00p<br>55 00p           | 27 April 2009 - 26 April 2016<br>05 June 2011 - 04 June 2018<br>30 November 2006 - 29 November 2014                                |
| R Winston | 100,000  | 100,000  | 28 50p                               | 03 October 2011 - 02 October 2018  |

### Annual General Meeting ("AGM")

The notice convening the Company's AGM, to be held on 28 May 2012, is included with the Annual Report. Full details of the resolutions proposed at that meeting may be found in the explanatory notes at the end of the notice. The Board unanimously recommends shareholders to vote in favour of the resolutions proposed.

By order of the Board

JG Cluff  
Chairman  
27 April 2012

## Statement of Directors' Responsibilities

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The Directors are responsible for preparing the Directors' 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, as required by the AIM Rules of the London Stock Exchange, elected to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with those standards. 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 the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group 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 to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## Independent Auditor's Report to the members of Cluff Gold plc

We have audited the financial statements of Cluff Gold plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 auditor

As explained more fully in the directors' responsibilities statement, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion,

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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 parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent 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.

*PKF(UK) LLP*  
*PKF(UK) LLP*

Jason Homewood (Senior statutory auditor)  
for and on behalf of PKF (UK) LLP,  
Statutory auditor

London, UK  
27 April 2012

# **Consolidated Statement of Comprehensive Income** for the year ended 31 December 2011

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|   | Notes | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-------|-----------------|-----------------|
| <b>Continuing operations</b>                                    |       |                 |                 |
| Revenue   |       | 121,684         | 115,804         |
| Cost of sales   |       | (74,706)        | (94,176)        |
| <b>Gross profit</b>   |       | <b>46,978</b>   | <b>21,628</b>   |
| General and administrative expenses                             |       | (8,937)         | (7,684)         |
| Other operating costs   |       | (12,543)        | (12,963)        |
| Exploration expenses  |       | -               | (519)           |
| Loss on disposal of property, plant & equipment                 |       | -               | (12)            |
| <b>Operating profit</b>   | 2     | <b>25,498</b>   | <b>450</b>      |
| Investment income   | 4     | 124             | 349             |
| Finance costs   | 5     | (246)           | (1,775)         |
| <b>Profit/(loss) before taxation</b>                            |       | <b>25,376</b>   | <b>(976)</b>    |
| Income tax  | 6     | (8,164)         | (3,462)         |
| <b>Profit/(loss) for the year</b>                               |       | <b>17,212</b>   | <b>(4,438)</b>  |
| <b>Attributable to</b>  |       |                 |                 |
| Equity shareholders of the parent company                       |       | 12,389          | (6,072)         |
| Non-controlling interests                                       | 14    | 4,823           | 1,634           |
| <b>Profit/(loss) for the year</b>                               |       | <b>17,212</b>   | <b>(4,438)</b>  |
| <b>Other comprehensive income</b>                               |       |                 |                 |
| Exchange differences on translating foreign operations          |       | -               | (1,309)         |
| <b>Other comprehensive income for the year, net of taxation</b> |       | <b>-</b>        | <b>(1,309)</b>  |
| <b>Total comprehensive income for the year</b>                  |       | <b>17,212</b>   | <b>(5,747)</b>  |
| <b>Attributable to</b>  |       |                 |                 |
| Equity shareholders of the parent company                       |       | 12,389          | (7,759)         |
| Non-controlling interests                                       | 14    | 4,823           | 2,012           |
|   |       | <b>17,212</b>   | <b>(5,747)</b>  |
| <b>Earnings/(loss) per share</b>                                |       |                 |                 |
| Basic (cents per share)   | 7     | 9.40            | (4.92)          |
| Diluted (cents per share)                                       | 7     | 9.25            | (4.92)          |

## Consolidated Statement of Financial Position as at 31 December 2011

|  | Notes | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-------|-----------------|-----------------|
| <b>Assets</b>                                  |       |                 |                 |
| <b>Non-current assets</b>                      |       |                 |                 |
| Intangible assets                              | 8     | 68,027          | 48,351          |
| Property, plant and equipment                  | 9     | 17,453          | 27,885          |
| Other receivables                              | 11    | 1,452           | 2,324           |
| Deferred tax asset                             | 6     | -               | 693             |
| <b>Total non-current assets</b>                |       | <b>86,932</b>   | <b>79,253</b>   |
| <b>Current assets</b>                          |       |                 |                 |
| Inventories                                    | 12    | 18,275          | 12,767          |
| Other receivables                              | 11    | 6,586           | 9,074           |
| Cash and cash equivalents                      |       | 28,905          | 20,907          |
| <b>Total current assets</b>                    |       | <b>53,766</b>   | <b>42,748</b>   |
| <b>Total assets</b>                            |       | <b>140,698</b>  | <b>122,001</b>  |
| <b>Capital and reserves</b>                    |       |                 |                 |
| Share capital                                  | 13    | 2,375           | 2,365           |
| Share premium                                  | 13    | 117,823         | 117,410         |
| Merger reserve                                 | 13    | 15,107          | 15,107          |
| Share option reserve                           | 13    | 3,316           | 2,556           |
| Currency translation reserve                   | 13    | 987             | 987             |
| Accumulated losses                             |       | (30,886)        | (43,431)        |
| <b>Total equity attributable to the parent</b> |       | <b>108,722</b>  | <b>94,994</b>   |
| <b>Non-controlling interests</b>               |       | <b>3,441</b>    | <b>2,012</b>    |
| <b>Total equity</b>                            |       | <b>112,163</b>  | <b>97,006</b>   |
| <b>Non-current liabilities</b>                 |       |                 |                 |
| Provisions                                     | 15    | 8,578           | 6,059           |
| Deferred tax liability                         | 6     | 305             | -               |
| <b>Total non-current liabilities</b>           |       | <b>8,883</b>    | <b>6,059</b>    |
| <b>Current liabilities</b>                     |       |                 |                 |
| Trade and other payables                       | 16    | 14,705          | 15,920          |
| Corporation tax                                |       | 4,947           | 3,016           |
| <b>Total current liabilities</b>               |       | <b>19,652</b>   | <b>18,936</b>   |
| <b>Total liabilities</b>                       |       | <b>28,535</b>   | <b>24,995</b>   |
| <b>Total equity and liabilities</b>            |       | <b>140,698</b>  | <b>122,001</b>  |

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2012 and were signed on its behalf by



P Gardner  
Director

Company number 4822520

# Company Statement of Financial Position as at 31 December 2011

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|                                     | Notes | 2011<br>US\$000 | 2010<br>US\$000 |
|-------------------------------------|-------|-----------------|-----------------|
| <b>Assets</b>                       |       |                 |                 |
| <b>Non-current assets</b>           |       |                 |                 |
| Property, plant and equipment       | 9     | 76              | 94              |
| Investments in subsidiaries         | 10    | 10,323          | 10,323          |
| Other receivables                   | 11    | 48,546          | 31,822          |
| <b>Total non-current assets</b>     |       | <b>58,945</b>   | <b>42,239</b>   |
| <b>Current assets</b>               |       |                 |                 |
| Other receivables                   | 11    | 8,969           | 13,731          |
| Cash and cash equivalents           |       | 10,674          | 14,036          |
| <b>Total current assets</b>         |       | <b>19,643</b>   | <b>27,767</b>   |
| <b>Total assets</b>                 |       | <b>78,588</b>   | <b>70,006</b>   |
| <b>Capital and reserves</b>         |       |                 |                 |
| Share capital                       | 13    | 2,375           | 2,365           |
| Share premium                       | 13    | 117,823         | 117,410         |
| Merger reserve                      | 13    | 12,607          | 12,607          |
| Share option reserve                | 13    | 3,316           | 2,556           |
| Currency translation reserve        | 13    | (16,591)        | (16,591)        |
| Accumulated losses                  |       | (41,450)        | (49,270)        |
| <b>Total equity</b>                 |       | <b>78,080</b>   | <b>69,077</b>   |
| <b>Current liabilities</b>          |       |                 |                 |
| Trade and other payables            | 16    | 508             | 929             |
| <b>Total current liabilities</b>    |       | <b>508</b>      | <b>929</b>      |
| <b>Total equity and liabilities</b> |       | <b>78,588</b>   | <b>70,006</b>   |

The financial statements were approved and authorised for issue by the Board of Directors on 27 April 2012 and were signed on its behalf by:



P Gardner  
Director

Company number 4822520

## Consolidated Statement of Changes in Equity for the year ended 31 December 2011

|  | Attributable to equity shareholders of the parent |                          |                           |                                 |   |                               |                      |                                      |                         |
|--|---|--------------------------|---------------------------|---------------------------------|---|-------------------------------|----------------------|--------------------------------------|-------------------------|
|  | Share capital<br>US\$000                          | Share premium<br>US\$000 | Merger reserve<br>US\$000 | Share option reserve<br>US\$000 | Currency translation reserve<br>US\$000 | Accumulated losses<br>US\$000 | Sub-total<br>US\$000 | Non-controlling interests<br>US\$000 | Total equity<br>US\$000 |
| Balance at 1 January 2010                              | 2,224   | 101,993                  | 15,107                    | 3,952                           | 2,674                                   | (39,643)                      | 86,307               | -                                    | 86,307                  |
| Loss for the year                                      | -   | -                        | -                         | -                               | -                                       | (6,072)                       | (6,072)              | 1,634                                | (4,438)                 |
| Exchange differences on translating foreign operations | -   | -                        | -                         | -                               | (1,687)                                 | -                             | (1,687)              | 378                                  | (1,309)                 |
| Total comprehensive income for the year                | -   | -                        | -                         | -                               | (1,687)                                 | (6,072)                       | (7,759)              | 2,012                                | (5,747)                 |
| Issue of ordinary share capital                        | 141   | 15,423                   | -                         | -                               | -                                       | -                             | 15,564               | -                                    | 15,564                  |
| Share issue costs                                      | -   | (6)                      | -                         | -                               | -                                       | -                             | (6)                  | -                                    | (6)                     |
| Share option charge                                    | -   | -                        | -                         | 888                             | -                                       | -                             | 888                  | -                                    | 888                     |
| Reserve transfer on exercise or lapse of share options | -   | -                        | -                         | (2,284)                         | -                                       | 2,284                         | -                    | -                                    | -                       |
| Balance at 31 December 2010                            | 2,365   | 117,410                  | 15,107                    | 2,556                           | 987                                     | (43,431)                      | 94,994               | 2,012                                | 97,006                  |
| Profit for the year                                    | -   | -                        | -                         | -                               | -                                       | 12,389                        | 12,389               | 4,823                                | 17,212                  |
| Total comprehensive income for the year                | -   | -                        | -                         | -                               | -                                       | 12,389                        | 12,389               | 4,823                                | 17,212                  |
| Issue of ordinary share capital                        | 10  | 413                      | -                         | -                               | -                                       | -                             | 423                  | -                                    | 423                     |
| Dividend   | -   | -                        | -                         | -                               | -                                       | -                             | -                    | (3,394)                              | (3,394)                 |
| Share option charge                                    | -   | -                        | -                         | 916                             | -                                       | -                             | 916                  | -                                    | 916                     |
| Reserve transfer on exercise or lapse of share options | -   | -                        | -                         | (156)                           | -                                       | 156                           | -                    | -                                    | -                       |
| Balance at 31 December 2011                            | 2,375   | 117,823                  | 15,107                    | 3,316                           | 987                                     | (30,886)                      | 108,722              | 3,441                                | 112,163                 |



# **Company Statement of Changes in Equity** for the year ended 31 December 2011

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|  | Share<br>capital<br>US\$000 | Share<br>premium<br>US\$000 | Merger<br>reserve<br>US\$000 | Share<br>option<br>reserve<br>US\$000 | Currency<br>translation<br>reserve<br>US\$000 | Accumulated<br>losses<br>US\$000 | Total<br>equity<br>US\$000 |
|--|-----------------------------|-----------------------------|------------------------------|---------------------------------------|---|----------------------------------|----------------------------|
| <b>Balance at 1 January 2010</b>                       | 2,224                       | 101,993                     | 12,607                       | 3,952                                 | (13,331)                                      | (42,460)                         | 64,985                     |
| Loss for the year                                      | -                           | -                           | -                            | -                                     | -   | (9,094)                          | (9,094)                    |
| Exchange differences on translation                    | -                           | -                           | -                            | -                                     | (3,260)                                       | -                                | (3,260)                    |
| <b>Total comprehensive income for the year</b>         | -                           | -                           | -                            | -                                     | (3,260)                                       | (9,094)                          | (12,354)                   |
| Issue of ordinary share capital                        | 141                         | 15,423                      | -                            | -                                     | -   | -                                | 15,564                     |
| Share issue costs                                      | -                           | (6)                         | -                            | -                                     | -   | -                                | (6)                        |
| Share option charge                                    | -                           | -                           | -                            | 888                                   | -   | -                                | 888                        |
| Reserve transfer on exercise or lapse of share options | -                           | -                           | -                            | (2,284)                               | -   | 2,284                            | -                          |
| <b>Balance at 31 December 2010</b>                     | 2,365                       | 117,410                     | 12,607                       | 2,556                                 | (16,591)                                      | (49,270)                         | 69,077                     |
| Profit for the year                                    | -                           | -                           | -                            | -                                     | -   | 7,664                            | 7,664                      |
| <b>Total comprehensive income for the year</b>         | -                           | -                           | -                            | -                                     | -   | 7,664                            | 7,664                      |
| Issue of ordinary share capital                        | 10                          | 413                         | -                            | -                                     | -   | -                                | 423                        |
| Share option charge                                    | -                           | -                           | -                            | 916                                   | -   | -                                | 916                        |
| Reserve transfer on exercise or lapse of share options | -                           | -                           | -                            | (156)                                 | -   | 156                              | -                          |
| <b>Balance at 31 December 2011</b>                     | 2,375                       | 117,823                     | 12,607                       | 3,316                                 | (16,591)                                      | (41,450)                         | 78,080                     |

## Consolidated Statement of Cash Flows for the year ended 31 December 2011

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| <b>Cash flows from operating activities</b>               |                 |                 |
| Operating profit for the year                             | 25,498          | 450             |
| Depreciation and amortisation                             | 14,966          | 19,858          |
| Decrease/(increase) in other receivables                  | 3,925           | (856)           |
| Decrease in trade and other payables                      | (2,295)         | (1,698)         |
| (Increase)/decrease in inventories                        | (4,444)         | 2,994           |
| Increase in provisions                                    | 2,519           | 1,481           |
| Share option charge                                       | 916             | 888             |
| Exploration costs written off                             | -               | 7               |
| Loss on disposal of property, plant & equipment           | 19              | 5               |
| Exchange loss   | -               | 315             |
| <b>Net cash flows from operating activities</b>           | <b>41,104</b>   | <b>23,444</b>   |
| Income taxes paid   | (5,235)         | -               |
| <b>Cash flows used in investing activities</b>            |                 |                 |
| Interest receivable                                       | 124             | 46              |
| Interest payable  | (24)            | (1,775)         |
| Purchase of property, plant and equipment                 | (3,598)         | (6,317)         |
| Purchase of intangible assets                             | (21,180)        | (5,718)         |
| <b>Net cash flows used in investing activities</b>        | <b>(24,678)</b> | <b>(13,764)</b> |
| <b>Cash flows (used in)/from financing activities</b>     |                 |                 |
| Proceeds from the issue of share capital                  | 423             | 15,564          |
| Issue costs paid  | -               | (6)             |
| Dividend  | (3,394)         | -               |
| Repayment of borrowings                                   | -               | (6,000)         |
| <b>Net cash flows (used in)/from financing activities</b> | <b>(2,971)</b>  | <b>9,558</b>    |
| <b>Net increase in cash and cash equivalents</b>          | <b>8,220</b>    | <b>19,238</b>   |
| Cash and cash equivalents at start of period              | 20,907          | 2,273           |
| Exchange losses on cash and cash equivalents              | (222)           | (604)           |
| <b>Cash and cash equivalents at end of year</b>           | <b>28,905</b>   | <b>20,907</b>   |
| <b>Cash and cash equivalents comprise</b>                 |                 |                 |
| Cash at bank  | 28,905          | 20,907          |

# **Company Statement of Cash Flows** for the year ended 31 December 2011

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|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| <b>Cash flows used in operating activities</b>              |                 |                 |
| Operating loss for the year                                 | (4,257)         | (8,615)         |
| Depreciation  | 64              | 42              |
| Decrease/(increase) in trade and other receivables          | 95              | (97)            |
| (Decrease)/increase in trade and other payables             | (421)           | 144             |
| Share option charge   | 916             | 888             |
| Exploration costs written off                               | -               | 7               |
| Gain on assignment of inter-company debt                    | -               | (6,716)         |
| Impairment of amounts due from subsidiaries                 | -               | 9,811           |
| Exchange gain   | -               | (25)            |
| <b>Net cash flows used in operating activities</b>          | <b>(3,603)</b>  | <b>(4,561)</b>  |
| <b>Cash flows (used in)/from investing activities</b>       |                 |                 |
| Interest receivable   | 86              | 42              |
| Interest paid   | (6)             | (1,661)         |
| Purchase of property, plant and equipment                   | (45)            | (23)            |
| Purchase of intangible assets                               | -               | (3)             |
| Dividend received   | 11,294          | -               |
| Amounts remitted from subsidiary undertakings               | 10,500          | 19,605          |
| Amounts remitted to subsidiary undertakings                 | (21,888)        | (10,178)        |
| <b>Net flows (used in)/from investing activities</b>        | <b>(59)</b>     | <b>7,782</b>    |
| <b>Cash flows from financing activities</b>                 |                 |                 |
| Proceeds from the issue of share capital                    | 423             | 15,564          |
| Issue costs paid  | -               | (6)             |
| Repayment of borrowings                                     | -               | (6,000)         |
| <b>Net cash flows from financing activities</b>             | <b>423</b>      | <b>9,558</b>    |
| <b>Net (decrease)/increase in cash and cash equivalents</b> | <b>(3,239)</b>  | <b>12,779</b>   |
| Cash and cash equivalents at start of period                | 14,036          | 1,365           |
| Exchange loss on cash and cash equivalents                  | (123)           | (108)           |
| <b>Cash and cash equivalents at end of year</b>             | <b>10,674</b>   | <b>14,036</b>   |
| <b>Cash and cash equivalents comprise</b>                   |                 |                 |
| Cash at bank  | 10,674          | 14,036          |

## Summary of Significant Accounting Policies for the year ended 31 December 2011

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

### Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and with those parts of the UK Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union.

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 in the financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the financial statements are disclosed in the accounting policies below.

The financial information is presented in US dollars. Following a review of the primary economic environment in which each Group entity operates, on 1 January 2011 the US dollar was adopted as the functional currency for Cluff Gold plc (the "Company"), Cluff Gold (UK) Limited and Cluff Gold (SL) Limited leading to all material entities in the Group using the US dollar as their functional currency. Consequently, there are no exchange differences on the translation of subsidiaries and the currency translation reserve will remain frozen as at the 31 December 2010 balance.

The Group has chosen to present its financial statements in US dollars as it is the currency most-relevant to our investors given the nature of the Group's activities.

A separate statement of comprehensive income for the parent company has not been presented as permitted by section 408 of the Companies Act 2006. The parent company made a profit of US\$7,664,000 (2010: US\$9,094,000 loss).

### Nature of business and going concern

The Company is a public limited company incorporated and domiciled in England. The address of the registered office is 15 Carteret Street, London, SW1H 9DJ.

The Group is involved in the acquisition, exploration, development and operation of gold mines and deposits in West Africa.

The Directors regularly review cashflow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements, progress its exploration projects and take advantage of business opportunities that may arise. The Group manages its treasury function to ensure that cash is primarily held in politically stable countries. This minimises the risk of political events preventing the Group from continuing to make payments required for the Group's operations to continue.

Further information regarding the Group's financing arrangements are set out in note 17 to the financial statements.

The Group's cashflows from mining operations continue to improve and based on this performance and the forecast cash flows, the Directors are satisfied that the Group has sufficient cash resources to continue its operations and meet its commitments for the foreseeable future. They have therefore concluded that it is appropriate for the financial statements to be prepared on a going concern basis. The Group does not currently have any external borrowings.

### Adoption of standards effective in 2011

No material changes to accounting policies arose as a result of new standards applied by the Group from 1 January 2011.

### Issued IFRS that are not yet effective

Any standards and interpretations that have been issued but are not yet effective, and that are available for early application, have not been applied by the Group in these financial statements. Application of these Standards and Interpretations was not deemed to have a material effect on the financial statements of the Group.

## Summary of Significant Accounting Policies for the year ended 31 December 2011

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### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. The excess of cost of acquisition over the fair values of the Group's share of identifiable net assets acquired is recognised as goodwill. Any excess of the fair value of assets acquired over the cost of acquisition is recognised directly in profit or loss.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at acquisition date.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Non-controlling interests in subsidiaries are presented separately from the equity attributable to equity owners of the parent company. Non-controlling shareholders' interest may initially be measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on each acquisition individually.

Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Foreign currencies

#### Foreign currency transactions and balances

Transactions in currencies other than the functional currency of the appropriate Group company are translated at the rates of exchange prevailing on the dates of the transactions. At the date of each statement of financial position, monetary assets and liabilities that are denominated in foreign currencies are translated to the functional currency at the rates prevailing on the relevant date. Gains and losses arising on translation are included in profit or loss for the year.

#### Translation of foreign operations

On 1 January 2011 the US dollar was adopted as the functional currency for all material entities in the Group. Consequently, there are no exchange differences on the translation of subsidiaries and the currency translation reserve will remain frozen as at the 31 December 2010 balance.

On consolidation, the assets and liabilities of subsidiaries that have a functional currency other than US dollars are translated to US dollars as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and
- All resulting exchange differences are recognised as a separate component of equity, and released to profit or loss on disposal of the subsidiary.

#### Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations are recognised as a separate component of equity and released to profit or loss upon disposal of the foreign operation.

## Summary of Significant Accounting Policies for the year ended 31 December 2011

### Intangible assets

#### Deferred exploration and evaluation costs

All costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are written off as incurred

All costs associated with mineral exploration and investments are capitalised on a project by project basis, pending determination of the feasibility of the project. Costs incurred include appropriate technical and administrative expenses. If an exploration project is successful, the related costs will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis. Where a project is relinquished, abandoned, or is considered to be of no further commercial value to the Group, the related costs are written off.

The recoverability of deferred exploration costs is dependent upon the discovery of economically recoverable ore reserves, the ability of the Group to obtain necessary financing to complete the development of the ore reserves and future profitable production or proceeds from the disposal thereof.

#### Mining and exploration licences

The mining licences were originally measured at the fair value of the shares issued to non-controlling interests in return for the legal rights conferred by the mining licences, based on the net present value of cash flows expected to arise from the related mining operations. Mining licences are amortised over the estimated life of the commercial ore reserves on a unit of production basis, or the life of the licence, whichever is shorter.

The exploration rights relate to the fair value of shares issued in 2008 for the acquisition of 40% of the Baomahun project. On development of the project these costs will be transferred to mining assets and amortised over the estimated life of the commercial ore reserves on a unit of production basis.

### Property, plant and equipment

#### Mining and development costs

Mining and development costs include appropriate deferred exploration and evaluation costs transferred on development of an exploration property. Before reclassification, such costs are assessed for impairment, with any impairment loss recognised in profit or loss for the year.

All subsequent development costs are capitalised, including all costs incurred during the commissioning of the project that are directly related to that operation. Any revenues generated during this period are treated as a contribution against those costs and credited against mining and development costs. At the end of the commissioning phase, when the mine is capable of substantially operating in the manner intended by management, capitalisation ceases and the mining assets are amortised over the estimated life of the commercial ore reserves on a unit of production basis. Future forecast capital expenditure is included in the unit of production depreciation calculation.

#### Property, plant and equipment

All property, plant and equipment assets are stated at cost less accumulated depreciation.

Depreciation is provided to write off the cost, less residual value, using the straight-line method over their estimated useful life of the assets as follows:

|   |     |
|---|-----|
| • Office equipment, fixtures and fittings | 33% |
| • Computers                               | 33% |
| • Motor vehicles                          | 33% |

Residual values, remaining useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

Gains or losses on disposal are included in profit or loss for the year.

# Summary of Significant Accounting Policies for the year ended 31 December 2011

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## Impairment of property, plant and equipment and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. Where the asset does not generate cash flows that are independent from other assets, the Group assesses the cash-generating unit to which the asset belongs for impairment. Intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Impairment reviews for deferred exploration and evaluation costs are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise and typically when one of the following circumstances apply:

- i unexpected geological occurrences that render the resource uneconomic,
- ii title to the asset is compromised,
- iii variations in metal prices that render the project uneconomic, and
- iv variations in the currency of operation.

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. 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 which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss for the year.

## Inventories

Inventories comprise gold produced, gold in process, ore stockpiles, consumables and spares and are stated at the lower of cost and net realisable value. The cost of gold produced, gold in process and ore stockpiles is calculated on a first in first out basis and includes all costs directly incurred up to the relevant point of the process such as mining costs and processing costs, but exclude other operating costs such as general mine or administration costs. Net realisable value is determined with reference to current market prices.

## Financial instruments

Financial assets and financial liabilities are recognised on the Company's and Group's balance sheet when the Company and Group has become a party to the contractual provisions of the instrument and are initially measured at fair value.

## Other receivables

Other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate provisions for irrecoverable amounts.

Amounts due from subsidiaries are recorded at amortised cost, less provision for impairment.

## Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less.

## Investments

Investments in subsidiaries are recorded at cost less provisions for impairment.

## Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities include bank loans and overdrafts which are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

## Trade payables

Trade payables are stated at amortised cost using the effective interest method.

## Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Where equity instruments are issued as part of an acquisition they are recorded at their fair value on the date of acquisition.

## Summary of Significant Accounting Policies for the year ended 31 December 2011

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated

### Provisions for decommissioning and site restoration costs

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by the development or ongoing production of a mining property. Costs are estimated on the basis of a formal closure plan and are subject to regular formal review

Such costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided and capitalised within mining and development costs at the start of each project, as soon as the obligation to incur such costs arises. These decommissioning costs are charged against profits over the life of the mine, through depreciation of the asset and unwinding or amortisation of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as financing costs. Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work are added to, or deducted from, the cost of the related asset in the current period

The costs for restoration of site damage created on an ongoing basis during production are provided for at their net present values and charged against operating profits as extraction progresses. Changes in the measurement of a liability relating to site damage created during production are charged against operating profit

### Share-based payments

The fair value of equity settled share based payments are measured at grant date using the Black-Scholes model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Details of the inputs to the model are given in note 19

### Revenue recognition

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. These criteria are assessed to have occurred once the gold has been received by the smelter and a sale price has been agreed for the majority of the contained gold

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term

### Taxation

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on temporary 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 or loss, and is accounted for using the balance sheet method

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised



# Summary of Significant Accounting Policies for the year ended 31 December 2011

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## Critical accounting estimates and judgements

Some of the accounting policies require the application of significant judgment by management in selecting the appropriate assumptions for calculating financial estimates

By their nature, these judgments are subject to an inherent degree of uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## Provisions for decommissioning and site restoration costs

Management uses its judgement and experience to provide for and (in the case of capitalised decommissioning costs) amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions established which could affect future financial results.

## Ore reserves estimates

The Group reports its estimated ore reserves in accordance with Canadian National Instrument 43-101. Mining assets are amortised over the estimated life of the commercial ore reserves on a unit of production basis. There are numerous uncertainties inherent in estimating ore reserves, and assumptions that were valid at the time of estimation may change when new information becomes available. These include assumptions as to grade estimates and cut-off grades, recovery rates, commodity prices, exchange rates, production costs, capital costs, processing and reclamation costs and discount rates. The actual volume of ore extracted and any changes in these assumptions could affect prospective depreciation rates and carrying values of property, plant and equipment and intangible assets.

## Impairment

In undertaking an impairment review for the operating mines or advanced exploration projects a technical economic model is prepared which includes full details of the mining schedule, head grade, recoverability, strip ratios of waste to ore, consumables used and operating costs. From this information the amount of gold production is calculated and revenues estimated. Operating costs, including royalties and refining charges are then entered and a monthly cash flow is produced, which is used to calculate the net present value of the pre-tax free cash flow from the operation. This net present value is then compared to the carrying value of the operation on the balance sheet and an assessment is made regarding impairment.

Should any of the key parameters differ from the assumptions contained within the technical economic model, such as tonnes of ore mined, grade of ore mined, recovery profile or gold price, the net present value will be affected either positively or negatively. If the impact is negative, an impairment charge may be required that has not been recognised in these financial statements.

In some cases using a technical economic model to provide a value in use calculation is not appropriate or possible. In these situations impairment reviews are carried out by reference to fair value less cost to sell. This is achieved by reference to reviews on economic value per ounce of resource against comparable transactions and the market value of other gold companies to assess if the fair value less cost to sell supported the carrying value.

## Valuation of mining licences

The valuation of mining licences included in these financial statements reflect the shares issued to non-controlling interests in exchange for the licences. The valuation was based on the net present values expected to arise from the related mining assets. These cash flows are subject to numerous uncertainties which may affect the valuation of the licences.

## Inventories

Valuations of gold in stockpiles and gold in process require estimations of the amount of gold contained in, and recovery rates from, the various work in progress gold circuits. These estimations are based on analysis of samples and prior experience. Judgement is also required regarding the timing of utilisation of stockpiles and the gold price to be applied in calculating net realisable value.

## Indirect taxes receivable

Given the uncertainties relating to the fiscal regimes, the Group has had to apply judgement in determining the value and timing of amounts that will be recovered with respect to indirect taxes owing to the Group in Burkina Faso and Côte d'Ivoire. The amounts reflected in the financial statements are the Directors' best estimate of the recovery of these amounts.

## Commissioning of operations

Prior to a mine being considered substantially complete and ready for its intended use, all revenues and direct operating costs relating to the mine are capitalised within mine development cost. Management consider a number of criteria to determine when this point is reached, including the ability of the mine to recover and process ore on a sustainable basis at grades consistent with the ongoing mine plan and, as a result, sustain the ongoing production of gold.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 1 Segmental reporting

Operating segments have been identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group's chief operating decision maker. The Group's chief operating decision maker is considered by management to be the board of Directors. The operating segments included in internal reports are determined on the basis of their significance to the Group. In particular, operating mines are reported as separate segments together with exploration projects that have significant capitalised expenditure. An analysis of the Group's business segments is set out below.

|  | Kalsaka<br>US\$000 | Yaoure<br>US\$000 | Baomahun<br>US\$000 | All other<br>segments<br>US\$000 | Total<br>US\$000 |
|--|--------------------|-------------------|---------------------|----------------------------------|------------------|
| <b>Year ended 31 December 2011</b>       |                    |                   |                     |                                  |                  |
| External revenue – sale of gold          | 114,209            | 9,878             | -                   | -                                | 124,087          |
| Direct costs of production               | (53,349)           | (8,473)           | -                   | -                                | (61,822)         |
| Other operating and administrative costs | (8,995)            | (3,356)           | -                   | (6,370)                          | (18,721)         |
| <b>Segmental result - EBITDA</b>         | <b>51,865</b>      | <b>(1,951)</b>    | <b>-</b>            | <b>(6,370)</b>                   | <b>43,544</b>    |
| Total assets                             | 53,368             | 27,508            | 61,815              | 11,350                           | 154,041          |
| Capital expenditure                      | 6,814              | 1,970             | 16,349              | 469                              | 25,602           |
|  | Kalsaka<br>US\$000 | Yaoure<br>US\$000 | Baomahun<br>US\$000 | All other<br>segments<br>US\$000 | Total<br>US\$000 |
| <b>Year ended 31 December 2010</b>       |                    |                   |                     |                                  |                  |
| External revenue – sale of gold          | 90,643             | 24,208            | -                   | -                                | 114,851          |
| Direct costs of production               | (53,850)           | (20,984)          | -                   | -                                | (74,834)         |
| Other operating and administrative costs | (7,687)            | (4,100)           | -                   | (5,604)                          | (17,391)         |
| <b>Segmental result - EBITDA</b>         | <b>29,106</b>      | <b>(876)</b>      | <b>-</b>            | <b>(5,604)</b>                   | <b>22,626</b>    |
| Total assets                             | 48,726             | 25,636            | 44,552              | 14,676                           | 133,590          |
| Capital expenditure                      | 2,642              | 3,608             | 6,179               | 27                               | 12,456           |

In 2011 the Group had one customer (2010: one).

The segmental result reported represents earnings before interest, tax, depreciation and amortisation (EBITDA) and excludes share option charges, which is the measure of segmental profit regularly reported to the board of Directors. The accounting policies of the reporting segments are different from the Group's accounting policies as follows:

- Pre-commissioning income and expenditure at operating mines is not capitalised in the segmental results.
- Income is accrued for gold bullion on hand at the period end in segmental results and, accordingly, no stock is recognised for this item.
- The depreciation charge against segmental assets is based on a different total asset cost compared to the statutory accounts due to the fact that income and expenditure is not capitalised during the commissioning period. In addition, the total asset cost is depreciated from the commencement of mining operations.

A reconciliation of segmental revenue to the statutory financial statements is as follows:

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| Revenue for reportable segments                              | 124,087         | 114,851         |
| Change in accrued revenue for gold bullion stock at year-end | (2,403)         | 953             |
| <b>Revenue for statutory accounts</b>                        | <b>121,684</b>  | <b>115,804</b>  |

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A reconciliation of EBITDA to profit/(loss) before taxation is as follows

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| EBITDA for reportable segments                               | 43,544          | 22,626          |
| Depreciation and amortisation                                | (14,966)        | (19,858)        |
| Share based payments   | (916)           | (888)           |
| Net interest received/(payable)                              | 100             | (1,729)         |
| Loss on disposal of property, plant and equipment            | (19)            | (12)            |
| Change in accrued revenue for gold bullion stock at year-end | (1,433)         | 436             |
| Exploration costs written-off                                | -               | (520)           |
| Exchange rate variance                                       | (742)           | 303             |
| VAT provided net of direct fees in year                      | (192)           | (1,334)         |
| <b>Profit/(loss) before taxation</b>                         | <b>25,376</b>   | <b>(976)</b>    |

A reconciliation of segmental assets to the statutory financial statements is as follows

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| Total assets for reportable segments                               | 154,041         | 133,590         |
| EBITDA capitalised during commissioning phase of mining operations | 5,962           | 5,962           |
| Differences in depreciation and amortisation                       | 1,176           | 4,799           |
| Impairment of non-current assets                                   | (21,914)        | (21,914)        |
| Accrued revenue for gold bullion stock at year-end                 | 1,433           | (436)           |
| <b>Total assets</b>  | <b>140,698</b>  | <b>122,001</b>  |

A reconciliation of segmental capital expenditure to the statutory financial statements is as follows

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| <b>Capital expenditure for reportable segments</b> | <b>25,602</b>   | <b>12,456</b>   |

## Geographic Information

|                                    | Burkina Faso<br>US\$000 | Côte d'Ivoire<br>US\$000 | Sierra Leone<br>US\$000 | UK<br>US\$000 | Other<br>US\$000 | Total<br>US\$000 |
|------------------------------------|-------------------------|--------------------------|-------------------------|---------------|------------------|------------------|
| <b>Year ended 31 December 2011</b> |                         |                          |                         |               |                  |                  |
| Revenue                            | 111,806                 | 9,878                    | -                       | -             | -                | 121,684          |
| Non-current assets                 | 14,947                  | 11,470                   | 60,097                  | 76            | 342              | 86,932           |
| <b>Year ended 31 December 2010</b> |                         |                          |                         |               |                  |                  |
| Revenue                            | 90,281                  | 25,523                   | -                       | -             | -                | 115,804          |
| Non-current assets                 | 22,167                  | 12,816                   | 44,173                  | 94            | 3                | 79,253           |

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 2 Operating profit

The operating profit is stated after charging/(crediting)

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| Depreciation of property, plant and equipment | 12,947          | 17,926          |
| Amortisation of intangible assets             | 2,019           | 1,932           |
| Operating lease rentals land and buildings    | 238             | 218             |
| Share option charges                          | 916             | 888             |
| Exploration costs written off                 | -               | 520             |
| Exchange differences                          | 742             | (303)           |

In addition, US\$310,000 (2010 US\$61,000) of depreciation relating to subsidiaries has been capitalised within deferred exploration and evaluation costs and US\$1,063,000 (2010 US\$1,122,000) of depreciation is included within inventories

The exploration costs written off relate to projects which the Board consider to be of no further commercial value to the Group

#### Auditor's Remuneration

Amounts payable to PKF (UK) LLP and their associates in respect of both audit and non-audit services

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| Fees payable to the Company's auditor for the audit of the Company's annual accounts   | 98              | 167             |
| Fees payable to the Company's auditor and its associates in respect of   |                 |                 |
| - The auditing of accounts of associates of the Company pursuant to legislation (including that of countries and territories outside the United Kingdom) | 129             | 158             |
| - Other services supplied pursuant to such legislation   | 39              | 76              |
| - Other services relating to taxation  | 112             | 49              |
| - All other services   | -               | 1               |
|  | 378             | 451             |

The Board reviews the nature and extent of non-audit services to ensure that auditor's independence is maintained

### 3 Directors' and employee remuneration and staff numbers

The average monthly number of employees (including Directors) for the year for each of the Group's principal divisions was as follows

|                | 2011<br>Group | 2010<br>Group |
|----------------|---------------|---------------|
| Operations     | 509           | 476           |
| Administration | 134           | 114           |
|                | 643           | 590           |

The aggregate remuneration of these persons, including the costs of all Directors, was as follows

|                       | 2011<br>Group<br>US\$000 | 2010<br>Group<br>US\$000 |
|-----------------------|--------------------------|--------------------------|
| Wages and salaries    | 12,718                   | 11,394                   |
| Social security costs | 915                      | 1,040                    |
| Share based payment   | 916                      | 888                      |
|                       | 14,549                   | 13,322                   |

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## Emoluments paid to Directors

|   | 2011<br>Group<br>US\$000 | 2010<br>Group<br>US\$000 |
|---|--------------------------|--------------------------|
| Aggregate emoluments                        | 2,468                    | 1,854                    |
| Contributions to pension schemes            | 94                       | 115                      |
| Share based payment                         | 451                      | 534                      |
| Compensation for loss of office             | -                        | 260                      |
| Gains made on the exercise of share options | -                        | 175                      |
|   | <b>3,013</b>             | <b>2,938</b>             |

The number of Directors to whom retirement benefits are accruing is 3 (2010: 4)

The highest paid Director received aggregate emoluments totalling US\$1,440,000 (2010: US\$727,000)

## 4 Investment income

|                           | 2011<br>US\$000 | 2010<br>US\$000 |
|---------------------------|-----------------|-----------------|
| Interest on bank deposits | 124             | 46              |
| Gain on Foreign Exchange  | -               | 303             |
|                           | <b>124</b>      | <b>349</b>      |

## 5 Finance costs

|                          | 2011<br>US\$000 | 2010<br>US\$000 |
|--------------------------|-----------------|-----------------|
| Interest payable         | 24              | 1,775           |
| Loss on foreign exchange | 222             | -               |
|                          | <b>246</b>      | <b>1,775</b>    |

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 6 Income tax

|                               | 2011<br>US\$000 | 2010<br>US\$000 |
|-------------------------------|-----------------|-----------------|
| <b>Tax charge</b>             |                 |                 |
| Current tax                   | 7,166           | 2,927           |
| Deferred tax charge - foreign | 998             | 535             |
|                               | <b>8,164</b>    | <b>3,462</b>    |

Domestic income tax is calculated at 26.5% (2010: 28%) of the estimated assessable profit or loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the profit/(loss) per the statement of comprehensive income as follows:

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| Profit/(loss) before tax  | 25,376          | (976)           |
| Tax at the domestic income tax rate of 26.5% (2010: 28%)            | 6,725           | (273)           |
| Expenses not allowable for tax                                      | 673             | 447             |
| Effect of lower rate overseas                                       | (2,733)         | (1,559)         |
| Share based payments: increase in deferred tax asset not recognised | (6)             | (148)           |
| Depreciation in advance of capital allowances                       | 800             | 313             |
| Withholding tax on overseas dividends                               | 753             | -               |
| Tax losses carried forward  | 837             | 4,146           |
| Reversal and origination of temporary differences                   | 1,115           | 536             |
| Tax charge  | <b>8,164</b>    | <b>3,462</b>    |

In respect of the tax losses carried forward US\$0.1m (2010: US\$2.4m) relates to Yaoure Mining SA, the subsidiary which runs the Yaoure mine. The mine is currently on care and maintenance and therefore it is unlikely that any benefit will be received from these losses.

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| <b>Deferred tax asset</b>   |                 |                 |
| Other timing differences  | -               | 693             |
| Deferred tax asset recognised   | -               | 693             |
| <b>Unrecognised deferred tax assets</b>                                 |                 |                 |
| Relating to carried forward tax losses                                  | 10,546          | 8,157           |
| Relating to potential tax deductions in respect of share based payments | 149             | 609             |
| Other timing differences  | 1,548           | -               |

|                               | 2011<br>US\$000 | 2010<br>US\$000 |
|-------------------------------|-----------------|-----------------|
| <b>Deferred tax liability</b> |                 |                 |
| Other timing differences      | 305             | -               |

Deferred tax assets and liabilities recognised in the financial statements are in respect of the Group's Kalsaka gold mine in Burkina Faso. They represent timing differences between the local tax bases and accounting policies and those present in the Group financial statements under IFRS. The main differences being income recognition and depreciation in advance of taxable benefits.

Other deferred tax assets have not been recognised in the financial statements because of the uncertainty as to the incidence and timing of future taxable income against which the asset may be recovered.

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## 7 Earnings/(loss) per share

The calculation of the basic and diluted earnings/(loss) per share is based on the following data.

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| Profit/(losses) for the purposes of earnings/(loss) per share (net profit/(loss) for the year attributable to equity holders of the parent) | 12,389          | (6,072)         |
| <b>Number of shares</b>   |                 |                 |
| Weighted average number of ordinary shares for the year ('000's)  | 131,765         | 123,415         |
| Effect of share options in issue  | 2,193           | -               |
| <b>Weighted average for the purposes of diluted earnings/(loss) per share ('000's)</b>  | <b>133,958</b>  | <b>123,415</b>  |

Due to the loss incurred in 2010 the effect of the share options in issue (totalling 7,813,260) is anti-dilutive and consequently not included in the calculation of diluted earnings/(loss) per share

## 8 Intangible assets

| Group                         | Exploration &<br>mining rights<br>US\$000 | Deferred<br>exploration &<br>evaluation costs<br>US\$000 | Total<br>US\$000 |
|-------------------------------|---|--|------------------|
| <b>Cost</b>                   |   |  |                  |
| At 1 January 2010             | 30,223                                    | 16,654   | 46,877           |
| Additions                     | -   | 6,078  | 6,078            |
| Exploration costs written off | -   | (7)  | (7)              |
| Exchange differences          | -   | (483)  | (483)            |
| At 31 December 2010           | 30,223                                    | 22,242   | 52,465           |
| Additions                     | -   | 21,695   | 21,695           |
| At 31 December 2011           | 30,223                                    | 43,937   | 74,160           |
| <b>Amortisation</b>           |   |  |                  |
| At 1 January 2010             | 2,182                                     | -  | 2,182            |
| Charge for the year           | 1,932                                     | -  | 1,932            |
| At 31 December 2010           | 4,114                                     | -  | 4,114            |
| Charge for the year           | 2,019                                     | -  | 2,019            |
| At 31 December 2011           | 6,133                                     | -  | 6,133            |
| <b>Net book value</b>         |   |  |                  |
| At 31 December 2011           | 24,090                                    | 43,937   | 68,027           |
| At 31 December 2010           | 26,109                                    | 22,242   | 48,351           |
| At 1 January 2010             | 28,041                                    | 16,654   | 44,695           |

Included within Exploration and mining rights is an amount of US\$21.8 million in relation to the Baomahun Gold Project. This amount is recoverable through the exploitation of the project.

In addition, the Group holds two mining exploitation licences relating to the Kalsaka and Yaoure Gold Mines. The value assigned to these licences on issue amounted to US\$6.0 million and US\$2.4 million respectively. The licence at Kalsaka is due for renewal in 2024 and Yaoure is due for renewal in 2013.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 8 Intangible assets (continued)

| Company                        | Deferred<br>exploration &<br>evaluation costs<br>US\$000 |
|--------------------------------|--|
| <b>Cost and net book value</b> |  |
| At 1 January 2010              | 4  |
| Additions                      | 3  |
| Exploration costs written off  | (7)  |
| At 31 December 2010            | -  |
| Additions                      | -  |
| <b>At 31 December 2011</b>     | <b>-</b>   |

### 9 Property, plant and equipment

| Group                      | Mining,<br>development<br>& associated<br>property, plant &<br>equipment costs<br>US\$000 | Motor<br>vehicles, office<br>equipment,<br>fixtures &<br>computers<br>US\$000 | Total<br>US\$000 |
|----------------------------|---|---|------------------|
| <b>Cost</b>                |   |   |                  |
| At 1 January 2010          | 65,047  | 3,999   | 69,046           |
| Additions                  | 5,568   | 810   | 6,378            |
| Disposals                  | -   | (60)  | (60)             |
| Exchange differences       | (11)  | (51)  | (62)             |
| At 31 December 2010        | 70,604  | 4,698   | 75,302           |
| Additions                  | 2,526   | 1,381   | 3,907            |
| Transfer                   | 161   | (161)   | -                |
| Disposal                   | (24)  | -   | (24)             |
| <b>At 31 December 2011</b> | <b>73,267</b>   | <b>5,918</b>  | <b>79,185</b>    |
| <b>Depreciation</b>        |   |   |                  |
| At 1 January 2010          | 27,575  | 1,986   | 29,561           |
| Charge for the year        | 16,865  | 1,093   | 17,958           |
| Disposals                  | -   | (55)  | (55)             |
| Exchange differences       | (1)   | (46)  | (47)             |
| At 31 December 2010        | 44,439  | 2,978   | 47,417           |
| Charge for the year        | 13,074  | 1,246   | 14,320           |
| Transfer                   | 133   | (133)   | -                |
| Disposal                   | (5)   | -   | (5)              |
| <b>At 31 December 2011</b> | <b>57,641</b>   | <b>4,091</b>  | <b>61,732</b>    |
| <b>Net book value</b>      |   |   |                  |
| <b>At 31 December 2011</b> | <b>15,626</b>   | <b>1,827</b>  | <b>17,453</b>    |
| At 31 December 2010        | 26,165  | 1,720   | 27,885           |
| At 1 January 2010          | 37,472  | 2,013   | 39,485           |



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| Company                    | Mining,<br>development<br>& associated<br>property, plant &<br>equipment costs<br>US\$000 | Motor<br>vehicles, office<br>equipment,<br>fixtures &<br>computers<br>US\$000 | Total<br>US\$000 |
|----------------------------|---|---|------------------|
| <b>Cost</b>                |   |   |                  |
| At 1 January 2010          | 123   | 57  | 180              |
| Additions                  | -   | 23  | 23               |
| Exchange differences       | (4)   | (3)   | (7)              |
| At 31 December 2010        | 119   | 77  | 196              |
| Additions                  | -   | 46  | 46               |
| <b>At 31 December 2011</b> | <b>119</b>  | <b>123</b>  | <b>242</b>       |
| <b>Depreciation</b>        |   |   |                  |
| At 1 January 2010          | 11  | 51  | 62               |
| Charge for the year        | 32  | 11  | 43               |
| Exchange differences       | -   | (3)   | (3)              |
| At 31 December 2010        | 43  | 59  | 102              |
| Charge for the year        | 39  | 25  | 64               |
| <b>At 31 December 2011</b> | <b>82</b>   | <b>84</b>   | <b>166</b>       |
| <b>Net book value</b>      |   |   |                  |
| At 31 December 2011        | 37  | 39  | 76               |
| At 31 December 2010        | 76  | 18  | 94               |
| At 1 January 2010          | 112   | 6   | 118              |

## 10 Investments and subsidiaries

| Company                                  | Subsidiary<br>Undertakings<br>US\$000 |
|--|---------------------------------------|
| Cost brought forward at 1 January 2010   | 10,767                                |
| Exchange difference on translation       | (444)                                 |
| At 31 December 2010 and 31 December 2011 | 10,323                                |

| Subsidiary undertaking              | Country of<br>incorporation | Principal<br>activity | Cluff Gold plc's<br>effective interest |      |
|-------------------------------------|-----------------------------|-----------------------|--|------|
|                                     |                             |                       | 2011                                   | 2010 |
| Cluff Gold (UK) Limited             | United Kingdom              | Head office           | 100%                                   | 100% |
| Cluff Mining (West Africa) Limited  | United Kingdom              | Exploration           | 100%                                   | 100% |
| Cluff Gold (West Africa) Limited    | United Kingdom              | Exploration           | 100%                                   | 100% |
| Cluff Gold (Mali) Limited           | United Kingdom              | Exploration           | 100%                                   | 100% |
| Cluff Offshore Oil Limited          | United Kingdom              | Dormant               | 100%                                   | 100% |
| Cluff Gold (SL) Limited*            | Sierra Leone                | Exploration           | 100%                                   | 100% |
| Cluff Gold (WA) Côte d'Ivoire SARL* | Côte d'Ivoire               | Exploration           | 100%                                   | 100% |
| Cluff Mining Burkina SARL*          | Burkina Faso                | Exploration           | 100%                                   | 100% |
| Kalsaka Mining SA*                  | Burkina Faso                | Mining                | 78%                                    | 78%  |
| Karbasso Joint Venture SARL*        | Mali                        | Dormant               | 90%                                    | 90%  |
| Baomahun Gold Limited*              | Sierra Leone                | Exploration           | 100%                                   | 100% |
| Yaoure Mining SA*                   | Côte d'Ivoire               | Mining                | 90%                                    | 90%  |
| Winston Mining Limited              | BVI                         | Dormant               | 100%                                   | 100% |

\* Companies owned indirectly

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 11 Other receivables

|                                 | 2011<br>US\$000<br>Group | 2010<br>US\$000<br>Group | 2011<br>US\$000<br>Company | 2010<br>US\$000<br>Company |
|---------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| <b>Non-current assets</b>       |                          |                          |                            |                            |
| Taxation debtor                 | 1,452                    | 2,324                    | -                          | -                          |
| Amounts due from subsidiaries   | -                        | -                        | 48,546                     | 31,822                     |
| <b>Total non-current assets</b> | <b>1,452</b>             | <b>2,324</b>             | <b>48,546</b>              | <b>31,822</b>              |
| <b>Current assets</b>           |                          |                          |                            |                            |
| Prepayments and accrued income  | 1,157                    | 649                      | 87                         | 117                        |
| Taxation debtor                 | 3,889                    | 6,761                    | 31                         | 108                        |
| Other debtors                   | 1,540                    | 1,664                    | 17                         | 6                          |
| Amounts due from subsidiaries   | -                        | -                        | 8,834                      | 13,500                     |
| <b>Total current assets</b>     | <b>6,586</b>             | <b>9,074</b>             | <b>8,969</b>               | <b>13,731</b>              |

The taxation debtor relates to indirect taxes recoverable in the UK and West Africa and has been allocated between amounts due within less than one year and more than one year on the basis of the Directors' expectations of when these amounts will be received. Further information relating to the recovery of these amounts is set out in note 17.

Amounts receivable from subsidiary companies have been allocated between amounts due within less than one year and more than one year on the basis of the Directors' expectations of when these loans will be repaid from operating cashflow. Details of the terms of these receivables are included in note 17.

### 12 Inventories

|                   | 2011<br>US\$000<br>Group | 2010<br>US\$000<br>Group | 2011<br>US\$000<br>Company | 2010<br>US\$000<br>Company |
|-------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| Consumable stores | 2,358                    | 1,381                    | -                          | -                          |
| Ore stockpiles    | 6,544                    | 1,668                    | -                          | -                          |
| Gold in process   | 7,347                    | 8,661                    | -                          | -                          |
| Gold bullion      | 2,026                    | 1,057                    | -                          | -                          |
|                   | <b>18,275</b>            | <b>12,767</b>            | <b>-</b>                   | <b>-</b>                   |

Following the commissioning of a crusher circuit at Kalsaka, Burkina Faso, a provision totalling US\$1,993,000 made in 2010 in respect of oversize stockpile ore has been reversed in the year.

### 13 Share capital and reserves

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| <b>Share capital</b>                                       |                 |                 |
| <b>Authorised</b>  |                 |                 |
| 200,000,000 Ordinary shares of 1p each                     | 3,080           | 3,080           |
| <b>Issued and Fully Paid</b>                               |                 |                 |
| 131,897,937 Ordinary shares of 1p each (2010: 131,269,331) | 2,375           | 2,365           |

# Notes to the Consolidated Financial Statements for the year ended 31 December 2011

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## Shares issued

During 2011, 628,606 ordinary shares were issued as follows

On 1 January 2011 182,565 ordinary shares of 1p were issued at 40p, on 17 March 2011 365,130 ordinary shares of 1p were issued at 40p, on 8 April 2011 25,000 ordinary shares of 1p were issued at 34p and on 4 August 10,000 ordinary shares of 1p were issued at 51 00p, all in respect of the exercise of share options

On 21 December 2011, the Company issued 45,911 new ordinary shares of 1p being 7,155 new ordinary shares of 1p each to the following non-executive Directors N Berry, R Danchin, T Wadeson, P Cowley, R Winston and G Stanley, and 2,981 new ordinary shares of 1p each to J G Cluff at a value of 69 88p each in accordance with their letters of appointment.

During 2010, 8,803,736 ordinary shares were issued as follows

On 31 March 2010, 300,000 ordinary shares of 1p were issued at 20p, on 31 October 2010, 200,000 ordinary shares of 1p were issued at 55p, on 4 November 2010 101,700, 65,565 and 60,855 ordinary shares of 1p were issued at 68p, 88p and 40p respectively; all in respect of the exercise of share options

On 2 November 2010, by way of a placing, 8,047,210 ordinary shares of 1p were issued for cash consideration of 116 5p each

On 21 December 2010, the Company issued 28,406 new ordinary shares of 1p being 4,545 new ordinary shares of 1p each to the following non-executive Directors N Berry, R Danchin, T Wadeson, P Cowley, R Winston and G Stanley, and 1,136 new ordinary shares of 1p each to D Chikohora at a value of 110p each in accordance with their letters of appointment

During 2011 the Company has complied with the Companies Act requirements regarding the maintenance of capital

## Share premium

The share premium account represents the excess cash received on the issue of new shares for a premium on the nominal value. Only those costs specifically associated with those share issues are debited to the account.

## Merger reserve

The acquisition by the Company of Cluff Gold (UK) Limited in November 2004 was accounted for in accordance with the merger accounting principles set out in UK Financial Reporting Standard 6 and the Companies Act 1985, which continue under the Companies Act 2006, whereby the consolidated financial statements were presented as if the business previously carried out through Cluff Gold (UK) Limited had always been owned and controlled by the Company. The transitional requirements of IFRS1 allowed prospective application of IFRS3 for all business combinations subsequent to the transition date (1 January 2006). Accordingly this acquisition was not re-stated in accordance with that standard.

During 2008 the Company acquired Winston Mining Limited. The Company has claimed merger relief in respect of this acquisition and accordingly the premium arising on the issue of shares has been credited to the merger reserve.

## Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations that do not have a US dollars functional currency. Exchange differences arising are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the operation is disposed of.

On 1 January 2011 the US Dollar was adopted as the functional currency for all entities in the Group. Consequently, there are no exchange differences on the translation of subsidiaries and the currency translation reserve will remain frozen as at the 31 December 2010 balance.

## Share option reserve

The share option reserve includes an expense based on the fair value of share options issued and remaining in issue at 31 December 2011.

## 14 Non-controlling interests

The Group has three subsidiaries with minority shareholders. Kalsaka Mining SA, in which the Group owns a 78% effective interest, Yaoure Mining SA, in which the Group owns a 90% effective interest, and Karbasso Joint Venture SARL, in which the Group owns a 90% effective interest.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 15 Provisions

| Group                      | Decommissioning, mine closure &<br>site restoration provision<br>US\$000 |
|----------------------------|--|
| At 1 January 2010          | 4,578  |
| Provision in year          | 1,481  |
| At 31 December 2010        | 6,059  |
| Provision in year          | 2,519  |
| <b>At 31 December 2011</b> | <b>8,578</b>   |

Decommissioning, mine closure and site restoration costs are estimated based on a formal closure plan and are subject to regular reviews. The provision does not allow for additional obligations expected from future developments. These provisions are expected to be utilised at the end of each mine's life, which is also subject to regular review.

The timing of the utilisation of the provision is subjective and dependent upon a number of factors around the closure of the mines. Based on current estimations the provision is expected to be utilised within five to ten years. The discount factor applied does not result in material difference and consequently has not been included.

### 16 Trade and other payables

|                              | 2011<br>US\$000<br>Group | 2010<br>US\$000<br>Group | 2011<br>US\$000<br>Company | 2010<br>US\$000<br>Company |
|------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| Trade creditors              | 2,972                    | 6,104                    | 186                        | 340                        |
| Other creditors              | 3,082                    | 2,557                    | 104                        | 322                        |
| Accruals and deferred income | 8,651                    | 7,259                    | 218                        | 267                        |
|                              | <b>14,705</b>            | <b>15,920</b>            | <b>508</b>                 | <b>929</b>                 |

### 17 Financial instruments and risk management

#### Categorisation and fair value of financial instruments

The Group's financial assets comprise cash and cash equivalents and trade and other receivables. In addition the Company's financial assets include amounts due from subsidiaries. All of the Group's and Company's financial assets are classified as loans and receivables. The Group's and Company's financial liabilities comprise trade and other payables. All of the Group's and Company's financial liabilities are measured at amortised cost. The taxation debtors as described in note 11 are not financial instruments as defined by IAS 32. These amounts have been included within the disclosures below in respect of foreign exchange and credit risk as the Directors believe that the exposure of the Group to these financial risks in respect of these assets is significant.

It is the Directors' opinion that the carrying value of all of the Group's and Company's financial assets and financial liabilities approximates their fair value.

#### Financial risk management

The Group's operations expose it to a number of financial risks. A risk management programme has been established to protect the Group against the potential adverse effects of these financial risks. There has been no significant change in these financial risks in the year.

The principal financial risks relate to foreign currency risk, commodity price risk, liquidity risk and credit risk.

#### a) Foreign currency risk

Foreign currency risk refers to the risk that the value of a financial commitment or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group is exposed to foreign currency risk due to the following:

- Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of operations.
- Translation exposures relating to monetary assets and liabilities, including cash and short-term investment balances, held in currencies other than the functional currency of operations, and net investments that are not denominated in US Dollars.

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The table below shows the currency profile of cash and cash equivalents

|                        | 2011<br>Group<br>US\$000 | 2010<br>Group<br>US\$000 | 2011<br>Company<br>US\$000 | 2010<br>Company<br>US\$000 |
|------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| US Dollars             | 19,330                   | 4,093                    | 7,750                      | 351                        |
| Sterling               | 2,544                    | 12,485                   | 2,475                      | 12,458                     |
| West African CFA franc | 5,946                    | 3,095                    | -                          | -                          |
| Canadian Dollars       | 447                      | 1,222                    | 447                        | 1,222                      |
| Other                  | 638                      | 12                       | 2                          | 5                          |
|                        | 28,905                   | 20,907                   | 10,674                     | 14,036                     |

From the 1 January 2011 the functional currency adopted by all material Group companies was US Dollars. Prior to 2011 some entities had functional currencies in Sterling and West African CFA Francs. The Group also enters into transactions denominated in other currencies. The Group's exposure to foreign currency arises where a company holds monetary assets and liabilities in a currency different to its functional currency and when different from the presentational currency of the Group.

The following table shows a currency analysis of net monetary assets and liabilities by functional currency of the Group

|                                   | Sterling<br>US\$000 | US Dollars<br>US\$000 | West African<br>CFA Franc<br>US\$000 | Total<br>US\$000 |
|-----------------------------------|---------------------|-----------------------|--------------------------------------|------------------|
| <b>2011</b>                       |                     |                       |                                      |                  |
| <b>Currency of monetary items</b> |                     |                       |                                      |                  |
| Sterling                          | -                   | 2,768                 | -                                    | 2,768            |
| US Dollars                        | -                   | 15,779                | -                                    | 15,779           |
| West African CFA Franc            | -                   | (2,590)               | -                                    | (2,590)          |
| Canadian Dollars                  | -                   | 447                   | -                                    | 447              |
| Other                             | -                   | 580                   | -                                    | 580              |
| <b>Total</b>                      | -                   | 16,984                | -                                    | 16,984           |

|                                   | Sterling<br>US\$000 | US Dollars<br>US\$000 | West African<br>CFA Franc<br>US\$000 | Total<br>US\$000 |
|-----------------------------------|---------------------|-----------------------|--------------------------------------|------------------|
| <b>2010</b>                       |                     |                       |                                      |                  |
| <b>Currency of monetary items</b> |                     |                       |                                      |                  |
| Sterling                          | 12,034              | (8)                   | -                                    | 12,026           |
| US Dollars                        | 88                  | (3,557)               | -                                    | (3,469)          |
| West African CFA Franc            | -                   | 3,830                 | 241                                  | 4,071            |
| Canadian Dollars                  | 1,222               | -                     | -                                    | 1,222            |
| Other                             | (301)               | 227                   | 3                                    | (71)             |
| <b>Total</b>                      | 13,043              | 492                   | 244                                  | 13,779           |

The table below shows the impact of changes in exchange rates on the financial position of the Group due to monetary assets and liabilities denominated in Sterling and West African CFA Francs

|  | Profit & Loss   |                 | Equity          |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2011<br>US\$000 | 2010<br>US\$000 | 2011<br>US\$000 | 2010<br>US\$000 |
| If there was a 20% weakening in the US Dollar/Sterling exchange rate with all other variables held constant - increase/(decrease)                    | 568             | (638)           | (137)           | (40)            |
| If there was a 20% strengthening in the US Dollar/Sterling exchange rate with all other variables held constant - increase/(decrease)                | (682)           | 766             | 164             | 48              |
| If there was a 20% weakening in the US Dollar/West African CFA Franc exchange rate with all other variables held constant - increase/(decrease)      | -               | -               | (462)           | (2,006)         |
| If there was a 20% strengthening in the US Dollar/ West African CFA Franc exchange rate with all other variables held constant - increase/(decrease) | -               | -               | 554             | 2,407           |

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 17 Financial instruments and risk management (continued)

A 20% change represents management's assessment of the reasonable possible exposure given the current level of exchange rates and the volatility observed both on a historical basis and market expectations for future movement

In general, the Group does not enter into derivatives to manage these currency risks. Details of the impact on foreign exchange movement in the year are shown in notes 2, 4 and 5 and the currency translation reserve. The Board frequently reviews the policy on currency translation risk in order to minimise translation exposure.

The Directors do not consider the Company to be at significant risk from currency fluctuations due to the low level of assets and liabilities held in currencies other than the functional currency.

#### b) Commodity price risk

The Group is exposed to commodity price risk as its revenues are derived from a contract with a physical off-take partner at prices determined by reference to the market price of gold at the delivery date. The Group is also exposed to fluctuations in the price of consumables, such as fuel, cement and cyanide. The Group does not currently hold any gold future positions as a hedge against gold price volatility, or other derivatives as a hedge against other commodity price fluctuations. The Board regularly reviews this matter. The Group occasionally makes forward sales on gold poured - this risk is not deemed to be material as the sales are only at most a week in advance.

#### c) Capital management and liquidity risk

The Company's and Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern and have access to adequate funding for its exploration and development projects, so that it can provide returns for shareholders and benefits for other stakeholders. The Group manages the capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Group may issue new shares, draw down debt, or sell assets to reduce debt.

Management regularly review cashflow forecasts to determine whether the Group has sufficient cash reserves to meet future working capital requirements and to take advantage of business opportunities.

The table below sets out the maturity profile of financial liabilities as at 31 December 2011.

|                                  | 2011<br>Group<br>US\$000 | 2010<br>Group<br>US\$000 | 2011<br>Company<br>US\$000 | 2010<br>Company<br>US\$000 |
|----------------------------------|--------------------------|--------------------------|----------------------------|----------------------------|
| Due in less than one month       | 10,227                   | 6,925                    | 269                        | 662                        |
| Due between one and three months | 4,479                    | 8,996                    | 239                        | 267                        |
|                                  | 14,706                   | 15,921                   | 508                        | 929                        |

#### d) Credit risk

The Group is exposed to credit risk in respect of indirect taxes owing to the Group in West Africa, including indirect taxes recoverable of US\$2,279,000 (2010: US\$6,946,000) in Burkina Faso and US\$4,725,000 (2010: US\$5,627,000) in Côte d'Ivoire. Due to the slow moving nature of these amounts the Directors have included an impairment provision against the taxation debtor in accordance with their best estimate of the recovery of these amounts totalling US\$227,000 (2010: US\$303,000) in Burkina Faso and US\$1,505,000 (2010: US\$3,303,000) in Côte d'Ivoire.

Subsequent to the year-end a total of US\$1,300,000 has been recovered in Burkina Faso. Recovery of indirect taxes in Côte d'Ivoire has significantly improved following the change of government in 2011. US\$733,000 was recovered during the year and a further US\$708,000 has been recovered subsequent to the year end. Based on the current recovery profile US\$1,800,000 has been treated as due within one year and the balance of US\$1,452,000 remains due after more than one year.

The Group and the Company are also exposed to credit risk on their cash and cash equivalents and trade and other receivables, the total of which represents the maximum exposure to credit risk.

The Company is exposed to credit risk in respect of the loans recoverable from other Group companies. Details of these loans, the repayment terms thereof, and amounts provided against these at 31 December 2011 are set out in note 20.

# Notes to the Consolidated Financial Statements for the year ended 31 December 2011

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## 18 Commitments

Future commitments for the Group under non-cancellable operating leases are as follows

|                                    | Land and buildings |                 |
|------------------------------------|--------------------|-----------------|
|                                    | 2011<br>US\$000    | 2010<br>US\$000 |
| Payable in less than one year      | 149                | 124             |
| Payable between one and two years  | 113                | 72              |
| Payable between two and five years | 48                 | 120             |
|                                    | <b>310</b>         | <b>316</b>      |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of three years at fixed rental rates.

## 19 Share based payment

The Group operates a share option plan under which employees, consultants and advisers have been granted options to subscribe for ordinary shares. All options are share settled. The number and weighted average exercise price of share options are as follows:

|                            | 2011                 |   | 2010                 |   |
|----------------------------|----------------------|---|----------------------|---|
|                            | Number<br>of options | Weighted<br>average<br>exercise price (p) | Number<br>of options | Weighted<br>average<br>exercise price (p) |
| Outstanding at 1 January   | 7,813,260            | 66.2                                      | 5,969,050            | 62.1                                      |
| Granted during the year    | 540,000              | 85.8                                      | 2,980,000            | 71.9                                      |
| Exercised during the year  | (582,695)            | 40.0                                      | (728,120)            | 44.1                                      |
| Expired during the year    | (65,565)             | -   | (407,670)            | -   |
| Outstanding at 31 December | <b>7,705,000</b>     | <b>68.6</b>                               | <b>7,813,260</b>     | <b>66.2</b>                               |
| Exercisable at 31 December | <b>3,055,000</b>     | <b>68.3</b>                               | <b>2,198,260</b>     | <b>58.5</b>                               |

The options outstanding at 31 December 2011 had a weighted average remaining contractual life of 6.5 years (2010: 7.4 years). For options exercised in 2011, the weighted average share price at the date of exercise was 103.9p (2010: 105.8p).

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. This estimate is based on a Black-Scholes model which is considered most appropriate considering the effects of the vesting conditions, expected exercise period and the payment of dividends by the Company. The inputs into the Black-Scholes model for options granted in the year were as follows:

|                                 | 2011         | 2010         |
|---------------------------------|--------------|--------------|
| Weighted average share price    | 88.8p        | 72.2p        |
| Weighted average exercise price | 85.8p        | 71.3p        |
| Expected volatility             | 0.48         | 0.43         |
| Expected life                   | 3.5          | 4.0          |
| Risk free rate                  | 1%           | 1%           |
| Expected dividends              | -            | -            |
| Fair value per option           | <b>31.7p</b> | <b>24.6p</b> |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2011

### 19 Share based payment (continued)

| Exercise period                   | Number    | Weighted average exercise price (p) |
|-----------------------------------|-----------|-------------------------------------|
| Exercisable until 2014            | 675,000   | 49.8                                |
| Exercisable until 2016            | 920,000   | 74.2                                |
| Exercisable until 2018            | 1,360,000 | 74.0                                |
| Exercisable until 2020            | 100,000   | 61.4                                |
| Exercisable at period end         | 3,055,000 | 68.3                                |
| Exercisable between 2012 and 2019 | 1,190,000 | 53.9                                |
| Exercisable between 2013 and 2020 | 2,930,000 | 71.3                                |
| Exercisable between 2014 and 2021 | 530,000   | 85.5                                |
|                                   | 7,705,000 | 68.6                                |

### 20 Related party transactions

The Group's investments in subsidiaries have been disclosed in note 10. Transactions between the Company and its subsidiaries during the year are disclosed below.

|  | 2011<br>US\$000 | 2010<br>US\$000 |
|--|-----------------|-----------------|
| Interest receivable                      | 669             | 1,164           |
| Management charges receivable            | 1,936           | 328             |
| Amounts owed by subsidiaries at year end | 57,380          | 45,322          |

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Loans for which repayment schedules have been determined are measured at amortised cost using the effective interest rate method. During 2011 a provision of US\$nil (2010 US\$7,175,000) has been made for doubtful debts in respect of the amounts owed by Yaoure Mining SA. In addition, an amount of US\$nil (2010 US\$2,636,000) has been provided in respect of the amounts owed by Cluff Mining Burkina SARL. The Directors believe that all the other amounts receivable from Group companies are recoverable.

The repayment terms and interest rates for the amounts receivable from subsidiaries at the year-end are set out below.

| Interest rate                           | Repayment terms  | 2011<br>US\$000 | 2010<br>US\$000 |
|---|--|-----------------|-----------------|
| US LIBOR plus 2%                        | Repayable in quarterly instalments                               | 39,977          | 46,437          |
| US LIBOR plus 4%                        | Overdue from quarterly instalments above                         | 11,590          | 9,019           |
| GBP LIBOR plus 2%                       | Repayable only once construction commences on applicable project | 2,636           | 2,636           |
| Non-interest bearing loans              | Repayable only once construction commences on applicable project | 38,447          | 20,500          |
|   |  | 90,650          | 78,592          |
| Less provision for irrecoverable amount |  | (33,270)        | (33,270)        |
|   |  | 57,380          | 45,322          |

Included within amounts receivable from subsidiary undertakings is US\$42.7 million (2010 US\$39.2 million) in respect of the Yaoure Gold Mine. The performance of the mine has been below budget since commencement of operations and an impairment of US\$23.5 million was recognised in 2010. An amount totalling US\$7.2 million was provided in 2010 following an update of the impairment review.

An amount totalling US\$2.6 million was provided in 2010 in respect of Cluff Mining Burkina SARL, an exploration company situated in Burkina Faso.



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## Remuneration of key management personnel

Compensation for key management personnel is as follows

|   | 2011<br>US\$000 | 2010<br>US\$000 |
|---|-----------------|-----------------|
| Short term employee benefits (including NI contributions) | 3,832           | 3,283           |
| Post employment benefits                                  | 120             | 148             |
| Share based payments                                      | 626             | 698             |
| Termination benefits                                      | -               | 260             |
|   | <b>4,578</b>    | <b>4,389</b>    |

## 21 Contingent liabilities

In February 2011 the Company received a proposal for additional costs sustained by the mining contractor at the Yaoure Mine totalling US\$9.2m. An updated claim was made in June 2011 totalling a further US\$5.4m. Whilst the situation remains unresolved the Company has received external advice that confirms that the current provision of US\$1.0m is, in the opinion of the Directors, the maximum payable under the terms of the contract.

The terms of the contract clearly state that the rates set out therein shall apply regardless of the difficulty in performing the works under the contract, such that the majority of the additional costs claimed cannot be recovered under the contract.

## 22 Post balance sheet events

On 3 February 2012 the Company entered into a legally binding, conditional sale and purchase agreement with Orezone Gold Corporation for the acquisition of the licences and associated property comprising Orezone's Segla Gold Project in Burkina Faso. Consideration comprises 11 million new ordinary shares in the Company and US\$15m cash.

Completion will occur following the approval of the Burkinabe government and other standard closing conditions.

On 14 March the Company issued 25,000,000 ordinary shares of 1p at a price of 92p raising £21.6m after expenses.

## Company Information

**Company Secretary**  
**Catherine Apthorpe**  
Registered office and head office  
15 Carteret Street, London SW1H 9DJ

**Company Number**  
**4822520**

**Principal Bankers**  
**Adam & Company plc**  
22 King Street, London SW1Y 6QY

**Standard Bank plc**  
20 Gresham Street, London EC2V 7YE

**Nominated Adviser and Broker**  
**Cannacord Genuity Limited**  
88 Wood Street, London EC2V 7QT

**Auditor**  
**PKF (UK) LLP**  
Farringdon Place, 20 Farringdon Road,  
London EC1M 3AP

**Registrars**  
**Capita Registrars**  
The Registry, 34 Beckenham Road,  
Beckenham, Kent BR3 4TU

**PR Advisers**  
**Pelham Bell Pottinger**  
5th Floor, Holborn Gate, 330 High Holborn,  
London WC1V 7QD

**Farm Street Media**  
6 Marylebone Passage, London W1W 8EX

**Legal Adviser**  
**K&L Gates LLP**  
1 New Change, London EC4M 9AF

## References

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Peter Brown is a "Qualified Person" within the definition of National Instrument 43-101 and has reviewed, verified and approved the information contained within this annual report, including the sampling, analytical and test data underlying the information contained herein. Mr Brown (MIMMM) is the Group Exploration Manager.

This report includes certain "forward-looking information" within the meaning of applicable Canadian securities legislation. All statements other than statements of historical fact included in this report, including, without limitation, the positioning of the Company for future success, statements regarding the exploration, drilling results and potential future production at Yaoure, Kalsaka, Baomahun and Mamoudouya, the assumptions and proposed operating parameters used in the feasibility study and the timing of the feasibility study for Baomahun, and future capital plans and objectives of Cluff Gold, are forward-looking information that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from Cluff Gold's expectations include, among others, risks related to international operations, the actual results of current exploration and drilling activities, changes in project parameters as plans continue to be refined as well as future price of gold. Although Cluff Gold has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Cluff Gold does not undertake to update any forward-looking statements that are included herein, except in accordance with applicable securities laws.

Cluff Gold plc is a "Designated Foreign Issuer" in accordance with National Instrument 71-102 – Continuous Disclosure and Other Exemptions Relating to Foreign Issuers ("NI 71-102") in Canada, subject to the foreign regulatory requirements of a foreign regulatory authority, namely, the AIM market of the London Stock Exchange.

Resource and reserve data may not compute exactly due to rounding.

### Kalsaka/Sega

Detailed geology, descriptions of the various exploration prospects at Kalsaka, and other exploration information can be found in the Company's NI43-101 report "Technical Review of Kalsaka Gold Mine, Burkina Faso", as prepared by SRK Consulting, dated October 2008 and available on SEDAR. Resource estimation has been subsequently updated for production changes.

The RC drilling programme at Kalsaka was undertaken by an independent drilling contractor. All the drill holes collar positions were pegged using a total station theodolite and re-surveyed after drilling. The drill collars after survey were checked by onsite geologist. Each 1.0m RC chipping passing through a cyclone is collected in a plastic bag and reduced in a multistage splitter to get a split of between 2kg and 4kg. Sampling was done under the supervision of the site geologist. Duplicate samples were collected at every 10th sample point and one blank inserted at every 20th point. Samples were submitted to the in-house laboratory, dried, crushed and pulverised to 85-90% passing 106µm and analysed by bulk leach extractable gold assays for twelve hours.

The RAB drilling programme at Kalsaka was undertaken by an independent drilling contractor. All the drill holes collar positions were pegged using a Garmin GPS unit and re-surveyed after drilling. The drill collars after survey were checked by onsite geologist. Each 1.0m RAB chipping passing through a cyclone is collected in a plastic bag and 2m-composites are reduced in a multistage splitter to get a split of between 2kg and 4kg. Sampling was done under the supervision of the site geologist. Duplicate samples were collected at every 20th sample point and one blank inserted at every 20th point. Samples were submitted to the in-house laboratory, dried, crushed and pulverised to 85-90% passing 106µm and analysed by bulk leach extractable gold assays for twelve hours.

RAB and RC check assays were also submitted to external commercial laboratories in Burkina Faso as part of the Company's quality control procedures.

- 1 Resources at 0.5g/t Au cut off and reserves at 0.5g/t Au cut off and US\$950/oz gold price.
- 2 A technical report titled "Technical Report on the Mineral Resource of the Sega Gold Project" and dated January 18, 2010 was previously prepared by Orezone Gold Corporation and filed in SEDAR.

### Baomahun

Detailed geology and other exploration information can be found in the Company's report "Technical Review of the Baomahun Gold Exploration Project, Sierra Leone" dated 12 August 2010, made available on the Company's website and on SEDAR. Resource estimation has been subsequently updated for exploration changes.

Drill intersections from both the in-fill drill holes and Pujehun South were calculated using a minimum width of 2m, and a cut-off of 0.5g/t and up to two metres of internal waste. The intersections set out in Appendix 1 are from in-fill drill holes within the resource area and do not necessarily represent extensions to already defined zones of mineralisation. The true thickness of the mineralisation may vary from 40% to 100% of the intersected widths. Drill cores for assaying were taken at a maximum of one metre intervals and were cut with a diamond saw. One half of the core was placed in sealed bags and sent to the Company's sample preparation facility at Baomahun, Sierra Leone. The core samples were then crushed to minus 4mm and split, with 1.0kg of sample pulverised down to 95% passing 106 microns. Approximately 120 grams of the pulverised sample were then shipped to the SGS Laboratories (which are independent of the Company) in Siguin, Guinea and Tarkwa, Ghana, where the samples were analysed for gold by fire assay using a 50g charge. As part of the Company's QA/QC procedures, internationally recognised standards, blanks and duplicate samples were inserted into the sample batches.

- 3 As per Company press release titled "Baomahun Exploration Results and Feasibility Study Update", dated 29 February 2012 and filed on SEDAR.
- 4 As per Company press release titled "Cluff Gold Significant Resource Increase at Baomahun", dated 5 September 2011 and filed on SEDAR.

### Yaoure

Detailed geology and other exploration information can be found in the Company's NI43-101 report "Technical Review of Angovia Gold Mine, Mount Yaoure, Côte d'Ivoire" as prepared by SRK Consulting, dated October 2008 and available on SEDAR. Resource estimation has been subsequently updated for production and exploration changes.

The diamond drilling programme at Yaoure was undertaken by an independent drilling contractor. All holes at the Yaoure Central Pit were drilled from within the pit and collared at a depth of between 20m and 35m below the original surface level. All holes were drilled at inclinations of between -50° and -60°. The 13 holes testing the E-W structures were drilled towards both the north and south with an average down-hole depth of 64m and a maximum down-hole depth of 72m. The 10 holes testing the main N-S structure were all drilled towards the west at an inclination of -60°, with an average down-hole depth of 113m and a maximum down-hole depth of 136m.

Drill cores for assaying were taken at a maximum of two metre intervals and were cut with a diamond saw with one-half of the core placed in sealed bags and sent to the SGS sample preparation facility in Yamoussoukro, Côte d'Ivoire. The core samples were then crushed down to minus 2 mm, split with half the sample then being pulverised down to 85% passing 75 microns. About 200g of the pulverised sample was then shipped to the SGS Laboratory in Tarkwa, in Ghana, an independent laboratory to the Company, where the samples were analysed for gold by fire assay using a 50 g sample. As part of the Company's QA/QC procedures, internationally recognised standards, duplicates and blanks were inserted and check assays will also be submitted to other external laboratories.

- 5 Resources at 0.5g/t Au cut off.
- 6 As per Company press release titled "Yaoure Project drilling results", dated 19 January 2012 and filed on SEDAR.

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+44 (0)20 7324 2668 / www.effektiv.co.uk

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**Cluff Gold plc**  
15 Carteret Street  
London SW1H 9DJ  
Tel +44 (0) 20 7340 9790  
Fax +44 (0) 20 7233 4780  
[www.cluffgold.com](http://www.cluffgold.com)

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