

Company Number 4822520  
Cluff Gold plc

## Delivering on production and exploration

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# Our Highlights

## 2010 EBITDA

**US\$22.6m**

## EBITDA Growth

**+431%**

## 2010 Operational Cash Flow

**US\$23.4m**

## 2010 Closing Cash Position

**US\$20.9m**

## Production Growth

**+24%**

## Share Price Growth

**+70%**

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# Our Strategy

**Using internal cash flow  
to drive exploration  
across our asset base**

# Our Operations

## West Africa

### Sierra Leone Baomahun

Baomahun is Cluff Gold's defining development asset. A feasibility study is expected on the current resources, which includes 1.4 million ounces (at 2.9g/t Au) of measured and indicated resources and 1.0 million ounces (at 2.6g/t Au) of inferred resources. Seven drill targets have been identified along the 12km strike resources where exploration drilling is ongoing.

### Burkina Faso Kalsaka

The Kalsaka mine is Cluff Gold's primary cash generator, having produced 74,000 ounces of gold in 2010. The Company is conducting exploration drilling to define additional oxide material to extend the mine life. Four new exploration licences in Eastern Burkina Faso were also granted in August 2010, providing a pipeline of future projects to the Group.

### Expected Production by 2014

**157,000oz**

### 2010 Production

**74,000oz**

**The Group generates significant cash flow through its Kalsaka mine in Burkina Faso, and remains focused on its objective of becoming a mid-tier producer through the development of its wholly-owned Baomahun project in Sierra Leone.**

#### **Côte d'Ivoire Angovia**

Located in highly prospective Birimian greenstone belt terrain, the Angovia mine produced 20,000 ounces of gold in 2010. The Company is now devising alternative strategies to maximise the value of Angovia, including a focus on the significant sulphide potential.

#### **Mali Mamoudouya**

Mamoudouya is the latest addition to the Group's exploration licences, having been awarded in January 2011. Located 300km west of Bamako, the capital city of Mali, the licence covers 109 sq. km of highly prospective Birimian Kenieba inlier belt, which hosts several world class gold deposits including Randgold's Loulo Mine and Gounkoto Project and AngloGold Ashanti's Sadiola Mine.

#### **Significant Sulphide Potential**

**292,000oz**  
at 1.6g/t Au

#### **Recent Trenching Results**

**40m** at 0.7g/t Au including  
**13m** at 1.5g/t Au

### 2010 Achievements

- > Strengthened management team with appointment of Peter Spivey as CEO
- > 36% increase in production at the Kalsaka mine compared to 2009
- > 27% increase in measured & indicated resources at Baomahun to 1.4 million ounces at 2.9g/t Au
- > Completion of a positive Baomahun scoping study
- > 7 high priority drill targets identified through Baomahun VTEM survey interpretation
- > Award of 4 new Burkina Faso licences
- > US\$22.6m EBITDA

### Baomahun Objectives

- > Completion of feasibility study for current resource area
- > Finalise cost optimisation studies such as flotation processing option
- > Conduct an aggressive exploration plan along 12km strike targeting VTEM anomalies
- > Finalise mining lease agreement and environmental permitting
- > Complete project financing
- > Complete feasibility study for hydro-electric power plant

# Operational Highlights

### Kalsaka Objectives

- Continuing to deliver on production, with 70,000oz targeted in 2011
- Completion of a US\$7m exploration programme in 2011 including 63,000m of drilling, targeting
  - Increasing oxide reserves along the twin shear structures within the Kalsaka licence
  - Exploring sulphide potential beneath the current open pits
  - Satellite deposits within the neighbouring Yako licence, 20km to the south of the Kalsaka mine

### Angovia and Mamoudouya Objectives

- Complete ground geophysics and 2,000m trenching programme at Mamoudouya prospect in Mali to define initial drill targets
- Initiate a US\$3.3m exploration programme at Angovia, including 31,000m of drilling, focused on
  - 4 identified latent targets suitable for processing in the current plant
  - Additional oxide targets along the structural trends within the Angovia licence
  - Further drilling at the Kongonza deposit to test continuity along strike
  - Following up the sulphide potential beneath the current defined oxide resources, evidenced by 292,000oz at 1.6g/t Au in measured and indicated sulphide resources delineated to date

# Chairman's Statement

**2010 was a year of consolidation, marked by a strengthening in our cash position. This allows us to properly develop our exploration extrategy.**

Since my last report I have stepped down as Chief Executive in favour of Peter Spivey. This was effective from January 1st this year and followed after Peter Spivey had served as Chief Operating Officer of the Company for over a year. Apart from now being thoroughly familiar with every aspect of our business, he is based in West Africa which is where your board believes the Chief Executive needs to be. I remain as Chairman based in London.

One of the governing reasons which supported Mr Spivey's welcome decision to join this Company was his belief in the potential of the Baomahun project in Sierra Leone. He is now charged with the task of superintending the transition of this gold deposit into a producing mine and his experience and leadership will be absolutely fundamental to attaining that objective. One of the crucial demands which a development of this scale makes is for additional management and Peter Spivey and Pete Gardner, our Finance Director, are augmenting their respective teams.

Your Company has a clear goal of achieving production of 250,000 to 300,000 ounces per year. It is our intention that Cluff Gold will attain this target as an independent entity through the development of its flagship Baomahun project. This goal will move closer to reality following the completion of the Baomahun feasibility study later this year.

Whilst our undoubted priority is the development of Baomahun we remain committed to our exploration remit which now encompasses licences in Mali, Burkina Faso and Côte d'Ivoire in addition to Sierra Leone. We operate the Kalsaka mine and have a vigorous programme of drilling there with a view to extending the life of this mine. We have further exploration licences, awarded to us in 2010, in Burkina Faso and our exploration team has begun the exploratory process on those licences.

Possibly our most prospective exploration ground is at Angovia in the Côte d'Ivoire. As I write, the small mine at Angovia – which produced gold from an oxide deposit – is on care and maintenance following the interruption of supplies resulting from the recent unrest in that country. However, there exists an underlying sulphide deposit at Angovia, which is presently estimated to contain an initial measured and indicated resource of 292,000 ounces (169,000 ounces measured at 1.5g/t Au and 123,000 ounces indicated at 1.7g/t Au). We believe that the sulphide potential at Angovia is significant and are planning a major exploration programme with a view to developing a more substantial mine should results warrant.

The location of a major hydroelectric plant within five kilometres of Angovia provides the added benefit of low power costs should a mine be developed.

As a result of our high level of exploration activity and expenditure, the Chief Executive is looking to establish a larger geology department to ensure the Company capitalises on the momentum gained in 2010.

There is no gainsaying that large parts of the African Continent are currently in a condition which renders cogent analysis both difficult and dangerous. On the one hand West Africa remains geologically speaking one of the most prospective areas in the world. This is complemented by Governments which, in the main, are well aware of and responsive to the importance of foreign investment and which conduct their affairs within the framework of English or French law. On the other hand the scourge of inflation, particularly food price inflation, and the evidence of the possibility of regime change being a solution has taken hold amongst the population of various countries. We had direct experience of this recently in the Côte d'Ivoire although the situation there is evidently improving. There have also been disturbances in Burkina Faso although our operations have not been affected. But the atmosphere in the Middle East and larger parts of Africa remains feeble. My colleagues and I feel that we must be alert to extending our activities to other countries in the region and we are examining various possibilities now. We also take heart from our collective experience of working in Africa for many years – although every situation is unique, there is no substitute for knowledge and familiarity in this type of environment.

To end on a positive note, notwithstanding the recent volatility, the price of gold has continued to strengthen since my last report, and my view is that a robust price environment will remain for the foreseeable future. With high levels of both personal and public debt throughout the developed world, inflation is in fact the only clear path to a reduction in absolute terms. Governments around the world are acting to maintain the supply of money, creating a fertile environment for the price of all commodities, not least gold. This will not only be reflected in our cash flow but will strengthen the underlying value of our business.



**J.G. Cluff**  
Chairman  
16 May 2011



# Chief Executive's Statement

**I believe that the Baomahun project has the potential to be world class. I look forward to drawing on my experience to help bring Baomahun to profitable production.**

It is a pleasure to present this, my first report, as Chief Executive of Cluff Gold plc. Although the period presented pre-dates my elevation to Chief Executive, I believe it is important that this report clearly sets out our strategy for the successful development of our assets, which is very much my main area of focus.

The original decision to join Cluff Gold was an easy one, due to my belief in the strength of the Company's assets. In particular, I believe that the Baomahun project has the potential to be world class, and I was drawn to the parallels in respect of its stage of development with other projects on which I have worked, the experience from which will help bring it to profitable fruition.

The evolution from an explorer to a developer can be difficult for many companies. The skills required to manage a successful exploration project are often quite different from those required for successful development. During the exploration stage, strategy is dependent on not only the last set of results, but also the next. The ability to quickly evolve plans in light of recent data is the most important of all. By comparison, once an ore body is defined, the key to successful development is putting in place the correct systems and procedures to manage the operation in an efficient and orderly manner.

When I first arrived at Cluff Gold, a number of the management systems used at the Company's two operating mines were relatively under-developed. As Chief Operating Officer my first task was to ensure that these systems evolved quickly to improve operational efficiency. One such example was supply chain and inventory management. A new management system has been put in place at both the Kalsaka and Angovia mines to ensure that critical spare parts are always available, and regular consumables are purchased from the most appropriate supplier at the right time. It is these day-to-day operating systems that make the difference between an efficient, profitable mine, and one that struggles to maintain production.

In terms of the Company's development to a mid-tier producer we are now at a pivotal time. The completion of the definitive Baomahun feasibility study due in Q3 2011 is only the first step in the value realisation from that project. We are now starting to focus on building the team that can help develop an efficient and profitable mine. Whilst resources are central to the value creation from a project, the importance of having the right team in place from the outset cannot be underestimated.

In terms of our broader strategy, I must stress the importance of exploration. Due to our strengthened balance sheet we now have the funds to allow our resource base to grow across all assets. As an unhedged producer of over 70,000 ounces per annum in Burkina Faso, given the current gold price environment, we will also generate cash flow during 2011 to continue to meet these goals. We are therefore working to strengthen our exploration teams to ensure that we have the right personnel in place to deliver on the potential of all our assets.

In my opinion Cluff Gold has an almost unique position. As a producing gold miner we are very different to earlier stage exploration companies: not only do we generate the funds internally for our exploration programmes, we also have personnel across the Group who understand only too well what is required to successfully run a producing gold mine – and who understand the difficulties in developing a mine. By comparison, what sets us apart from other producing companies is the enormous potential for growth at all of our assets.

Our strategy is a simple one:

- At Baomahun, we aim to build a mine producing in excess of 150,000 ounces of gold per annum, with a view to an early expansion should exploration results along strike warrant. We are also reviewing a number of cost optimisation strategies that could deliver a significant cost benefit.
- At the Kalsaka mine we aim to extend the oxide life of the existing heap leach operation whilst exploring the deeper sulphide potential.
- At Angovia, we aim to focus primarily on the sulphide potential, adding to the resources delineated to date.

Together with our new exploration properties in Burkina Faso and Mali, I remain convinced that the Company has the asset base required to develop into a mid-tier producer. I look forward to reporting on our progress against these goals in the future.



**Peter Spivey**  
Chief Executive Officer  
16 May 2011

**Baomahun Project Highlights**

- > Company defining development project
- > Two-fold strategy
  - advance towards production with existing resources
  - delineate additional ounces along 12km prospective strike
- > Preliminary assessment completed in August 2010
- > Feasibility study completion expected Q3 2011, with additional cost optimisation studies
- > Seven new high priority drill targets identified outside existing resource area, with up to five drill rigs planned for 2011

**Preliminary Assessment August 2010**

Total M&I Resources (Moz)	1 42
Total Inferred Resources (Moz)	1 03
Total Mineable Tonnage (OP + UG) (Mt)	14 4
Average Blended Grade (g/t)	2 9
Mineable Ounces (OP + UG) (Moz)	1 4
Mineable OP Tonnage (Mt)	12 0
Head Grade (g/t)	2 7
Mineable OP Ounces (Moz)	1 0
Mineable UG Tonnage (Mt)	2 5
Head Grade (g/t)	4 3
Mineable UG Ounces (Moz)	0 3
Metallurgical Recovery (%)	92
Steady State Throughput (OP + UG) (Mtpa)	1 9
Annual Production (Koz)	157
Total Cash Cost (US\$/oz)	500
Mine Life (Years)	8
Capex (US\$m)	195
NPV (10%) (US\$m)	172
IRR (%)	31

# Sierra Leone

## Baomahun

Measured & Indicated Resources

**1.4moz**  
at 2.9g/t

Inferred Resources

**1.0moz**  
at 2.6g/t

Archean-Age Banded Iron Formation Strike Length

**12km**

Project Area Explored

**2km<sup>2</sup> of  
137km<sup>2</sup>**

Expected Production by 2014

**157,000oz**

# Sierra Leone

## Baomahun

### Country Facts

Capital	Freetown
Official language	English
Government	Republic
Area	71,740 km <sup>2</sup> (119th) 27,699 sq mi
Population	(2011) 5.4 million (112th)
GDP (PPP, 2010)	US\$4.812 billion
Major industries	agriculture, diamond mining, manufacturing, petroleum refining

### Baomahun Reserves & Resources

Category	Tonnes (Mt)	Grade (g/t Au)	Ounces
Measured	5.5	2.9	510,000
Indicated	9.6	2.9	910,000
Inferred	12.2	2.6	1,030,000

Baomahun is Cluff Gold's defining development project. The Company's focus at Baomahun is two-fold: to advance the project to production with the current resources and to increase the project's resource base by delineating additional mineralisation along the 12km prospective strike.

The Company made tremendous progress at Baomahun in 2010:

- In June, the Company announced a 27% resource increase to 1,420,000 ounces in the measured and indicated categories (510,000 ounces measured at 2.9g/t Au and 910,000 ounces indicated at 2.9g/t Au) and an additional 1,030,000oz (at 2.6g/t) in the inferred category.
- A preliminary assessment was completed in June for the immediate resource area with positive results, demonstrating robust economics for an operating mine based on the currently defined resources. Production at Baomahun is expected to commence in mid-2013, contributing 157,000 ounces per annum to the Group at an estimated cash cost of US\$500/oz.
- The results of a geophysical VTEM (Versatile Time Domain Electromagnetic) survey were announced in December 2010, identifying seven new high priority drill targets along strike – expanding our exploration focus to the remainder of the 136 sq. km licence area. Up to five drill rigs will be operating on site in 2011 focused on these targets.

Progress in line with our strategy continues in 2011. Definitive feasibility study work is progressing, with completion targeted for Q3 2011. The infill drilling programme has now been completed, with all major components including environmental and social studies, engineering plans and mine infrastructure planning well underway.

Over 15,000 metres of infill drilling have been completed since the resource update in June 2010. The extensive drilling has established greater continuity in the mineralisation than previously modelled. Notable drill results include:

- 16m at 7.1g/t Au from 346m, including 10 m at 10.2g/t Au from 347m
- 19m at 5.7g/t Au from 611m, including 10 m at 6.9g/t Au from 612m
- 22m at 4.2g/t Au from 332m, including 11m at 7.0g/t Au from 335m
- 13m at 5.4g/t Au from 421m, including 3m at 18.7g/t Au from 429m
- 12m at 8.2g/t Au from 48m, including 5m at 12.8g/t Au from 50m

A new resource block model is currently being developed, which is expected to be announced during Q2 2011 for inclusion in the feasibility study.

## Two-fold strategy: Advance towards production while delineating additional ounces along strike

A lower-risk open-pit only mining method is being adopted for the feasibility study, compared to the combined open pit and underground mining schedule set out in the preliminary assessment

Additional cost optimisation studies are also being carried out in parallel to the feasibility study with a view to achieving the best possible economics. Principally these are:

- Ongoing metallurgical test work suggests that a processing route incorporating a flotation stage may be more economically viable. This could replace the CIP/CIL circuit envisaged in the preliminary assessment and, if successful, would result in a significant reduction in capital and operating costs. Not only would flotation enable recovery with a much coarser grind, reducing capital and operating expenditure on the grinding circuit, it would also remove the capital cost of large tanks and the high power associated with agitation that is required for a conventional CIP/CIL process.

Following successful initial results, variability test work incorporating flotation and a gravity separation circuit is ongoing, with final results expected to be available in Q3 2011. Whilst the feasibility study will be based on the conventional CIP/CIL process, if the results of the variability test work are positive the detailed processing plant design will be updated in Q4 2011 to incorporate flotation.

- The topographical relief and rainfall pattern of the region enables the provision of hydro-electric power ("HEP") without the need for dam construction or land inundation. A feasibility study into the establishment of an HEP station has been commissioned, with 12-month river flow gauging due to be completed in July 2011. Results to date suggest that a 20MW run-of-river HEP plant could provide 72% annual power availability, which would significantly reduce operating cash costs at current fuel prices compared to the heavy fuel oil power option currently modelled.

The HEP feasibility study is expected to be completed in Q4 2011, with the HEP project separately financed from the mine. The heavy fuel oil power plant envisaged in the feasibility study will be required regardless of the results of the HEP feasibility study due to the seasonality of river flow and the power requirements at the height of the dry season. The construction of the heavy fuel oil power plant will also ensure that the HEP project will not delay commencement of mine development.

### Significant additional exploration potential

With the current resource contained in only 2 sq km of the 137 sq km project area, the Company is excited by the significant exploration potential along strike to the north at Baomahun. The second branch of the Company's two-fold strategy at Baomahun is to realise the resource potential along the 12-km Archaean-age banded iron formation (BIF) strike, with a view to increasing the project's total resource base.

Prior to 2010 very little focus had been given to the wider potential of the Baomahun area, but an airborne VTEM survey for the Baomahun licence area was undertaken in Q2 2010, with the final interpretation announced in December 2010. Using data from the VTEM Survey correlated with known lithologies, magnetic anomalies and geochemical surface data, seven new drill targets were identified. All are interpreted as occurring close to surface with strikes and dips similar to mineralisation in the existing resource area.

Over 1,000 metres of trenching has been carried out over the targets identified, with initial assay results expected in Q2 2011. An initial 12,000 metres diamond drilling programme commenced in Q1 2011 to provide first pass drilling for all targets, with over 3,500 metres drilled to date. Drill core from the first holes includes sulphide mineralisation known to be associated with gold in the current resource area. The first assay results are expected in Q2 2011, which will demonstrate whether these sulphide minerals are also associated with gold in the new targets. Up to five drill rigs will be operating this year to complete the initial drilling programme and follow up on any promising mineralised areas identified.

### Kalsaka Project Highlights

- > Strong 2010 performance driven by operational improvements
- > 2011 expected production 70,000oz
- > Renewed exploration focus
  - 12,000m of RC drilling in 2010
  - 11m at 5.6g/t intercepted in oxide
  - 15m at 7.4g/t intercepted in sulphide
- > 2 drill ngs currently on site

### Reserves & Resources

		Tonnes (Mt)	Grade (g/t Au)	Ounces
<b>Resources at 0.5g/t Au cut off</b>				
Oxide & Transitional	Measured	2.3	1.7	126,000
	Indicated	4.5	1.5	212,000
	Measured & Indicated	6.8	1.5	338,000
	Inferred	1.0	1.3	44,000
Sulphide	Measured	0.1	1.6	8,000
	Indicated	1.0	1.7	55,000
	Measured & Indicated	1.2	1.7	63,000
	Inferred	2.3	1.5	113,000

### Reserves at 0.5g/t Au cut off and US\$950/oz gold price

Oxide & Transitional	Proven	1.5	1.8	87,000
	Probable	1.9	1.6	99,000
	Proven & Probable	3.4	1.7	186,000

# Burkina Faso

## Kalsaka

2010 Production

**74,000oz**

2010 EBITDA

**US\$29.1m**

2011 Exploration Budget

**US\$7m**

# Review of Operations

## Burkina Faso

### Country Facts

Capital	Ouagadougou
Official language	French
Government	Parliamentary republic
Area	274,200 km <sup>2</sup> (74th)
	105,900 sq mi
Population	16,751,455 (61st)
GDP (PPP, 2010)	US\$20.06 billion (124th)
Major industries	Agriculture, cotton lint, beverages, soap, cigarettes, textiles, gold mining
2011E Gold Output	33.74 metric tons

### Annual production statistics

		2010	2009		Difference
Ore mined	(t)	1,539,557	1,296,903	242,654	19%
Waste mined	(t)	11,135,933	9,303,243	1,832,690	20%
Ore processed	(t)	1,550,373	1,135,913	414,460	36%
Average ore head grade	(g/t)	1.6	1.7	(0.1)	(8%)
Gold production	(oz)	74,073	54,428	19,645	36%
Cash costs excluding royalties	(US\$/oz)	793	767	26	3%
Average realised gold price	(US\$/oz)	1,221	1,018	203	20%

### Quarterly production statistics

		Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Ore mined	(t)	372,147	406,790	332,842	427,778	466,629
Waste mined	(t)	2,283,392	2,706,327	2,845,762	3,300,452	3,549,933
Ore processed	(t)	419,512	370,318	321,325	439,218	452,631
Average ore head grade	(g/t)	1.8	1.8	1.4	1.3	1.4
Gold production	(oz)	21,481	19,350	15,804	17,438	16,837

As the Company's predominant cash generator, Kalsaka delivered exceptional performance in 2010 by exceeding the Company's 70,000 ounces production guidance and generating EBITDA of US\$29.1m to fund the Group's activities.

A total of 74,073 ounces of fine gold was smelted at Kalsaka in 2010, representing a 36% increase on 2009. This strong performance was driven by the increase in plant capacity from 1.2Mtpa to 1.6Mtpa, completed in Q4 2009.

A total of 1.55Mt was stacked in 2010, a 36% increase on 2009, representing 97% of the stacking capacity for the year. This was matched by a strong mining performance, with a total of 12.7Mt of ore and waste moved, a 20% increase on 2009. The stripping ratio of waste to ore, at 7.1, was in line with that encountered in 2009. The average grade of ore processed fell 8% in 2010, from 1.7g/t Au to 1.6g/t Au, as lower grade areas of the project were accessed, particularly in the second half.

The total gold production in H2 2010 was significantly below that achieved in H1 2010 solely due to the geology of the ore body. H1 production, at 40,800 ounces, was significantly ahead of the forecast annual production rate of 70,000 ounces as high grade ore, averaging 1.8g/t Au, was processed. As anticipated, grades fell in the second half, averaging 1.3g/t Au, with a corresponding impact on gold production. Due to the nature of heap leach operations, with the leach cycle for processed ore lasting up to four months, the impact of the lower grade ore is not exactly matched in the production profile.

Production in Q1 2011 continues to focus on lower grade areas, as originally modelled, with an average processed grade of 1.4g/t Au. Whilst below the run rate for the 70,000 ounces annual production guidance, production in Q1 2011 is above budget. Grades are predicted to strengthen further through the remainder of 2011, increasing production rates and enabling the Company to achieve the full year production guidance provided.

Cash costs in 2010, at US\$793 per ounce, are 3% higher than achieved in 2009. This is due to the lower grades off-setting the increase in productivity. Cash costs are also impacted by the waste to ore ratio, which along with the falling grade increased the cash costs in H2 2010 to US\$942 per ounce compared to US\$672 per ounce realised in H1. The higher stripping ratio was caused in part by new areas opened up for mining in H2, with high waste to ore ratios near surface.

Costs were also impacted by inflation. Mining costs per tonne rose by 17% in 2010 compared to 2009, whilst processing costs per tonne fell by 15% due to the economies of scale realised. Fortunately, this impact is more than off-set by the increase in the gold price in 2010, with the average sale price realised at Kalsaka increasing 20% to US\$1,221 per ounce. At this average price, Kalsaka generates good cash margins despite the relatively high cash costs. The strengthening gold price has continued into Q1 2011, with an average realised gold price for the period of US\$1,396 per ounce, further enhancing operating cash flow from the mine for investment in exploration across the Group.



## Kalsaka delivered exceptional performance in 2010 by exceeding the Company's 70,000oz guidance

### Exploration

Exploration and reserve development is a primary focus at Kalsaka. As the Group strengthened its balance sheet in 2010 and project development and expansion activities were achieved, there has been a renewed focus on exploration activity.

All available exploration data was analysed in H1 2010 and the Kalsaka exploration goals were defined as:

- To increase the current life of the mine through the delineation of additional oxide resources
- To aggressively follow up the strong evidence of the potential for a larger sulphide resource beneath the known oxide resources

An exploration programme commenced in H2 initially focused on trenching, geophysics and soil sampling together with a total of 12,000 metres of reverse circulation drilling. The results from this programme have helped define an expanded 63,000 metre drilling programme for 2011.

Oxide targets include the Zoungwa prospect along strike from the existing K-zone pit as well as mineralised splays between the K-Zone and Goungre Shears. Drilling results announced in November 2010 included intercepts of 16 metres grading 1.82g/t Au and 7 metres grading 2.36g/t Au in the oxide zone at Zoungwa. Two drill rigs are currently on site and further drilling results are anticipated.

The ongoing drilling programme has also provided evidence of significant sulphide mineralisation underlying the K-Zone and the East Pit, as demonstrated by an intercept of 15 metres grading 7.44g/t Au beneath the existing K-zone pit announced in October 2010.

The Company is highly encouraged by the results to date and believes that the remainder of the drilling programme will help to demonstrate the potential of the asset. A US\$7m exploration budget has been allocated to Kalsaka for 2011.

In August 2010, the Company was also awarded four additional licences located in prospective Birimian ground in Eastern Burkina Faso, demonstrating the strength of the Company's relationship with the Burkina Faso government. These licence areas have a similar geological setting to the Samira Gold Mine in Niger, which produces on average 60,400 ounces per annum. The licences were selected from a portfolio of available areas following a technical site visit. The areas demonstrate strong exploration potential evidenced by historical stream sediment survey results and gold-in-soil anomalies. An initial exploration budget totalling US\$0.7m has been set aside in 2011 for regional work across these licences.

### Angovia Project Highlights

- > Highly prospective grounds in Birimian greenstone belt
- > Immediate focus on oxide exploration potential with four near-surface latent targets identified
- > Significant sulphide exploration potential, with historical drilling results in sulphides including 30m at 3.64g/t

### Reserves & Resources

		Tonnes (Mt)	Grade (g/t Au)	Ounces
<b>Resources at 0.5g/t Au cut off</b>				
Oxide & Transitional	Measured	3.3	1.2	128,000
	Indicated	1.3	1.5	64,000
Sulphide	Measured & Indicated	4.6	1.3	192,000
	Inferred	0.8	1.5	38,000
	Measured	3.4	1.5	169,000
	Indicated	2.2	1.7	123,000
	Measured & Indicated	5.6	1.6	292,000
	Inferred	0.5	1.5	25,000

#### Reserves at 0.5g/t Au cut off and US\$1000/oz gold price<sup>1</sup>

Oxide & Transitional	Proven	1.6	1.0	50,000
	Probable	0.5	1.9	31,000
	Proven & Probable	2.1	1.2	81,000

<sup>1</sup> With the exception of Angovia 2, which was modelled on a US\$1000/oz pit shell and represents 41% of total reserves

# Côte d'Ivoire

## Angovia

2011 Exploration Budget

**US\$3m**

Measured and Indicated Sulphide Resources

**292,000oz**  
at 1.6g/t

# Review of Operations

## Côte d'Ivoire

### Country Facts

Capital	Yamoussoukro
Official language	French
Government	Republic
Area	322,463 km <sup>2</sup> (68th)
	124,502 sq mi
Population (2011)	21,504,162 (56th)
GDP (PPP, 2010)	US\$37.8 billion (100th)
Major industries	Agriculture, wood products, oil refining

### Annual production statistics

		2010	2009	Difference	
Ore mined	(t)	903,301	880,538	22,763	3%
Waste mined	(t)	3,343,923	5,233,896	(1,889,973)	(36%)
Ore processed	(t)	811,921	738,832	73,089	10%
Average ore head grade	(g/t)	0.9	1.2	(0.3)	(23%)
Gold production	(oz)	20,222	21,632	(1,410)	(7%)
Cash costs excluding royalties	(US\$/oz)	1,212	1,113	99	9%
Average realised gold price	(US\$/oz)	1,218	1,121	97	9%

### Quarterly production statistics

		Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011 <sup>1</sup>
Ore mined	(t)	262,340	223,662	257,103	160,196	176,418
Waste mined	(t)	985,654	721,479	995,628	641,162	878,233
Ore processed	(t)	246,330	174,105	216,068	175,418	139,841
Average ore head grade	(g/t)	1.1	0.9	0.7	0.7	0.7
Gold production	(oz)	6,708	4,577	4,567	4,370	2,906

<sup>1</sup> The operation was put on care and maintenance on 7 March 2011

Located in an area of highly prospective Birimian greenstone belt terrain in Côte d'Ivoire, the Angovia mine represents an exciting exploration opportunity for the Group. The Company remains optimistic on the project's exploration potential with a long-term goal of developing a mine capable of exploiting sulphide resources.

The current oxide only heap leach operation produced 20,222 ounces in 2010, 7% below the 2009 total and significantly below the Company's expectations. The problems at Angovia included the impact of the deteriorating political environment towards the end of the year as well as operational challenges evident during H2 2010.

Total ore processed in 2010 increased by 10%, boosted by increased operating efficiencies including the acquisition of a new stacker, and an upgrade to the agglomeration drum. Ore mining volumes also improved year on year, helped by a significant reduction in the waste to ore stripping ratio following an effective catch up on waste in 2009.

The poor under-performance stemmed from the low grades processed in 2010, 23% lower than the average in 2009 and also below the average reserve grade. This is due to the nature of the Angovia ore body, where the majority of high grade ore is associated with hard quartz vein and transitional material, which cannot be processed without crushing. A crusher was brought on site in August 2010 to allow the processing of this material, but its commissioning was delayed by an unusually heavy and prolonged wet season followed by supply disruptions brought on by the political unrest.

While higher grade ore from Blangan, a lateritic deposit in the project area, boosted grades in H1 2010, average grades in H2 declined to 0.7g/t Au due to the expected higher grade material not being processed in significant volumes.

As a result of the low grades, operating cash costs for the year increased by 9% to US\$1,212 per ounce (excluding royalties). The average gold price achieved also increased 9% to US\$1,218 per ounce, with the result that the mine operated at an almost break even basis over the year (after royalties).

Production in Q1 2011 again fell short of expectations primarily due to the political disruptions. The harder, high grade material continued to be unavailable due to a lack of explosives for drill and blast activities. Disruptions to other consumables reduced stacking rates and the operation was eventually put on care and maintenance in

March 2011 due to the impediments to operating in the country, including the closure of the banking system

Once operations can resume at site, the initial focus will be to resume processing activities to recover gold from material in the existing stockpiles and leach pad. Exploration activities will resume with a view to delineating additional resources in latent targets similar to the Blangan deposit – a high grade and low strip ratio deposit that contained approximately 24,000 ounces at 1.7g/t Au that was defined in Q3 2009 and mined between Q4 2009 and Q1 2010. Full mining operations will resume only once the Directors are confident that these can be conducted safely and profitably.

#### Exploration

The long term future of the Angovia mine rests with the significant exploration potential in the project area. In the near term, the Company is focused on defining additional oxide targets, with a 31,000 metre reverse circulation and rotary air blast drilling programme planned once a drill rig is available. Drilling will initially be focused on four latent targets similar to Blangan where surface geochemical anomalies have been identified.

More importantly, the Company believes that the project's true potential lies in its considerable sulphide mineralisation, as demonstrated by drill results of up to 30 metre at 3.64g/t Au below the current pit. To date, 292,000 ounces of sulphide resources (at 1.6g/t Au) have been delineated in the measured and indicated categories (169,000 ounces at 1.5g/t Au in measured and 123,000 ounces at 1.7g/t Au in indicated resources). Due to the relatively shallow depth of weathering at Angovia, together with the close availability of hydro-electric power, the Company considers that a conventional CIL processing plant could be developed at Angovia to fully exploit the resource base with a lower resource hurdle than at other locations.

Further drilling will also target Kongonza, where 75,100 ounces have been delineated in the measured and indicated categories to date (with 48,622 ounces at 1.25g/t Au in measured, and 26,478 ounces at 1.74g/t Au in indicated categories) with a further 12,792 ounces in the inferred category (at 1.47g/t Au) (included in the resource tables set out). A further 3,500 metres of RC drilling has been planned for this area to target continuity along strike and to test a sub-parallel corridor suggested by a recent structural interpretation.

### Mamoudouya Project Highlights

- > Mali Birniman Kenieba inlier belt with similar geological structural setting to Randgold's Loulo mine
- > Initial three year exploration licence awarded in January 2011
- > Initial US\$1.5m exploration budget for 2011
- > 650m trenching completed in March and April 2011

### Historical Trenching Results at 24m

**2.35g/t**

**Mali**  
Mamoudouya

### Historical Trenching Results at 12m

**2.13g/t**

### Grab Sample Grade

**8.1g/t**

# Review of Operations

## Mali

### Country Facts

Capital	Bamako
Official language	French
Government	Republic
Area	1,240,192 km <sup>2</sup> (24th) 478,767 sq mi
Population (2011)	14,159,904 (67th)
GDP (PPP, 2010)	US\$16.74 billion (134th)
Major industries	Agriculture & food processing, construction, phosphate and gold mining
2011E Gold Output	60 metric tons

Mamoudouya is a new exploration licence awarded in January 2011. Located 300km west of Bamako, the capital city of Mali, the licence covers 109 sq km of highly prospective Mali Birimian Kenieba inlier belt, which hosts several world class gold deposits including Randgold's Loulo Mine and Gounkoto Project and AngloGold Ashanti's Sadiola Mine. The licence has a term of three years, renewable twice for consecutive periods of three years each.

Historical trenching across the 3.6km-long Mamoudouya Shear Zone, with a 200+ppb gold-in-soils anomaly, has returned results including 24 metres grading 2.35g/t Au and 12 metres at 2.13g/t Au. The interpretation of historical airborne geophysics suggests that Mamoudouya is characterised by crosscutting north-northeast oriented structures derived from the major Senegalo-Malian Shear; this is a similar structural setting to that observed at the Loulo and Tabakoto gold mines. A grab sample taken on the shear zone has returned results of 8.1g/t Au.

Since the award of the licence, Cluff Gold has completed an initial 650 metres of trenching. Assay results have been received for 205m of trenching which include the following intersects above 0.5g/t Au:

- 40 metres grading 0.7g/t Au including 13 metres at 1.5g/t Au
- 15 metres grading 0.8g/t Au, including 3 metres at 3.6g/t Au

Cluff Gold has allocated an initial budget of US\$1.5 million for exploration work at Mamoudouya during 2011, with ground geophysics and a trenching programme of 2,000 metres planned to define initial drill targets.

# Financial Report

## Improved operational cash flow

The most important financial metric for the Company is the cash generated from operations. This funds the investment required to fulfil our strategy: complete the Baomahun feasibility study, expand the resource base at Baomahun by exploring along strike, extend the life of Kalsaka mine through exploration, and explore at our other operations in Burkina Faso, Côte d'Ivoire and Mali.

The 2010 results demonstrate a significant improvement in cash generation, with the balance sheet position increasing from a net debt of US\$3.6m to net cash of US\$20.9m over the course of the year. This turnaround in cash generation was driven by both improved operating efficiencies and the strengthening gold price.

In 2009, our operations utilised US\$8.8 million of cash, which together with US\$5.2 million of capital expenditure more than fully expended the US\$13 million raised from equity shareholders. Not only was this unsustainable, the nature of the cash flows was such that capital expenditure, on both exploration and mine development, was constrained.

In 2010 our operations have generated US\$23.4 million of cash inflow, representing a US\$32.2 million increase compared to 2009. This has more than funded US\$12.5 million of capital expenditure and a US\$6 million repayment of debt – the last of which will also save a further US\$1.5 million of finance charges that were paid in 2010.

Accordingly, the US\$12.5 million raised in 2010, at a premium to market, has allowed us to significantly increase our exploration programmes across the Group without jeopardising the funding required for the Baomahun feasibility study. Accordingly, a US\$20 million budget has been allocated to exploration in 2011 over and above the US\$12 million required for the Baomahun feasibility study.

Importantly, our US\$20.9 million cash buffer at 31 December 2010 allows us to plan our exploration programmes on a longer term basis. As exploration results are the cornerstone for the future growth of the business, this change in our operating cash flow is extremely welcome.

## Strong operational performance

Internal management reports focus on EBITDA, as set out in note 1 to the financial statements. This is an approximate measure of the cash generated from each business unit before changes in working capital, and is set out for both the current and prior years on a consistent basis excluding the impact of the commissioning phase of operations in 2009.

On this basis, the financial performance for the year is strong. Segmental turnover has increased by 49%, driven by a 25% increase in production and a near 20% increase in the average realised price of gold sold. At US\$1,220 per ounce, the latter has shown significant improvement in Q1 2011, with a further 14% increase to US\$1,395 per ounce.

EBITDA has increased by over 400%, or US\$22.6 million in 2010 due to the increase in turnover far outstripping the increase in costs. Overall, cash costs per ounce increased by 2% in 2010 compared to 2009. Average cash costs will be reduced in 2011 due to the temporary suspension of production at Angovia, and further efforts are being made to contain cash costs at Kalsaka. A fuller discussion of cash costs at each site is set out within the operational analysis presented previously.

The financial performance at Kalsaka has been particularly pleasing, with a 68% increase in turnover and 170% increase in EBITDA to US\$29.1 million for the operation in 2010. This supports our assertion that the current Kalsaka mine is fulfilling its remit for the Group's overall strategy – to fund our exploration programmes to deliver growth across all assets.

The statutory income statement continues to show an overall loss for 2010 of US\$0.05 per share. This can be expected as the Group is dominated by Baomahun, a pre-production asset. Although direct costs associated with Baomahun are presently capitalised, support costs, including the strengthening of the Group's management team in preparation for the development of Baomahun, are included in the income statement. Relatively short reserve lives also result in high levels of (non-cash) depreciation and amortisation, which further erodes reported earnings. As previously discussed, these are being aggressively addressed through exploration efforts.

## Building a strong asset base

By far the most important assets of the Group are its reserves and resources. These are not reflected on a financial balance sheet except as capitalised exploration and acquisition expenditures, and rightly so, as their true market valuation is exceptionally judgemental. The costs associated with the definition of our resources at Baomahun are included within intangible assets – at 31 December 2010 the cash costs capitalised averaged US\$9.20 for each resource ounce defined across all categories.

One of the key metrics for comparing the valuation of resource companies often set out by analysts is enterprise value per resource ounce. As the majority of the Company's resources are at Baomahun, we look forward to the completion of the feasibility study in 2011, which we believe will assist the market in understanding the true value of these resources.

Capital expenditure in 2010 increased by 14% to US\$12.5 million, although changes in the type of expenditure reflect a more important factor. In 2009, 52% related to investments at Kalsaka, including the mobilisation of a new mining fleet and upgrades to the plant required to put the operation on a surer footing. This type of expenditure dropped to US\$2.6 million in 2010, primarily focused on additional leach pad space for mine life extension. At Baomahun, capital expenditure increased by 84% to US\$6.2 million in 2010, 50% of the total capital expenditure in the year, reflecting increased activity at site as the project moves towards feasibility.

In respect of working capital, delays in the repayment of VAT in Burkina Faso and Côte d'Ivoire were highlighted as problems in 2009. In Burkina Faso repayments have now commenced, with the total recoverable amount at 31 December 2010 reducing slightly compared to the prior year. Although repayments have not been received from Côte d'Ivoire, with the asset continuing to be treated as recoverable in more than one year, payments of VAT have now ceased under an updated mining convention, so the problem has been capped.

Finally, it is pleasing to note that the Company is debt free at 31 December 2010, with the US\$6 million working capital facility from RMB Australia Holdings Limited fully repaid in 2010. Whilst there will be a significant financing requirement for the Baomahun mine development, the options open to the Company for this remain varied. With a strengthening balance sheet in 2011, together with our desire to increase resources across the Group, we aim to deliver this financing with the minimum dilution to existing shareholders.



## Corporate Social Responsibility

Cluff Gold is committed to working in participation 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 legacy is left beyond the lives of our mining operations.

### Sierra Leone

In Sierra Leone, Cluff Gold has appointed AMEC Earth and Environmental (UK) together with CEMMATS (Sierra Leone) to undertake the development of a framework for Environmental and Social Management Plans (ESMP) as part of the work towards the feasibility study for Baomahun. 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 aim to produce a strategy as well as projects that are sustainable, relevant and locally appropriate.

This community development plan will build on a number of initiatives Cluff Gold is supporting in neighbouring communities as well as contributions made at the Chiefdom, Regional and National levels.

Education is a major community focus for Cluff Gold in 2011. This focus on the future generations of the local communities is consistent with the Company's corporate social responsibility mandate to ensure that youths are prepared for employment later in life. Scholarships were awarded to 125 children of both genders from poor families in the local area to encourage school attendance and ensure access to basic educational supplies. Contributions were also made to local school facility upgrades, including the Koyema Secondary School where Cluff Gold contributed towards the building and furnishing of a school library. Food and toys were also provided to over 1,500 school children in the Bo District.

Wednesday 27th April marked the 50th anniversary of the independence of Sierra Leone, which was celebrated across the country. Cluff Gold worked with the young people in central Freetown to clean up our local area in preparation for these celebrations. As a longer term project, the Company also made a commitment of US\$250,000 for post-graduate scholarships to train the next generation of Sierra Leonean geologists and mining engineers to work in the country's expanding mining industry. Employment opportunities are one of the key benefits to a country from industrial development, and having suitably trained local people capable of taking up employment is a critical issue.

Closer to the Baomahun project area, support has also been provided to the Baomahun Youth Movement who are constructing a Community Centre in the local Baomahun Village. A major upgrade to the 17km road linking Mogene and Baomahun village is now underway, while access roads to some of the other nearby communities have also been improved.

### Burkina Faso

Education was also a main focus in Burkina Faso in 2010, accounting for 50% of the annual community budget. A total of five classrooms with a director's office, teacher accommodations units and additional facilities are being constructed and furnished in Tapré-Ina, Kalsaka C and Ouvouassé Villages. Additional land was also acquired and developed for physical and sport educational use at Kalsaka Secondary School.

In continuation of its support for women's communities in local villages, Cluff Gold has continued investing in literacy campaigns through the opening of two literacy centres, training 70 women in reading and writing in local languages. Cluff Gold has also invested in the development of small soap manufacturing businesses, providing training and allocating initial seed funding to 28 women.

In strengthening our partnership with local and regional communities, Cluff Gold has also contributed to cultural and traditional activities, and to the provision of equipment and office supplies and media equipment to the local City Halls, Prefecture, the police, the northern governorate and the High Commissioner of Yatenga, and the ongoing provision of medical care to the communities including ambulance and physician care.

Our focus in 2011 involves the continued construction of classrooms and teachers' accommodation units at Ina, Kalsaka C and Ouvouassé Villages. We will also continue to support literacy campaigns and training needs for the local soap manufacturing business, together with HIV/AIDS immunization and drug addiction support programmes.

### Côte d'Ivoire

The Company's social commitments in Côte d'Ivoire have been put on hold, along with the Angovia mine, due to the political situation. During 2010, progress continued to be made on the construction of teacher's accommodation units, classrooms, canteens and toilets for schools in the local area. This underlines the Company's focus, throughout its areas of operation, on education.

### Safety

The Company is committed to the highest standards of safety at each of its operations. In 2010 the Company implemented a comprehensive safety system, in accordance with ISO 18001, at both the Kalsaka and Angovia 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.

## Board of Directors

**Algy Cluff****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.

**Peter Spivey****Chief Executive Officer**

Peter Spivey 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 Spivey 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.

## Non-Executive Directors

**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.

G.N.

CLUFF GOLD PLC  
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## Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2010.

### Principal activities and future developments

Cluff Gold is a gold production and development Company with assets in West Africa. The Company generates cash flow from its producing asset, Kalsaka in Burkina Faso, which produces 70,000 ounces of gold per annum. The Company's Angovia mine in Côte d'Ivoire is presently on care and maintenance.

The Company's medium term objective is to significantly increase production through the development of its wholly-owned Baomahun project in Sierra Leone, which is expected to contribute an additional 157,000 ounces of gold per annum, with significant exploration potential along strike.

With its vast experience of bringing new mines into production across many African countries, and a pipeline of exploration licences in Burkina Faso and Mali, the Company aims to further increase its production profile. The Company expects to be able to capitalise on its African experience, its highly prospective exploration work, and opportunities for synergistic acquisitions to aggressively grow the value of its portfolio of properties.

Future developments are discussed in the Business Review section.

### Business Review

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 Angovia and Kalsaka mines, the development plans at Baomahun 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.

### 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 2010, together with options granted during the year, are set out in note 19 to the financial statements. During 2010, 8,803,736 new ordinary shares were issued at an average price of 110p per share, raising US\$15.6 million before expenses.

### Directors

The Directors of the Company who held office during the year and their interests in the issued share capital of the Company are as follows:

Name	Number of shares 31 December 2010	Number of shares 31 December 2009
JG Cluff <sup>1</sup>	1,870,000	1,870,000
P Gardner	10,000	-
N Berry	426,585	1,014,705
P Spivey	-	-
D Chikohora (resigned 24 March 2011)	539,545	538,409
P Cowley	26,620	22,075
R Danchin	51,585	47,040
G Stanley	14,901	10,356
T Wadeson	76,585	72,040
R Winston	12,434,855	12,393,947

### Notes

<sup>1</sup> 25,000 shares are registered in the name of each of Mr Cluff's three children.

In compliance with the Company's articles of association, Mr P Spivey and Mr P Gardner, who were appointed during the year, will retire and Mr T Wadeson, Dr R Danchin and Mr P Cowley will retire by rotation at the Company's annual general meeting to be held on 27 June 2011 and, being eligible, all will offer themselves for re-election.

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

At the end of the period, the following directors held options to subscribe for ordinary shares in the Company:

## Directors' Report

continued

Name	Number of share options 31 December 2010	Number of share options 31 December 2009	Exercise price	Exercise period
J G Cluff	250,000	250,000	55 00p	30 November 2006 - 29 November 2014
	300,000	300,000	74 00p	27 April 2009 - 26 April 2016
	300,000	300,000	83 00p	05 June 2011 - 04 June 2018
	1,000,000	-	71 75p	05 July 2013 - 04 July 2020
P Gardner	150,000	150,000	69 00p	01 October 2012 - 30 September 2019
	350,000	-	71 75p	05 July 2013 - 04 July 2020
P Spivey	300,000	300,000	63 50p	01 January 2013 - 31 December 2020
	200,000	-	71 75p	05 July 2013 - 04 July 2020
D Chikohora (resigned 24 March 2011)	-	200,000	55 00p	30 November 2006 - 29 November 2014
	150,000	150,000	74 00p	27 April 2009 - 26 April 2016
	150,000	150,000	83 00p	05 June 2011 - 04 June 2018
	200,000	-	71 75p	05 July 2013 - 04 July 2020
N Berry	100,000	100,000	55 00p	30 November 2006 - 29 November 2014
	75,000	75,000	83 00p	05 June 2011 - 04 June 2018
	75,000	75,000	74 00p	27 April 2009 - 26 April 2016
R Danchin	75,000	75,000	74 00p	27 April 2009 - 26 April 2016
	100,000	100,000	55 00p	30 November 2006 - 29 November 2014
	75,000	75,000	83 00p	05 June 2011 - 04 June 2018
T Wadeson	75,000	75,000	74 00p	27 April 2009 - 26 April 2016
	75,000	75,000	83 00p	05 June 2011 - 04 June 2018
	100,000	100,000	55 00p	30 November 2006 - 29 November 2014
P Cowley	100,000	100,000	83 00p	05 June 2011 - 04 June 2018
R Winston	100,000	100,000	28 50p	03 October 2011 - 02 October 2018
G Stanley	100,000	100,000	28 50p	03 October 2011 - 02 October 2018

## Directors' Report

### continued

#### Key performance indicators

The Group's key performance indicators are set out in the Business Review

#### Results and dividends

The Group made a consolidated net loss after taxation for the year of US\$4.4 million (2009: US\$34.3 million loss). The Directors do not recommend the payment of a dividend (2009: nil).

#### Substantial shareholdings

As at 30 April 2011, the Company was aware of the following holdings of 3 per cent or more in the Company's issued share capital:

Name	Number of shares in Cluff Gold plc	Approximate percentage of the Company's issued share capital <sup>1</sup>
Ingalls & Snyder	16,634,000	12.62
Libra Advisors	14,604,729	11.08
JPMorgan Asset Management	13,077,768	9.92
Mr Ronald H Winston	12,434,855	9.43
Macquarie Bank	8,047,210	6.10
Sprott Asset Management	6,830,400	5.18
Lloyds TSB Private Banking	4,109,091	3.12

#### Notes

<sup>1</sup> Based on 131,842,026 shares issued and outstanding as at 30 April 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 2010 was 20 days (2009: 35 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.

#### Post-balance sheet events

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

#### 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 is also currently in the process of drafting guidance with regard to implementing the various procedures across the Group pursuant to the UK Bribery Act.

#### Board of Directors

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 nine Directors, three of whom are executive and hold the key operational positions. The six remaining non-executives bring a breadth of experience and knowledge.

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 is Mr J.G. Cluff. Mr P. Spivey's appointment as Chief Executive of the Company took effect from 1 January 2011, after being initially appointed to the Board in June 2010.

The Board has established appropriately constituted Audit, Remuneration, Nominations, Safety, Health and Environment and Resource Committees with formally delegated responsibilities except in relation to the Resource Committee.

#### 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 external auditors and other related functions as the Board may require. The external auditors have direct access to the members of the Audit Committee, without the presence of the executive Directors, for independent discussions.

## Directors' Report

### continued

#### Remuneration Committee

The Remuneration Committee is chaired by Mr N Berry, Dr R Danchin being the other member. 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 J G Cluff, the other members being Mr N Berry, Mr T Wadeson and Dr R Danchin.

#### Safety, Health and Environment Committee

The Safety, Health and Environment Committee, which is responsible for ensuring that the Board responsibly covers these areas, is chaired by Mr T Wadeson with Mr P Cowley being the other member.

#### Resource Committee

The Resource Committee, which is responsible for ensuring that all resource and reserve estimates the Company publishes have been prepared to an appropriate standard, is chaired by Mr P Cowley, Mr T Wadeson and Dr R Danchin being the other members.

The Company takes all reasonable steps to ensure that the Directors and relevant employees comply with the provisions of the AIM rules and the TSX rules relating to dealings in its securities.

#### 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 23.

#### 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 on page 47.

##### 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.

## Directors' Report

### continued

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 Angovia, Kalsaka and Baomahun properties.

#### Annual General Meeting ("AGM")

The notice convening the Company's AGM, to be held on 27 June 2011, 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.

#### Provision of information to auditors

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 auditors are 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 auditors are aware of that information.

#### Auditors

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

By order of the Board



J. G. Cluff  
Chairman  
16 May 2011





## Statement of Directors' Responsibilities

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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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.

## References

Andrew Asante, (M Sc , AusIMM), Resource Manager for West Africa and a "qualified person" as such term is defined in National Instrument 43-101, has reviewed the technical contents of this annual report. Mr Asante has verified the exploration data disclosed in this annual report, including sampling, analytical and test data underlying the information contained herein.

This annual 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 annual report, including, without limitation, the positioning of the Company for future success, statements regarding the exploration, drilling results and potential future production at Angovia, Kalsaka and Baomahun, the implementation and potential benefits of intermediate flotation stage and hydro-electric power, 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.

### Baomahun

- 1 As per the Company's *Increased Mineral Resource Estimate at its Baomahun Gold Project*, Sierra Leone press release announced on 4 June 2010
- 2 A complete list of the infill drill results to date can be found in the Company's *Baomahun Gold Project Feasibility Study Update* press release announced on 3 May 2011
- 3 As per the Company's *Final VTEM Results for Baomahun Gold Project* press release announced on 1 December 2010

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.

### Kalsaka

- 4 As per the Company's *Kalsaka Exploration Drilling Update* press release announced on 30 November 2010
- 5 As per the Company's *US\$15M Private Placement with Macquarie Bank* press release announced on 28 October 2010
- 6 As per Semafo Inc's *Annual Information Form 2010* as filed on SEDAR

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.

### Angovia

Detailed geology, descriptions of Kongonza and other exploration prospects at Angovia, 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.

## Financial Statements

# 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 2010 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 Statement of directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 2010 and of the Group's loss 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 auditors

London, UK  
16 May 2011

## Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	Notes	2010 US\$000	2009 US\$000
<b>Continuing operations</b>			
Revenue		115,804	39,659
Cost of sales		(94,176)	(35,085)
<b>Gross profit</b>		<b>21,628</b>	<b>4,574</b>
General and administrative expenses		(7,684)	(7,533)
Other operating costs		(12,963)	(8,893)
Exploration expenses		(519)	(656)
Impairment of mining properties		-	(21,914)
(Loss)/profit on disposal of property, plant and equipment		(12)	7
<b>Operating profit/(loss)</b>	2	<b>450</b>	<b>(34,415)</b>
Investment income	4	349	727
Finance costs	5	(1,775)	(1,807)
<b>Loss before taxation</b>		<b>(976)</b>	<b>(35,495)</b>
Income tax	6	(3,462)	1,228
<b>Loss for the year</b>		<b>(4,438)</b>	<b>(34,267)</b>
<b>Attributable to:</b>			
Equity shareholders of the parent company		(6,072)	(34,267)
Non-controlling interests	14	1,634	-
<b>Loss for the year</b>		<b>(4,438)</b>	<b>(34,267)</b>
<b>Other comprehensive income</b>			
Exchange differences on translating foreign operations		(1,309)	1,974
<b>Other comprehensive income for the year, net of taxation</b>		<b>(1,309)</b>	<b>1,974</b>
<b>Total comprehensive income for the year</b>		<b>(5,747)</b>	<b>(32,293)</b>
<b>Attributable to:</b>			
Equity shareholders of the parent company		(7,759)	(32,293)
Non-controlling interests		2,012	-
		<b>(5,747)</b>	<b>(32,293)</b>
<b>Loss per share</b>			
Basic and diluted (cents per share)	7	(4.92)	(30.25)

## Consolidated Statement of Financial Position

as at 31 December 2010

	Notes	2010 US\$'000	2009 US\$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	48,351	44,695
Property, plant and equipment	9	27,885	39,485
Other receivables	11	2,324	2,043
Deferred tax asset	6	693	1,228
<b>Total non-current assets</b>		<b>79,253</b>	<b>87,451</b>
<b>Current assets</b>			
Other receivables	11	9,074	8,357
Inventories	12	12,767	15,790
Cash and cash equivalents		20,907	2,273
<b>Total current assets</b>		<b>42,748</b>	<b>26,420</b>
<b>Total assets</b>		<b>122,001</b>	<b>113,871</b>
<b>Capital and reserves</b>			
Share capital	13	2,365	2,224
Share premium	13	117,410	101,993
Merger reserve	13	15,107	15,107
Share option reserve	13	2,556	3,952
Currency translation reserve	13	987	2,674
Accumulated losses		(43,431)	(39,643)
<b>Total equity attributable to the parent</b>		<b>94,994</b>	<b>86,307</b>
Non-controlling interests		2,012	-
<b>Total equity</b>		<b>97,006</b>	<b>86,307</b>
<b>Non-current liabilities</b>			
Provisions	15	6,059	4,578
<b>Total non-current liabilities</b>		<b>6,059</b>	<b>4,578</b>
<b>Current liabilities</b>			
Trade and other payables	16	15,920	17,117
Corporation tax		3,016	-
Borrowings	16	-	5,869
<b>Total current liabilities</b>		<b>18,936</b>	<b>22,986</b>
<b>Total liabilities</b>		<b>24,995</b>	<b>27,564</b>
<b>Total equity and liabilities</b>		<b>122,001</b>	<b>113,871</b>

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2011 and were signed on its behalf by

JG Cluff  
Director

Company number 4822520

## Company Statement of Financial Position

as at 31 December 2010

	Notes	2010 US\$000	Restated 2009 US\$000
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	-	4
Property, plant and equipment	9	94	118
Investments in subsidiaries	10	10,323	10,767
Other receivables	11	31,822	42,248
<b>Total non-current assets</b>		<b>42,239</b>	<b>53,137</b>
<b>Current assets</b>			
Other receivables	11	13,731	17,137
Cash and cash equivalents		14,036	1,365
<b>Total current assets</b>		<b>27,767</b>	<b>18,502</b>
<b>Total assets</b>		<b>70,006</b>	<b>71,639</b>
<b>Capital and reserves</b>			
Share capital	13	2,365	2,224
Share premium	13	117,410	101,993
Merger reserve	13	12,607	12,607
Share option reserve	13	2,556	3,952
Currency translation reserve	13	(16,591)	(13,331)
Accumulated losses		(49,270)	(42,460)
<b>Total equity</b>		<b>69,077</b>	<b>64,985</b>
<b>Current liabilities</b>			
Trade and other payables	16	929	785
Borrowings	16	-	5,869
<b>Total current liabilities</b>		<b>929</b>	<b>6,654</b>
<b>Total equity and liabilities</b>		<b>70,006</b>	<b>71,639</b>

The financial statements were approved and authorised for issue by the Board of Directors on 16 May 2011 and were signed on its behalf by

  
**JG Cluff**  
 Director

Company number 4822520

## Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Attributable to equity shareholders of the parent							Non-controlling interests	Total equity
	Share capital US\$000	Share premium US\$000	Merger reserve US\$000	Share option reserve US\$000	Currency translation reserve US\$000	Accumulated losses US\$000	Sub-total US\$000	US\$000	US\$000
<b>Balance at 1 January 2009</b>	1,841	89,407	15,107	3,152	700	(5,376)	104,831	-	104,831
Loss for the year	-	-	-	-	-	(34,267)	(34,267)	-	(34,267)
Exchange differences on translating foreign operations	-	-	-	-	1,974	-	1,974	-	1,974
<b>Total comprehensive income for the year</b>	-	-	-	-	1,974	(34,267)	(32,293)	-	(32,293)
Issue of ordinary share capital	383	13,548	-	-	-	-	13,931	-	13,931
Share issue costs	-	(962)	-	-	-	-	(962)	-	(962)
Share option charge	-	-	-	800	-	-	800	-	800
<b>Balance at 31 December 2009</b>	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)
<b>Total comprehensive income for the year</b>	-	-	-	-	(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	-	-	-	(2,284)	-	2,284	-	-	-
<b>Balance at 31 December 2010</b>	2,365	117,410	15,107	2,556	987	(43,431)	94,994	2,012	97,006



## Company Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital US\$000	Share premium US\$000	Merger reserve US\$000	Share option reserve US\$000	Currency translation reserve US\$000	Accumulated losses US\$000	Total equity US\$000
<b>Balance at 1 January 2009</b>	1,841	89,407	12,607	3,152	(22,439)	(14,178)	70,390
Loss for the year	-	-	-	-	-	(28,282)	(28,282)
Exchange differences on translation	-	-	-	-	9,108	-	9,108
<b>Total comprehensive income for the year</b>	-	-	-	-	9,108	(28,282)	(19,174)
Issue of ordinary share capital	383	13,548	-	-	-	-	13,931
Share issue costs	-	(962)	-	-	-	-	(962)
Share option charge	-	-	-	800	-	-	800
<b>Balance at 31 December 2009</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	-	-	-	(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

## Consolidated Statement of Cash Flows

for the year ended 31 December 2010

	2010 US\$000	2009 US\$000
<b>Cash flows from/(used in) operating activities</b>		
Operating profit/(loss) for the year	450	(34,415)
Depreciation	19,858	7,385
Impairment of mineral properties	-	21,914
(Decrease)/increase in trade and other payables	(856)	3,545
Increase in other receivables	(1,698)	(7,132)
Decrease/(increase) in inventories	2,994	(3,108)
Increase in provisions	1,481	248
Share option charge	888	742
Exploration costs written off	7	621
Loss/(profit) on disposal of property, plant & equipment	5	(7)
Exchange loss	315	1,391
<b>Net cash flows from/(used) in operating activities</b>	<b>23,444</b>	<b>(8,816)</b>
<b>Cash flows used in investing activities</b>		
Interest receivable	46	23
Interest payable	(1,775)	(1,035)
Purchase of property, plant and equipment	(6,317)	(2,290)
Purchase of intangible assets	(5,718)	(2,920)
Proceeds from sale of property, plant and equipment	-	15
<b>Net cash flows used in investing activities</b>	<b>(13,764)</b>	<b>(6,207)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	15,564	13,931
Issue costs paid	(6)	(962)
Repayment of borrowings	(6,000)	-
<b>Net cash flows from financing activities</b>	<b>9,558</b>	<b>12,969</b>
<b>Net increase/(decrease) in cash flow equivalents</b>	<b>19,238</b>	<b>(2,054)</b>
Cash and cash equivalents at start of period	2,273	4,416
Exchange losses on cash and cash equivalents	(604)	(89)
<b>Cash and cash equivalents at end of year</b>	<b>20,907</b>	<b>2,273</b>
<b>Cash and cash equivalents comprise</b>		
Cash at bank	20,907	2,273

## Company Statement of Cash Flows

for the year ended 31 December 2010

	2010 US\$000	2009 US\$000
<b>Cash flows used in operating activities</b>		
Operating loss for the year	(8,615)	(29,501)
Depreciation	42	18
Increase in trade and other payables	144	177
(Increase)/decrease in trade and other receivables	(97)	146
Share option charge	888	742
Exploration costs written off	7	26
Gain on assignment of inter-company debt	(6,716)	-
Impairment of amounts due from subsidiaries	9,811	24,568
Exchange gain	(25)	(10)
<b>Net cash flows used in operating activities</b>	<b>(4,561)</b>	<b>(3,834)</b>
<b>Cash flows from/(used in) investing activities</b>		
Interest receivable	42	22
Interest paid	(1,661)	(888)
Purchase of property, plant and equipment	(23)	(7)
Purchase of intangible assets	(3)	(27)
Amounts remitted from subsidiary undertakings	19,605	3,700
Amounts remitted to subsidiary undertakings	(10,178)	(13,354)
<b>Net cash flows from/(used in) investing activities</b>	<b>7,782</b>	<b>(10,554)</b>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of share capital	15,564	13,931
Issue costs paid	(6)	(962)
Repayment of borrowings	(6,000)	-
<b>Net cash flows from financing activities</b>	<b>9,558</b>	<b>12,969</b>
<b>Net increase/(decrease) in cash flow equivalents</b>	<b>12,779</b>	<b>(1,419)</b>
Cash and cash equivalents at start of period	1,365	2,027
Exchange (loss)/gains on cash and cash equivalents	(108)	757
<b>Cash and cash equivalents at end of year</b>	<b>14,036</b>	<b>1,365</b>
<b>Cash and cash equivalents comprise</b>		
Cash at bank	14,036	1,365

## Summary of Significant Accounting Policies for the year ended 31 December 2010

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. The functional currency of the parent Company is Sterling. Operations denominated in other currencies are included in this financial information in accordance with the policies set out below. 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 loss of US\$9,094,000 (2009: US\$28,282,000).

### 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 2010

No material changes to accounting policies arose as a result of new standards applied by the Group from 1 January 2010, except for the following, which has resulted in recognition of non-controlling interests:

- IAS 27 (Amendment) 'Consolidated and separate financial statements', which introduces new guidance on accounting for changes in non-controlling interests (previously 'minority interests'). This will result in total comprehensive income being attributed to non-controlling interests even in the event that this results in the non-controlling interests having a deficit balance.

## Summary of Significant Accounting Policies

### for the year ended 31 December 2010

#### 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.

#### 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 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 2010

#### 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 minority 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.

##### 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 2010

#### 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 2010

### 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 income 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 2010

#### Critical accounting estimates and judgements

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

By their nature, these judgements 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.

#### 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 2010

#### 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 US\$000	Angovia US\$000	Baomahun US\$000	All other segments US\$000	Total 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	49,008	25,636	44,552	14,394	133,590
Capital expenditure	2,642	3,608	6,179	27	12,456
<b>Year ended 31 December 2009</b>					
External revenue – sale of gold	54,107	22,823	-	-	76,930
Direct costs of production	(38,155)	(21,006)	-	-	(59,161)
Other operating and administrative costs	(5,162)	(3,752)	-	(4,594)	(13,508)
<b>Segmental result - EBITDA</b>	<b>10,790</b>	<b>(1,935)</b>	<b>-</b>	<b>(4,594)</b>	<b>4,261</b>
Total assets	56,956	27,066	38,732	2,031	124,785
Capital expenditure	5,700	1,844	3,353	34	10,931

In 2010 the Group had one customer (2009 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:

	2010 US\$000	2009 US\$000
Revenue for reportable segments	114,851	76,930
Revenue capitalised during commissioning phase of mining operations	-	(34,650)
Change in accrued revenue for gold bullion stock at year-end	953	(2,621)
<b>Revenue for statutory accounts</b>	<b>115,804</b>	<b>39,659</b>

## Notes to the Consolidated Financial Statements

### for the year ended 31 December 2010

A reconciliation of EBITDA to loss before taxation is as follows

	2010 US\$000	2009 US\$000
EBITDA for reportable segments	22,626	4,261
Depreciation and amortisation	(19,858)	(7,385)
Impairment of non-current assets	-	(21,914)
Share based payments	(888)	(742)
Net interest payable	(1,729)	(1,080)
(Loss)/profit on disposal of fixed assets	(12)	7
EBITDA capitalised during commissioning phase of mining operations	-	(5,583)
Change in accrued revenue for gold bullion stock at year-end	436	(1,047)
Exploration costs written-off	(520)	(621)
Exchange rate variance	303	(1,391)
VAT provided in year	(1,334)	-
<b>Loss before taxation</b>	<b>(976)</b>	<b>(35,495)</b>

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

	2010 US\$000	2009 US\$000
Total assets for reportable segments	133,590	124,785
EBITDA capitalised during commissioning phase of mining operations	5,962	5,962
Differences in depreciation and amortisation	4,799	6,085
Impairment of non-current assets	(21,914)	(21,914)
Accrued revenue for gold bullion stock at year-end	(436)	(1,047)
<b>Total assets</b>	<b>122,001</b>	<b>113,871</b>

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

	2010 US\$000	2009 US\$000
Capital expenditure for reportable segments	12,456	10,931
EBITDA capitalised during commissioning phase of mining operations	-	(5,583)
<b>Capital expenditure</b>	<b>12,456</b>	<b>5,348</b>

#### Geographic Information

	Burkina Faso US\$000	Côte d'Ivoire US\$000	Sierra Leone US\$000	UK US\$000	Other US\$000	Total US\$000
<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
<b>Year ended 31 December 2009</b>						
Revenue	28,728	10,931	-	-	-	39,659
Non-current assets	33,640	15,048	38,599	122	42	87,451

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 2 Operating profit/(loss)

The operating profit/(loss) is stated after charging/(crediting)

	2010 US\$000	2009 US\$000
Depreciation of property, plant and equipment	17,926	6,351
Amortisation of intangible assets	1,932	1,034
Impairment of property, plant and equipment	-	20,766
Impairment of intangible assets	-	1,148
Operating lease rentals land and buildings	218	249
Share option charges	888	742
Exploration costs written off	520	621
Exchange differences	(303)	1,391

In addition, US\$61,000 (2009 US\$68,000) of depreciation relating to subsidiaries has been capitalised within deferred exploration and evaluation costs and US\$1,122,000 (2009 US\$1,151,000) 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

### Auditors' Remuneration

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

	2010 US\$000	2009 US\$000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	167	134
Fees payable to the Company's auditors 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)	158	156
- Other services supplied pursuant to such legislation	76	45
- Other services relating to taxation	49	44
- All other services	1	-
	451	379

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

### 3 Directors' remuneration and staff costs

Directors' remuneration, including non-executive Directors, during the year was as follows

	Aggregate emoluments US\$000	Share based payment US\$000	Compensation for loss of office US\$000	2010 US\$000	Aggregate emoluments US\$000	Share based payment US\$000	2009 US\$000
JG Cluff	734	169	-	903	512	123	635
P Spivey (appointed 29 June 2010)	264	52	-	316	-	-	-
D Chikohora (resigned 24 March 2011)	218	66	104	388	258	61	319
P Gardner (appointed 29 June 2010)	242	57	-	299	-	-	-
E Carr (resigned 31 January 2010)	15	45	156	216	304	48	352
N Berry	50	27	-	77	54	30	84
T Wadeson	47	27	-	74	51	30	81
R Danchin	45	27	-	72	49	30	79
R Winston	45	14	-	59	43	14	57
G Stanley	61	14	-	75	74	14	88
P Cowley	53	36	-	89	62	36	98
	1,774	534	260	2,568	1,407	386	1,793

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2010

In addition to the above amounts Directors have made gains on the exercise of options on the basis of the market value at date of exercise compared with the exercise price. These amounts are

	2010 US\$000	2009 US\$000
JG Cluff	-	312
D Chikohora	175	-

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

	2010 Group	2009 Group
Operations	476	415
Administration	114	142
	590	557

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

	2010 Group US\$000	2009 Group US\$000
Wages and salaries	11,394	8,543
Social security costs	1,040	621
Share based payment	888	622
	13,322	9,786

### 4 Investment income

	2010 US\$000	2009 US\$000
Interest on bank deposits	46	23
Gain on foreign exchange	303	704
	349	727

### 5 Finance costs

	2010 US\$000	2009 US\$000
Interest payable	1,775	1,807
	1,775	1,807

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 6 Income tax

	2010 US\$000	2009 US\$000
<b>Tax charge/(credit)</b>		
Current tax	2,927	-
Deferred tax charge/(credit) - foreign	535	(1,228)
	<b>3,462</b>	<b>(1,228)</b>

Domestic income tax is calculated at 28% (2009 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/(credit) for the year can be reconciled to the loss per the statement of comprehensive income as follows

	2010 US\$000	2009 US\$000
<b>Loss before tax</b>	<b>(976)</b>	<b>(35,495)</b>
Tax at the domestic income tax rate of 28% (2009 28%)	(273)	(9,939)
Expenses not allowable for tax	447	294
Effect of lower rate overseas	(1,559)	-
Share based payments increase in deferred tax asset not recognised	(148)	(91)
Depreciation in advance of capital allowances	313	9
Tax losses carried forward	4,147	9,727
Reversal and origination of timing differences	535	(1,228)
<b>Tax charge/(credit)</b>	<b>3,462</b>	<b>(1,228)</b>

In respect of the tax losses carried forward US\$2.4m (2009 US\$8.5m) relates to Yaoure Mining SA, the subsidiary operating the Angovia mine. That company is currently on a tax holiday that is in excess of the current forecast life of mine and therefore it is unlikely that any benefit will be received from these losses. No amount has been included in unrecognised deferred tax assets in respect of this subsidiary.

	2010 US\$000	2009 US\$000
<b>Deferred tax asset</b>		
Tax losses	-	1,028
Other timing differences	693	200
<b>Deferred tax asset recognised</b>	<b>693</b>	<b>1,228</b>
<b>Unrecognised deferred tax assets</b>		
Relating to carried forward tax losses	2,715	3,046
Relating to potential tax deductions in respect of share based payments	609	141

A deferred tax asset has been recognised in the financial statements in respect of the Group's Kalsaka mine in Burkina Faso on the basis that the Directors believe that a reliable estimate of future taxable profits can be made. The deferred tax asset represents depreciation in advance of taxable benefits. Further 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.

### 7 Loss per share

The calculation of the basic and diluted earnings per share is based on the following data

	2010 US\$000	2009 US\$000
Losses for the purposes of earnings per share (net loss for the year attributable to equity holders of the parent)	(6,072)	(34,267)
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of earnings per share ('000's)	123,415	113,280

There is no difference between the diluted loss per share and the basic loss per share presented. Due to the loss incurred in the year the effect of the share options in issue is anti-dilutive.

At 31 December 2010 there were 7,813,260 (31 December 2009 5,969,050) share options in issue which would have a potentially dilutive effect on the basic profit per share in the future.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2010

## 8 Intangible assets

Group	Exploration & mining rights US\$000	Deferred exploration & evaluation costs US\$000	Total US\$000
<b>Cost</b>			
At 1 January 2009	30,223	12,848	43,071
Additions	-	2,988	2,988
Exploration costs written off	-	(621)	(621)
Exchange differences	-	1,439	1,439
At 31 December 2009	30,223	16,654	46,877
Additions	-	6,078	6,078
Exploration costs written off	-	(7)	(7)
Exchange differences	-	(483)	(483)
<b>At 31 December 2010</b>	<b>30,223</b>	<b>22,242</b>	<b>52,465</b>
<b>Amortisation</b>			
At 1 January 2009	-	-	-
Charge for the year	1,034	-	1,034
Impairment charge	1,148	-	1,148
At 31 December 2009	2,182	-	2,182
Charge for the year	1,932	-	1,932
<b>At 31 December 2010</b>	<b>4,114</b>	<b>-</b>	<b>4,114</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>26,109</b>	<b>22,242</b>	<b>48,351</b>
At 31 December 2009	28,041	16,654	44,695
At 1 January 2009	30,223	12,848	43,071

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

In addition, the Group holds two mining licences relating to the Kalsaka and Angovia mines. The value assigned to these licences on issue, amounted to US\$6.0 million and US\$2.4 million respectively.

Company	Deferred exploration & evaluation costs US\$000
<b>Cost and net book value</b>	
At 1 January 2009	2
Additions	27
Exploration costs written off	(26)
Exchange differences	1
At 31 December 2009	4
Additions	3
Exploration costs written off	(7)
<b>At 31 December 2010</b>	<b>-</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 9 Property, plant and equipment

Group	Mining, development & associated property, plant & equipment costs US\$000	Motor vehicles, office equipment, fixtures & computers US\$000	Total US\$000
<b>Cost</b>			
At 1 January 2009	77,373	2,062	79,435
Additions, net of results from commissioning phase <sup>1</sup>	1,521	839	2,360
Transfer to inventories <sup>2</sup>	(11,621)	-	(11,621)
Transfer to trade and other receivables <sup>2</sup>	(1,189)	-	(1,189)
Disposals	-	(9)	(9)
Transfer between asset categories <sup>3</sup>	(1,047)	1,047	-
Exchange differences	10	60	70
At 31 December 2009	65,047	3,999	69,046
Additions	5,568	810	6,378
Disposals	-	(60)	(60)
Exchange differences	(11)	(51)	(62)
<b>At 31 December 2010</b>	<b>70,604</b>	<b>4,698</b>	<b>75,302</b>
<b>Depreciation</b>			
At 1 January 2009	-	1,183	1,183
Charge for the year	6,809	761	7,570
Impairment charge <sup>4</sup>	20,766	-	20,766
Exchange differences	-	42	42
At 31 December 2009	27,575	1,986	29,561
Charge for the year	16,865	1,093	17,958
Disposals	-	(55)	(55)
Exchange differences	(1)	(46)	(47)
<b>At 31 December 2010</b>	<b>44,439</b>	<b>2,978</b>	<b>47,417</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>26,165</b>	<b>1,720</b>	<b>27,885</b>
At 31 December 2009	37,472	2,013	39,485
At 1 January 2009	77,373	879	78,252

- In accordance with industry practice all costs and revenues during the commissioning phase of the operation that are directly attributable to the operations are capitalised
- At 30 June 2009 the commissioning of the Kalsaka mine in Burkina Faso was completed and at 30 September 2009 the commissioning of the Angovia mine in Côte d'Ivoire was completed. Accordingly, amounts relating to the inventory of mined ore and recoverable taxes relating to the mine have been transferred from mining development costs to current assets during the period
- During 2009 certain of the Group's property, plant and equipment located at the Kalsaka and Angovia mines have been reclassified from mine development costs to equipment as the Directors consider that this is a more appropriate asset classification. The prior period has not been adjusted for this change in accounting policy on the basis that this change would have no effect on the total value of property, plant and equipment or cumulative depreciation thereon at 1 January 2008 or 31 December 2008
- The impairment charge was recognised in respect of the Group's Angovia mine, which is a cash generating unit identified as a reportable segment under IFRS 8. Indirect taxes recoverable in Côte d'Ivoire has been excluded from the impairment loss calculation for the Angovia mine as this balance will be recovered in a different manner from the other net assets. A separate impairment provision has been made against indirect taxes recoverable as set out in note 11. Full details of the impairment charge totalling \$21.9 million recognised in respect of the Angovia mine in 2009 are given in the prior year's annual report

Due to the losses incurred at Angovia in 2010, a further impairment review was carried out for this cash generating unit, excluding indirect recoverable taxes, at 31 December 2010. The recoverable amount was calculated by reference to both the value in use and fair value less costs to sell.

Value in use was calculated by reference to a life of mine economic model using the currently defined reserves set out in this annual report at a US\$1,300 per ounce gold price and a 25% discount rate. On the basis that the mine was able to continue operating, and that the supply disruptions experienced during the political crisis were resolved, this demonstrated that no further impairment was required. A high discount rate was used to reflect the uncertainty in respect of the political crisis.

Fair value less costs to sell was calculated by reference to the value per resource ounce paid by investors for similar assets. Direct comparison is difficult due to the unique political situation in Côte d'Ivoire. However, applying a suitable discount to comparable resources based on the heightened political risk suggested that no further impairment was required.

Further consideration was given to the recoverable amount should the political situation in Côte d'Ivoire not be resolved. The Company has existing provisions in place to protect against the loss of the project as a result of war and political violence, including the risk of being forced to abandon the project which indicated that no further impairment was required.



## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

Company	Mining, development & associated property, plant & equipment costs US\$000	Motor vehicles, office equipment, fixtures & computers US\$000	Total US\$000
<b>Cost</b>			
At 1 January 2009	110	45	155
Additions	-	7	7
Exchange differences	13	5	18
At 31 December 2009	123	57	180
Additions	-	23	23
Exchange differences	(4)	(3)	(7)
<b>At 31 December 2010</b>	<b>119</b>	<b>77</b>	<b>196</b>
<b>Depreciation</b>			
At 1 January 2009	-	40	40
Charge for the year	11	6	17
Exchange differences	-	5	5
At 31 December 2009	11	51	62
Charge for the year	32	11	43
Exchange differences	-	(3)	(3)
<b>At 31 December 2010</b>	<b>43</b>	<b>59</b>	<b>102</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>76</b>	<b>18</b>	<b>94</b>
At 31 December 2009	112	6	118
At 1 January 2009	110	5	115

### 10 Investments and subsidiaries

Company	Restated Subsidiary Undertakings US\$000
Cost brought forward at 1 January 2009	9,255
Exchange difference on translation	1,512
At 31 December 2009	10,767
Exchange difference on translation	(444)
<b>At 31 December 2010</b>	<b>10,323</b>

The restatement has been made to reallocate \$3,784,000 from investments in subsidiaries to amounts due from subsidiaries (note 11). Subsidiary undertakings and other related companies held at the year end were as follows:

Subsidiary undertaking	Country of Incorporation	Principal activity	Cluff Gold plc's effective interest	
			2010	2009
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 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	Exploration	90%	90%
Baomahun Gold Limited*	Sierra Leone	Exploration	100%	100%
Yaouré Mining SA*	Côte d'Ivoire	Mining	90%	90%
Winston Mining Limited	BVI	Exploration	100%	100%

\* Companies owned indirectly

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 11 Other receivables

	2010 US\$000 Group	2009 US\$000 Group	2010 US\$000 Company	Restated 2009 US\$000 Company
<b>Non-current assets</b>				
Taxation debtor <sup>1</sup>	2,324	2,043	-	-
Amounts due from subsidiaries <sup>2</sup>	-	-	31,822	42,248
<b>Total non-current assets</b>	<b>2,324</b>	<b>2,043</b>	<b>31,822</b>	<b>42,248</b>
<b>Current assets</b>				
Prepayments & accrued income	649	719	117	86
Taxation debtor <sup>1</sup>	6,761	6,941	108	28
Other debtors	1,664	697	6	23
Amounts due from subsidiaries <sup>2</sup>	-	-	13,500	17,000
<b>Total current assets</b>	<b>9,074</b>	<b>8,357</b>	<b>13,731</b>	<b>17,137</b>

<sup>1</sup> 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.

<sup>2</sup> 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 20.

### 12 Inventories

	2010 US\$000 Group	2009 US\$000 Group	2010 US\$000 Company	2009 US\$000 Company
Consumable stores	1,381	1,430	-	-
Ore stockpiles	1,668	5,198	-	-
Gold in process	8,661	7,588	-	-
Gold bullion	1,057	1,574	-	-
	<b>12,767</b>	<b>15,790</b>	<b>-</b>	<b>-</b>

### 13 Share capital and reserves

	2010 US\$000	2009 US\$000
<b>Share capital</b>		
<b>Authorised</b>		
200,000,000 Ordinary shares of 1p each	1,894	1,894
<b>Issued and Fully Paid</b>		
131,269,331 Ordinary shares of 1p each (2009: 122,465,595)	2,365	2,224

#### Shares issued

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

- On 31 March 2010, the Company issued 300,000 new ordinary shares of 1p at the option price of 20p each to E Carr which represents the exercise of options granted on 4 March 2004.
- On 31 October 2010, the Company issued 200,000 new ordinary shares of 1p at the option price of 55p each to D Chikohora which represents the exercise of options granted on 30 November 2004.
- On 2 November 2010, by way of placing, the Company issued 8,047,210 new ordinary shares of 1p for cash consideration of 116 5p each.
- On 4 November 2010, the Company issued 101,700 new ordinary shares of 1p at the option price of 68p each to Smiths Corporate Finance Ltd which represents the exercise of options granted on 16 March 2007.
- On 4 November 2010, the Company issued 65,565 new ordinary shares of 1p at the option price of 88p each to Smiths Corporate Finance Ltd which represents the exercise of options granted on 14 February 2008.
- On 4 November 2010, the Company issued 60,855 new ordinary shares of 1p at the option price of 40p each to Smiths Corporate Finance Ltd which represents the exercise of options granted on 31 March 2009.
- 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 DD Chikohora at a value of 110p each in accordance with their letters of appointment.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

During 2009, 25,614,264 ordinary shares were issued as follows

- On 31 March 2009, by way of placing, the Company issued 20,285,000 new ordinary shares of 1p for cash consideration of 40p each
- On 10 November 2009, the Company issued 400,000 new ordinary shares of 1p at the option price of 20p each to J G Cluff which represents the exercise of options granted on 30 November 2004
- On 25 November 2009, the Company issued 1,100,000 new ordinary shares of 1p at the option price of 36 9p each to RMB which represents the exercise of options granted on 25 September 2008, 6 November 2008, and 7 January 2009
- On 25 November 2009, the Company issued 3,750,000 new ordinary shares of 1p at the option price of 20p each to RMB which represents the exercise of options granted on 6 November 2009
- On 9 December 2009, the Company issued 54,264 new ordinary shares of 1p being 7,752 new ordinary shares of 1p each to the following Non-Executive Directors E Carr, N Berry, R Danchin, T Wadeson, P Cowley, R Winston and G Stanley, at a value of 64p each in accordance with their letters of appointment
- On 15 December 2009, the Company issued 25,000 new ordinary shares of 1p at the option price of 34p each to P Latham which represents the exercise of options granted on 1 January 2009

During 2010 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 Ltd 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 Ltd 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 Ltd. 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.

### 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 2010.

### 14 Non-controlling interests

The Group has three subsidiaries with minority shareholders: Kalsaka Mining SA, in which the Group owns a 78% effective interest, Yacouré 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. As at 31 December 2009 each of these subsidiaries had net liabilities, and in accordance with the unamended IAS 27 "Consolidated and Separate Financial Statements" no minority interest was recorded. Subsequent to the adoption of IAS 27 (Amended) a non-controlling interest amount has been recognised for these subsidiaries including those with net liabilities in 2010.

### 15 Provisions

Group	Decommissioning, mine closure and site restoration provision US\$000
At 1 January 2009	4,103
Provision in year	475
At 31 December 2009	4,578
Provision in year	1,481
<b>At 31 December 2010</b>	<b>6,059</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.

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 16 Trade and other payables

	2010 US\$000 Group	2009 US\$000 Group	2010 US\$000 Company	2009 US\$000 Company
Trade creditors	6,104	10,812	340	530
Other creditors	2,557	1,550	322	6
Accruals and deferred income	7,259	4,755	267	249
	15,920	17,117	929	785
Loan facility	-	5,869	-	5,869
	15,920	22,986	929	6,654

The loan facility was redeemed in December 2010 for \$6 million

### 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 below disclosures 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:

- (i) Transactional exposure relating to operating costs and capital expenditure incurred in currencies other than the functional currency of operations
- (ii) 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

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

	2010 Group US\$000	2009 Group US\$000	2010 Company US\$000	2009 Company US\$000
US Dollars	4,093	668	351	333
Sterling	12,485	1,046	12,458	1,030
West African CFA Franc	3,095	555	-	-
Canadian Dollars	1,222	-	1,222	-
Other	12	4	5	2
	20,907	2,273	14,036	1,365

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2010

The functional currencies of Group companies include Sterling, US Dollars 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.

2010	Sterling US\$000	US Dollars US\$000	West African CFA Franc US\$000	Total US\$000
<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>	<b>13,043</b>	<b>492</b>	<b>244</b>	<b>13,779</b>

2009	Sterling US\$000	US Dollars US\$000	West African CFA Franc US\$000	Total US\$000
<b>Currency of monetary items</b>				
Sterling	343	(59)	-	284
US Dollars	(5,576)	(6,622)	-	(12,198)
West African CFA Franc	-	2,574	294	2,868
Other	102	(147)	6	(39)
<b>Total</b>	<b>(5,131)</b>	<b>(4,254)</b>	<b>300</b>	<b>(9,085)</b>

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	
	2010 US\$000	2009 US\$000	2010 US\$000	2009 US\$000
If there was a 20% weakening in the US Dollar/ Sterling exchange rate with all other variables held constant - increase/(decrease)	(638)	(429)	(40)	(49)
If there was a 20% strengthening in the US Dollar/ Sterling exchange rate with all other variables held constant - increase/(decrease)	766	515	48	59
If there was a 20% weakening in the US Dollar/ West African CFA Franc exchange rate with all other variables held constant - increase/(decrease)	-	-	(2,006)	(57)
If there was a 20% strengthening in the US Dollar/ West African CFA Franc exchange rate with all other variables held constant - increase/(decrease)	-	-	2,407	69

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.

## Notes to the Consolidated Financial Statements

### for the year ended 31 December 2010

#### c) Capital management and liquidity risk

The Group's and Company'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 2010

	2010 Group US\$000	2009 Group US\$000	2010 Company US\$000	2009 Company US\$000
Due in less than one month	6,925	7,761	662	275
Due between one and three months	8,995	9,356	267	510
Due between three months and one year	-	5,869	-	5,869
	15,920	22,986	929	6,654

#### 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\$6,946,000 (2009 US\$7,311,000) in Burkina Faso and US\$5,627,000 (2009 US\$3,917,000) 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\$302,000 (2009 US\$397,000) in Burkina Faso and US\$3,303,000 (2009 US\$1,874,000) in Côte d'Ivoire.

Subsequent to the year-end a total of US\$6,607,000 has been recovered in Burkina Faso. No amounts have yet been recovered in Côte d'Ivoire, and following specialist advice in the country the Directors have classified the full amount recoverable in Côte d'Ivoire as 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 2010 are set out in note 20.

#### e) Other financial risks

The Group and the Company had a bank loan outstanding at the prior year end, however, the Directors did not consider there to be any material interest rate risk. The Group's and the Company's policy is to retain surplus funds as short-term deposits, usually of one day and one month duration, at prevailing market rates.

#### 18 Commitments

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

	Land and buildings	
	2010 US\$000	2009 US\$000
Payable in less than one year	124	129
Payable between one and two years	72	74
Payable between two and five years	120	197
	316	400

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.

# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2010

### 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:

	2010		2009	
	Number of options	Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)
Outstanding at 1 January	5,969,050	62.1	9,710,100	43.5
Granted during the year	2,980,000	71.9	2,108,550	51.1
Forfeited during the year	-	-	(100,000)	28.5
Exercised during the year	(728,120)	44.1	(5,275,000)	23.6
Expired during the year	(407,670)	-	(474,600)	-
<b>Outstanding at 31 December</b>	<b>7,813,260</b>	<b>66.2</b>	<b>5,969,050</b>	<b>62.1</b>
<b>Exercisable at 31 December</b>	<b>2,198,260</b>	<b>58.5</b>	<b>3,309,050</b>	<b>58.3</b>

The options outstanding at 31 December 2010 had a weighted average remaining contractual life of 7.4 years (2009: 6.1 years). For options exercised in 2010, the weighted average share price at the date of exercise was 105.8p (2009: 67.3p).

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:

	2010	2009
Weighted average share price	72.2p	51.7p
Weighted average exercise price	71.3p	51.1p
Expected volatility	0.43	0.94
Expected life	4.0	3.0
Risk free rate	1%	3%
Expected dividends	-	-
<b>Fair value per option</b>	<b>24.6p</b>	<b>29.9p</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.

The total number of options over ordinary shares outstanding at 31 December 2010 was as follows:

Exercise period	Number	Weighted average exercise price (p)
Exercisable until March 2011	613,260	45.1
Exercisable until March 2014	675,000	49.8
Exercisable until 2016	910,000	73.9
<b>Exercisable at period end</b>	<b>2,198,260</b>	<b>58.5</b>
Exercisable between 2011 and 2018	1,360,000	74.0
Exercisable between 2012 and 2019	1,275,000	59.3
Exercisable between 2013 and 2020	2,980,000	71.3
	<b>7,813,260</b>	<b>66.2</b>

## Notes to the Consolidated Financial Statements for the year ended 31 December 2010

### 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.

	2010 US\$000	2009 US\$000
Interest receivable	1,164	2,869
Management charges receivable	328	-
Amounts owed by subsidiaries at year end	45,322	59,248

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 2010 a provision of US\$7,175,000 (2009: US\$23,460,000) has been made for doubtful debts in respect of the amounts owed by Yaouré Mining SA. In addition, an amount of US\$2,635,000 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	2010 US\$000	2009 US\$000
US LIBOR plus 2%	Repayable in quarterly instalments	46,437	49,363
US LIBOR plus 4%	Overdue from quarterly instalments above	9,019	11,782
GBP LIBOR plus 2%	Repayable only once construction commences on applicable project	2,636	2,657
Non-interest bearing loans	Repayable only once construction commences on applicable project	20,500	18,906
		78,592	82,708
Less: provision for irrecoverable amount <sup>1</sup>		(33,270)	(23,460)
		45,322	59,248

<sup>1</sup> Included within amounts receivable from subsidiary undertakings is US\$39.2 million (2009: US\$37.7 million) in respect of the Angovia mine. As set out in note 8, the performance of the mine has been below budget since commencement of operations and an impairment of US\$23.5 million was recognised in 2009. A further US\$7.2 million has been provided in 2010 following an update of the impairment review. An amount of US\$2.6 million has been provided in respect of Cluff Mining Burkina SARL, an exploration company situated in Burkina Faso.

During the year the Company made a gain of US\$6.7 million on the assignment of an intercompany debt.

### Remuneration of key management personnel

Details of directors' emoluments are set out in note 3. Compensation for other key management personnel is as follows:

	2010 US\$000	2009 US\$000
Short term employee benefits	912	679
Share based payments	85	35
	997	714



# Notes to the Consolidated Financial Statements

## for the year ended 31 December 2010

### 21 Contingent liabilities

In February 2011 the Company received a proposal for additional costs sustained by the mining contractor at the Angovia mine totalling US\$9.2m. The Directors believe that the majority of the proposal is unfounded. 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. A provision of US\$2.7m is included in the financial statements, which, in the opinion of the directors, is the maximum amount payable under the proposal.

### 22 Post balance sheet events

On 7 March 2011, following significant unrest in Côte d'Ivoire, the Group decided to temporarily suspend operations at its Angovia mine. Following a detailed review by management this temporary situation was not considered to materially impact upon the carrying value of the assets relating to this operation, nor the going concern status of the Group as a whole. The mine remains on care and maintenance at the date of this report, but subsequent to the improved situation in Côte d'Ivoire management is reviewing the most appropriate strategy for this asset.

## Company information

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