

# ANNUAL REPORT 2009



**CLUFF RESOURCES PACIFIC NL**

ABN 72 002 261 565



# **CLUFF RESOURCES PACIFIC NL CORPORATE DIRECTORY**

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2009



## CHAIRMAN'S REPORT

Last year when I wrote to you the All Ordinary index was below 4000. Over the past 12 months the index has arisen by 25% to close in mid April above 5000.



ASX All Ordinaries Candlestick Chart over 2 years

Gold is now A\$1226 or US\$1140. On an Australian dollar basis gold has not increased in value over the past 12 months but because of our improving exchange rate with the US dollar whereby the Aussie dollar has appreciated almost 30% over the year it could be said gold has also similarly appreciated. Most observers remain buoyant over the gold price with many predicting that as inflation fears continue to rise that gold will continue to appreciate. However, the outlook for the Aussie dollar remains very positive which will have a negative impact on all Australian commodities projects.

Cluff stock has of course not enjoyed any similar rise. There are of course reasonable arguments to suggest it is inappropriate to compare the Cluff history with the top 25 stocks within the All ordinary index, but it is essential to provide some yardsticks to compare our performance. The Board is far from satisfied with our stock performance.

Last year I advised you that Cluff had decided to focus on diamonds in Australia and gold in India. We have pursued this strategy for the past year and I can confirm to you this remains our lead strategy for the coming year. Gem diamonds remain the commodity of choice for romance and marriage and neither is currently out of favour so prices have remained generally firm. The rise and growth of a wealthy Chinese middle class has provided significant encouragement to us that diamonds will indeed become an even more desirable commodity upon which to focus.

Your company's diamond prospects at Bingara remain the main focus of our activities for the past 12 months and for the next 12 months. The company has successfully raised a further \$925,000 for its use in further examining and exploring its current exploration tenements at Bingara. We have been successful over the past 12 months in demonstrating that these tenements contain diamonds in bedrock at shallow depths. Our drilling program has sought to delineate the extent of the target claystone in the vicinity of Doctor's Creek at Bingara. This program has been very encouraging and has included some heavy mineral analysis recently that has provided us with confirmation that these rocks contain minerals that are also associated with diamonds.

Our immediate plans are to undertake two pits, some further core drilling and some percussion drilling on EL 3325 to seek to delineate a resource. Your company is focused upon seeking to confirm the presence of gem quality diamonds at medium (to depths of 30 metres) and to deeper depths (to depths of 80 to 100 metres) in the claystone in the area of Doctors Creek. Analysis of recent cores to depths of 100 metres in this area reveal potentially diamond bearing zones at various levels. Our proposed pitting program will focus on the second level below the weathered zone that has never been fully examined in modern times. The company remains convinced (although it remains to be proven) this is the zone of major success of Captain Rogers in the 1890s. Although your company has been engaged in exploration in this area for many years it has not until recently sought to investigate these deeper zones of mineralisation. As this investigation proceeds the potential to extend this analysis to the balance of the exploration permit is large which has the potential to result in a substantial resource.

Your company remains excited about the potential of Bingara and looks forward to further support of its shareholders in the future.

I would like to take this opportunity to thank Mr Ian Johns for his enormous efforts in seeking to complete our Indian opportunities. This task is still to be completed and Ian's continued time and efforts are much appreciated. Shareholders should note that neither Ian nor I are receiving any remuneration for our positions as directors. Our only compensation is the grant of the options the subject of various resolutions before you at the meeting.

I am looking forward to the coming year and we invite all our shareholders to join with us as we move forward.

A handwritten signature in black ink, appearing to be 'Peter Ashcroft', written over a long horizontal line that extends across the page.

**Peter Ashcroft**  
**Chairman**  
**Cluff Resources Pacific NL**

# MANAGING DIRECTOR'S REPORT

## BINGARA DIAMOND PROJECT

An extremely exciting point has been reached in bringing the Bingara Diamond Field back to production. One hundred and eighty three diamonds have been recovered in rubble overlying weathered pelletal claystone.

We are about to commence a bulk sampling program of this pelletal claystone to determine whether beds within it are diamond bearing, and hence the source of the overlying diamondiferous deposit.

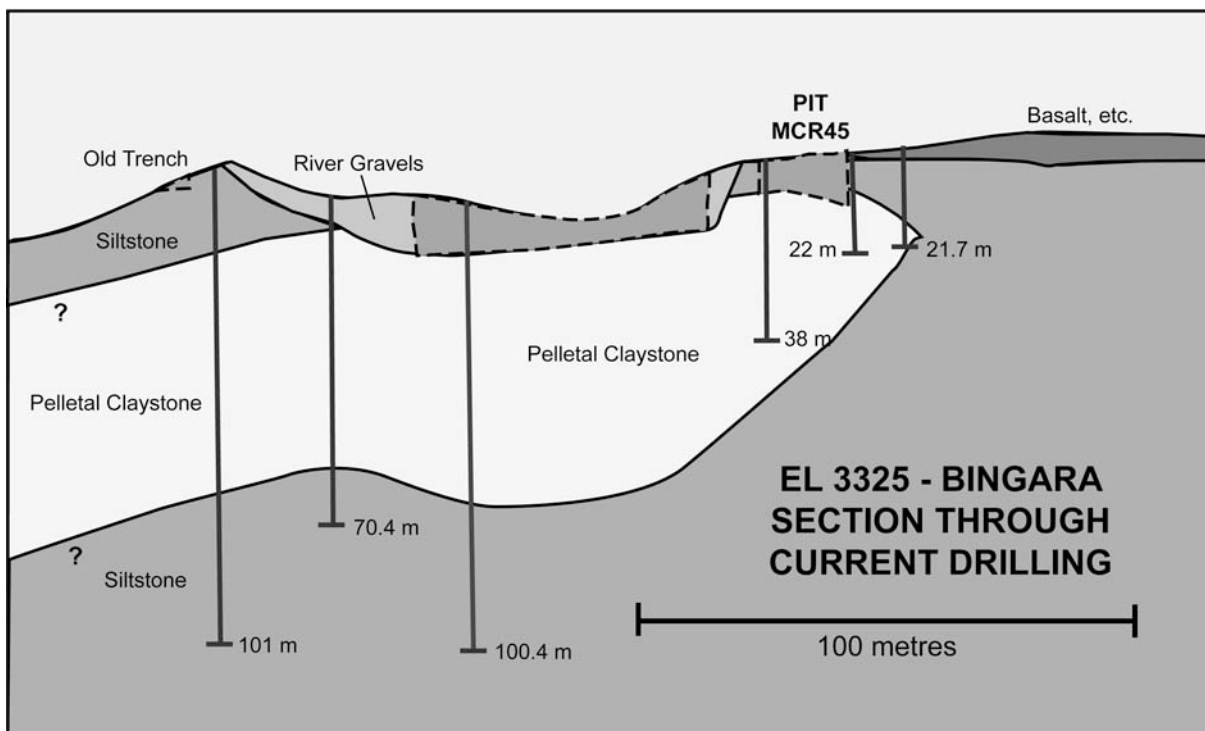
The photograph of drill core on the back cover shows the pellets of clay giving the rock its characteristic appearance, and suggests the hardness of this rock. Recent testing has yielded indicator minerals positive for the occurrence of diamonds within this rock. These indicator minerals have been transported no more than four kilometres, demonstrating a local source for the diamonds, and the accompanying minerals which have erupted with them.

The diamond bearing rocks of Western Australia comprise pellets of clay closely resembling the Bingara rocks in appearance, but differing in composition. Recently, however, rocks containing diamonds with similar composition and textures to those at Bingara were discovered in Ontario, Canada, (Lefebre and others, 2005). These are now the target of focused diamond exploration by major and junior mining companies in Canada, and to date thousands of stones, both macro and microdiamonds, have been recovered.

In many parts of the Bingara field this pelletal claystone is present beneath many former mine shafts, including the Monte Christo mine, famous for its rich diamond grades. 34,000 carats of 95% gem quality rough diamonds are recorded from these mines. Four of Cluff's holes were drilled beside shafts and intersected this pelletal claystone at the depth of the diamond mining, suggesting that it was the source of the diamonds.

Microscopic studies of this thickest and coarsest part of these rocks by a consultant petrologist show they are "clastic sedimentary rocks", while the fragments within them are dominantly of volcanic rock and ash. These features are consistent with formation in a volcanic lake, and with the Bingara diamond field being regarded as "alluvial" by the NSW Mines Department over 135 years ago.

This body of pelletal claystone is concealed under almost all areas by a cover of shale. It is almost flat lying, and appears to fill a shallow depression underlain by the more steeply dipping basement rocks. A cross section of the volcanic lake is shown below. Its extent is shown in the contoured figure on the back cover by the northwest trending red zone, with the most intense colour representing a thickness of sixty metres. The contours represent the elevation of the base of the crater, and show it to be relatively flat. These potentially diamondiferous rocks are open to the north and west.

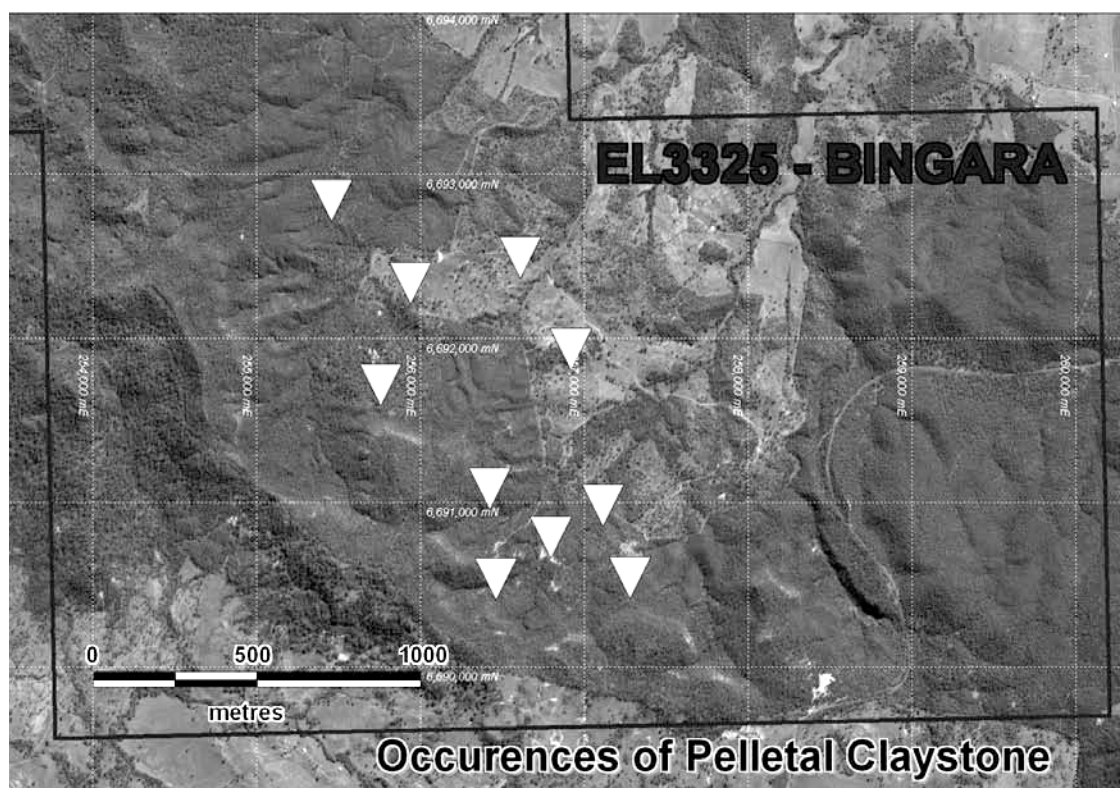


The quality of the diamonds expected to be recovered is illustrated on the front cover: 95% gem quality with rough stones up to more than one carat in size, averaging five to the carat. The largest stone recovered was reported to be eleven carats. The stones are 50% white and 50% yellow, with some grading to a fancy yellow colour which fetches a premium price, as this colour is highly sought after in Asia.

To prove that beds rich in diamonds are present within these sediments, a large diameter percussion drilling program will commence shortly to systematically sample these rocks, and to determine the grade of diamonds present and the tonnage within the limited area drilled to the present. This work is aimed at producing an inferred resource of diamonds.

The rocks to be bulk sampled are very hard volcanic lake sediments formed from large amounts of volcanic ash fragments. They have decomposed to weathered rubble and scree on an old land surface, and it was from this rubble that diamonds were recovered by the Company's recent operations.

If diamonds can be proven to occur in this possible hard rock source, the potential of this diamond field is substantial. Based on Cluff's recent drilling, and earlier modern drilling, the pelletal claystone has been identified over the area below at the locations shown by yellow triangles. They may, however, be much more extensive as diamonds have been recorded over a surrounding district of twenty five kilometres by ten kilometres.



**Locations where pelletal claystone has been intersected by modern drilling.**

Landsat imagery shows that these diamond occurrences are within a large basin-like depression open to the north, and four kilometres across. This may be a residue of a crater lake created 217 million years old, and formerly filled to the rim with these sediments. Its central and northern parts may have eroded away, resulting in a substantial semi circular zone of crater lake sediments preserved as relics around the rim of this possible lake.

Sample Number	Number of Indicator Minerals	Diamond Indicator Minerals Present
HVY 1/49	9	Chromite
	1	Cr-bearing Diopside
HVY 6/5	1	Chromite
HVT 7/5	1	Chromite

**Diamond Indicator Minerals Found In Pelletal Claystone**

**Reference:** Lefebvre, L., Kopylova, M., and Kivi, K., 2005: Archaean calc-alkaline lamprophyres of Wawa, Ontario, Canada: Unconventional diamondiferous volcanoclastic rocks. *Precambrian Research*, 138, 57-87.

## **FIELD OPERATIONS**

Two hundred and eleven diamonds were recovered during the year, together with two carbonados, for a total weight of 35.25 carats.

Twelve sampling pits were dug, fifteen bulk samples processed through the Copeton plant, and forty eight core drillholes completed to depths from twelve to one hundred and twenty seven metres. The company's drilling rig is shown in operation on the back cover.

We have added to your staff a young experienced geologist, Rhys Bevan, to supervise operations in the field, and to implement finalisation of the project computer database.

Computer modelling is in progress to further determine the extent and location of the palatal claystone throughout the diamond field.

Reinterpretation of previous modern drilling at the Londonderry Core Storage Facility assisted in identification of new zones of pelletal claystone, and interpretation of the areas' structure.

Landsat images showing the alteration of bedrock to clay within circular structures were prepared for the company by GISTec Pty Ltd. Most former diamond mines at Bingara fall within these circular zones, and their presence may be related to them. They may be a guide to the location of diamond mineralisation.

150 historic maps were digitised and entered into the company's Mapinfo GIS mapping program.

## **FUTURE BULK SAMPLING PROGRAM**

Two types of bulk sampling will be carried out over the next three months in the Doctors Creek area to test the diamond content of the pelletal claystone.

- Large diameter drilling using a percussion rig will be used to determine an inferred resource for hard rock diamonds, if they are present.
- Crushing of hard rock from a pit will give a much larger sample which will yield a representative sample of the diamonds, if they are present.

Both samples will be processed using a contract crusher, and the Company's Copeton plant.

### **Large Diameter Percussion Drilling**

The planned bulk sampling program aims to produce an inferred resource of diamonds by large diameter percussion drilling through the pelletal claystone at four sites 100 to 200 metres apart and to depths of about 60 metres.

Groups of four ten inch percussion drillholes will be drilled at each site, and the drill cuttings samples from each of the four holes will be bulked together. This will be done over each ten metre interval to produce a composite sample of percussion chips of about four tones per ten metres. Such a sample is large enough, if grade is economic, to further crush and process at Copeton, and obtain meaningful thickness and grade data.

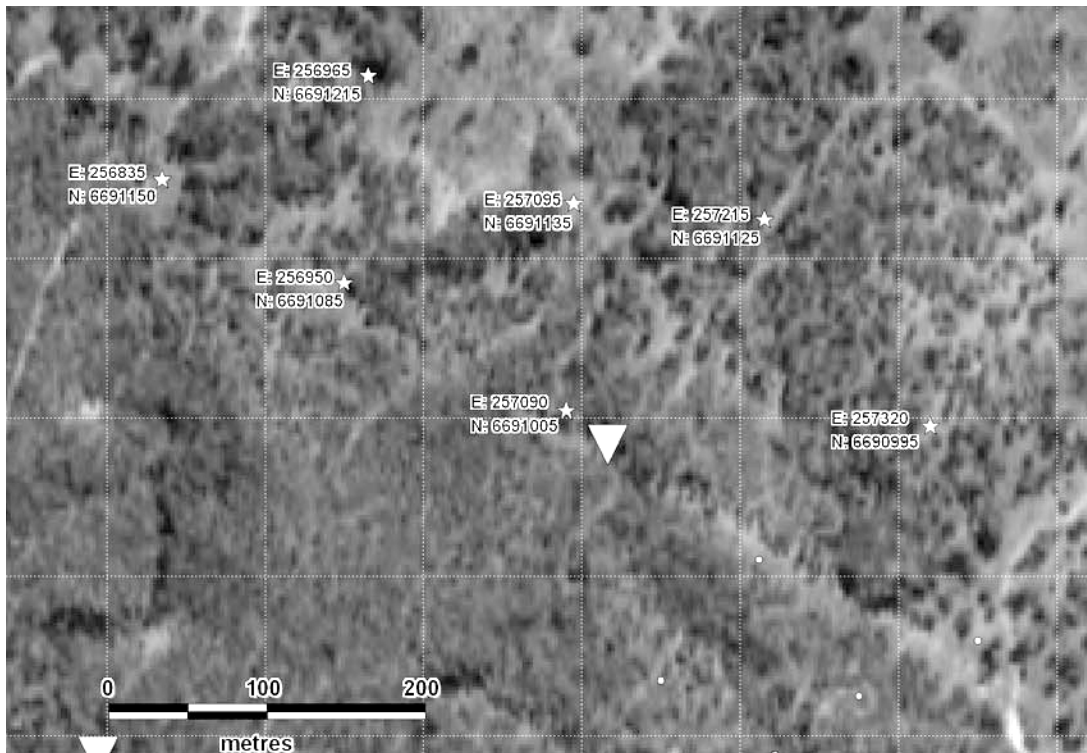
This data can then be used to calculate an inferred resource.

### **Bulk Sampling at near Surface Sites**

A bulk sampling pit into hard rock to determine whether, and at what grade, diamonds are present will be completed.

Pelletal claystone which appears to have been worked in a former mine has been interpreted as present at between eight and sixteen metres depth in the Doctors Creek area. This will be bulk sampled by removal of overburden to six metres depth, and by extraction of the underlying hard rock using a thirty tonne excavator with a jackhammer attachment.

The rock is expected to be hard, and to need two stages of crushing before processing. Total cost of the bulk sampling program is budgeted at \$350,000.



**Planned Core Drilling Program, and Bulk Sampling Pit, Doctors Creek:**  
Planned core drillholes as stars, completed drillholes as dots, bulk sampling site as triangle.

## INTERNATIONAL PROJECTS

Further to general statements about India made in our last Annual Report, Cluff is specifically pursuing mining opportunities in the state of Karnataka. The Hutti Gold Mines of India has recently released information in the media confirming our activities. Links to these articles and some of the other media articles are available on our website: [www.cluff.com.au/html/home.html](http://www.cluff.com.au/html/home.html). Alternatively, the articles may be found by conducting a Google search using the keywords 'Cluff', 'India', 'Gold', and 'Hutti'.

### TIN PROJECTS (Cluff 100%)

Excepting DPI reporting, no activities were undertaken on Cluff's tin projects during the quarter. The Company has had several approaches to joint venture its tin projects, and these are under discussion.

### EGERTON GOLD PROJECT (Cluff earning up to 75% from Tech-Sol Pty Ltd)

There were no field activities undertaken at the Egerton Gold Project during the year, with all personnel and resources focused on the diamond project.

### RUBY MINE (Cluff 100%)

The Ruby Mine remains on care and maintenance, and equipment not suitable for establishing a trommel and jig processing operation at Bingara was sold. Water turbidity monitoring continued and all environmental reporting requirements were met.

The diamond indicator mineral results reported are based on information provided by John Towie of Independent Diamond Laboratories Pty Ltd, Perth.

The information in this report that relates to exploration results is based on information compiled by Peter John Kennewell, who is a corporate member of the Australasian Institute of Mining and Metallurgy included in a list promulgated by the ASX from time to time. Peter John Kennewell is a full time employee of Cluff Resources Pacific NL and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Identified Mineral Resources, and Ore Reserves". Peter John Kennewell consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

**Peter Kennewell, Managing Director**  
**23 April 2010**



**SCHEDULE OF TENEMENTS (as at 15 March 2010)**

<b>Permit/Licence Area</b>	<b>Name &amp; Location</b>	<b>Economic Entity Interest</b>
<b>TIN EXPLORATION</b>		
EL 6986	Ardlethan, NSW	100%
EL 7015	Gibsonvale Tin Field, NSW	100%
EL 6966	Inverell, NSW	100%
EL 7016	Buddigower Tin Field, NSW	100%
EL 7201	Ardlethan, NSW	100%
<b>DIAMOND EXPLORATION AND DEVELOPMENT</b>		
EL 3325	Bingara Central, NSW	100% (see Note 1)
EL 6073	Copeton Central, NSW	100%
ML 1058	Mount Ross, Copeton, NSW	100%
ML 1059	Mount Ross, Copeton, NSW	100%
ML 1083	Mount Ross, Copeton, NSW	100%
ML 5904	Mount Ross, Copeton, NSW	100%
ML 6153	Malacca, Copeton, NSW	100%
ML 1232	Collas Hill, Copeton, NSW	100%
<b>RUBY EXPLORATION</b>		
EL 5336	Barrington Tops, Gummi, NSW	100%
<b>GOLD EXPLORATION AND DEVELOPMENT</b>		
EL 4844	Gordon-Egerton Goldfields, Victoria	51%
EL 4574	Gordon-Egerton Goldfields, Victoria	51%
<b>SAPPHIRE MINING</b>		
ML 70022	Sapphire, Queensland	100%
ML 70048	Sapphire, Queensland	100%
ML 7232	Sapphire, Queensland	100%
ML 70358	Sapphire, Queensland	100%
ML 70133	Sapphire, Queensland	100%
ML 70066	Sapphire, Queensland	100%
ML 70094	Sapphire, Queensland	100%
MLA 70095	Sapphire, Queensland	100%
MLA 70096	Sapphire, Queensland	100%
<b>RESIDUAL INTERESTS</b>		
PEL 27	Otway Basin, South Australia	0.75% (overriding royalty)

Note 1 – Diamond Ventures NL is entitled to a royalty of 10% of the first \$20 million of any net profits, and 5% thereafter, arising from future production from the licence.

## **DIRECTORS' REPORT**

The directors of Cluff Resources Pacific NL present their report on the Company and its controlled entities for the financial year ended 31 December 2009.

### **Directors**

The names of directors in office at any time during or since the start of the financial year to the date of this report are:

Peter Kennewell	Scott Enderby
Ian Johns	Peter Ashcroft

Directors have been in office since the start of the financial year to the date of this report.

### **Company Secretary**

The name of the company secretary in office at any time during or since the start of the financial year to the date of this report is Scott Enderby. The company secretary has been in office since the start of the financial year to the date of this report.

### **Principal activities**

The principal activities of the economic entity during the course of the financial year was exploration and evaluation of mineral interests. There were no other significant changes in the nature of those activities during the financial year.

### **Operating results**

The consolidated loss of the consolidated entity for the 2009 financial year was \$ 3,030,439 (2008: \$1,153,119).

### **Dividends**

No dividends were paid or declared by the consolidated entities since the end of the previous financial year, and the directors recommend that no dividend be paid for the year ended 31 December 2009.

### **Review of operations**

A review of the operations of the consolidated entity during the financial year and the result of those operations precedes this report. During the year the consolidated entity has continued the development of its tin, gold and diamond exploration projects, and conducted negotiations over iron ore projects in India. These activities have been funded by existing cash reserves and share issues.

### **Significant changes in the state of affairs**

During the year the consolidated entity raised \$1,682,271 from share issues and the exercising of options (2008: \$1,075,052). This has enabled the continuation of the exploration and evaluation of mineral interests. There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

### **Matters subsequent to the end of the financial year**

There are no matters to report.

### **Likely developments and expected results of operations**

In 2010 the consolidated entity intends to continue its primary focus on developing its diamond prospects in New South Wales. Negotiations over prospects overseas are also likely to continue, and agreements are expected to be finalised. Information as to likely developments in the consolidated entity's operations, including expected financial results in subsequent financial years would, in the opinion of the Directors, prejudice the interests of the parent entity and the consolidated entity and has therefore not been included in this report.

### **Environmental regulation performance**

The consolidated entity's environmental obligations are regulated under both State and Federal law. All environment performance obligations are monitored by the Directors and subjected from time to time to Government site inspections. The consolidated entity has a policy of at least complying with, but in most cases exceeding its environmental performance obligations. No environmental breaches have been notified by any Government agency during the year ended 31 December 2009.

## Information on Directors

Particulars of directors' qualifications and past experience, and current responsibilities:

### **Peter Ashcroft** Chairman

Peter Ashcroft is a commercial law specialist with over 30 years experience. He is the owner and principal of Ashlaw Legal Services, which is a specialised commercial legal practice focusing upon the provision of advice to natural resource companies, both in production and exploration stages, and logistic and transport businesses. Peter is familiar with mining and resource developments throughout Australia, and has advised on joint ventures in Indonesia, New Zealand, Philippines, India, USA, Sweden, Ghana and Canada.

### **Peter J Kennewell B.Sc** Managing Director

Mr Kennewell has had over thirty years professional experience in the Australian mineral and oil industry, and has been with the parent entity for the past twenty-one years as the Group's Exploration Manager and Managing Director. He has had responsibility for much of the exploration programme of the consolidated entity.

### **Scott M Enderby B.Com** Director and Company Secretary

Since joining the Board in 1996, Mr Enderby has applied his extensive marketing experience to Cluff's many and varied projects, and held the position of Company Secretary for the past five years.

### **Ian Johns** Director

Ian Johns brings 20 years of operational business experience to the Cluff Board. He is consults in the manufacturing industry as a business developer and contract negotiator, and was a founding Director of Royalco Resources, a successful royalty income-based mineral exploration company.

## Directors' Meetings

The number and attendances of the directors at meetings of the Board of Directors were:

	Attended	Maximum possible
Peter J Kennewell	9	9
Scott M Enderby	9	9
Peter Ashcroft	9	9
Ian Johns	9	9

## Directors' Interests

Interests in the shares and options of the Company as at 31 December 2009

(Includes securities held directly, as well as those in which the Director may not own directly, but holds a beneficial interest)

Director / Security	Peter Ashcroft	Peter J Kennewell	Scott M Enderby	Ian A Johns
Ordinary Shares	42,559,167	28,238,898	12,466,666	159,977,382
Listed 31 July 2010 \$0.006 options	5,492,500	1,095,367	111,111	19,774,007
Listed 31 July 2011 \$0.006 options	5,492,500	1,095,367	111,111	19,774,007
Unlisted 31 Aug 2012 \$0.005 Employee Options	21,660,000	21,660,000	21,660,000	21,660,000
Unlisted 31 Dec 2009 \$0.00448 Options	6,500,000	6,500,000	4,500,000	20,500,000
Unlisted 31 Dec 2009 \$0.00948 Options	6,500,000	6,500,000	4,500,000	20,500,000
Unlisted 31 Dec 2010 \$0.00348 Options	20,000,000			10,000,000
Unlisted 31 Dec 2010 \$0.00948 Options	10,000,000			10,000,000
Unlisted 31 Dec 2011 \$0.00448 Options	10,000,000			10,000,000
Unlisted 31 Dec 2011 \$0.00948 Option	10,000,000			10,000,000
Unlisted 13 Sept 2010 \$0.01 Employee Options		7,400,000	4,900,000	

## REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors, secretaries and senior managers of Cluff Resources Pacific NL (the Company).

### Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Remuneration levels for directors and executives are competitively set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

Remuneration packages contain the following key elements:

- (a) Short-term benefits – salaries and director's fees
- (b) Post-employment benefits – including superannuation;
- (c) Share-based payments - share options granted under the option plan; and

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to the shareholders.

Prior to December 2008, non-executive directors received a fixed fee for their services as directors, however the two non-executive directors are now being remunerated via the issuing of unlisted options: shareholder approval was given for this arrangement at the Annual General Meeting in 2009.

Where the Company may utilise the services of a non-executive Director for consultancy in their field of expertise, these services are remunerated at their commercially billable rate. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of certain key performance indicators.

The board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

### Executive remuneration

Executives receive a fixed remuneration set to provide a base level commensurate with their position and responsibilities within the Company and so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by market standards.

There is no direct link between remuneration paid and corporate performance such as bonus payments for achievement of certain key performance indicators.

In addition the Company may issue options to executives under the Company's Employee Option Plan to recognise ability and effort, provide incentive to improve company performance, attract appropriate persons and promote loyalty.

Remuneration levels are reviewed annually by the Remuneration Committee by reviewing company performance, personal performance, market trends, industry comparisons, employment market conditions and, where appropriate, external advice.

### Details of remuneration for the year ended 31 December 2009

	Salary	Superannuation	Consulting and/or Professional Fees	Directors' Fees	Compensation for expenses	Total
	\$	\$	\$	\$	\$	\$
Peter Ashcroft	-	-	-	-	-	-
Peter J Kennewell	131,924	60,000	-	-	-	191,924
Scott M Enderby	85,244	7,572	-	-	-	92,816
Ian Johns	-	-	-	-	-	-
						<u>284,740</u>

### Indemnification of officers and auditors

The Directors and Company Secretary are indemnified in the Articles of Association of the Company. There are no insurance or indemnity arrangements for the auditor of the consolidated entity.

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity or intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity for all or any part of those proceedings. The consolidated entity was not party to any such proceedings during the year.

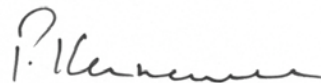
**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 31 December 2009 has been received and is included in these financial statements.

This report is made and signed in accordance with a resolution of the Board of Directors.



SCOTT ENDERBY  
Director



PETER KENNEWELL  
Director

Hornsby NSW  
15 March 2010

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2009**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	5	774,376	417,640	738,017	382,187
Trade and other receivables	6	20,177	35,835	25,125	33,044
Inventories	7	99,419	129,981	25,145	55,707
<b>TOTAL CURRENT ASSETS</b>		<b>893,972</b>	<b>583,456</b>	<b>788,287</b>	<b>470,938</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	8	-	-	1,275,081	4,314,133
Financial assets	9	-	-	-	-
Property, plant & equipment	10	613,254	702,075	613,254	702,075
Exploration, evaluation and pre-development expenditure	11	10,930,019	10,276,445	8,530,503	8,403,458
Development properties	12	-	2,292,890	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>11,543,273</b>	<b>13,271,410</b>	<b>10,418,838</b>	<b>13,419,666</b>
<b>TOTAL ASSETS</b>		<b>12,437,245</b>	<b>13,854,866</b>	<b>11,207,125</b>	<b>13,890,604</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	150,704	219,347	134,096	194,730
Short-term provisions	14	152,889	153,697	73,580	67,172
<b>TOTAL CURRENT LIABILITIES</b>		<b>303,593</b>	<b>373,044</b>	<b>207,676</b>	<b>261,902</b>
<b>NON-CURRENT LIABILITIES</b>					
Financial liabilities	15	330,000	330,000	330,000	330,000
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>330,000</b>	<b>330,000</b>	<b>330,000</b>	<b>330,000</b>
<b>TOTAL LIABILITIES</b>		<b>633,593</b>	<b>703,044</b>	<b>537,676</b>	<b>591,902</b>
<b>NET ASSETS</b>		<b>11,803,652</b>	<b>13,151,822</b>	<b>10,669,449</b>	<b>13,298,702</b>
<b>EQUITY</b>					
Issued capital	16	51,571,130	49,888,859	51,571,130	49,888,859
Reserves	17	108,516	108,516	108,516	108,516
Accumulated losses	2	(39,875,994)	(36,845,553)	(41,010,197)	(36,698,673)
<b>TOTAL EQUITY</b>		<b>11,803,652</b>	<b>13,151,822</b>	<b>10,669,449</b>	<b>13,298,702</b>

**INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Sales revenue	3	11,297	2,111	11,297	2,111
Cost of sales		(34,370)	(51,812)	(7,935)	(1,310)
Gross profit		(23,073)	(49,701)	3,362	801
Other revenues	3	243,099	132,210	243,099	95,199
Distribution expenses		(31,606)	(43,448)	(31,606)	(43,448)
Marketing expenses		(12,160)	(22,273)	(12,160)	(22,273)
Occupancy expenses		(10,239)	(8,673)	(10,239)	(8,673)
Administrative expenses		(579,196)	(760,361)	( 501,710)	(633,435)
Borrowing costs		(27,490)	(34,192)	(27,490)	(34,192)
Other expenses		112,178	(366,681)	( 3,974,780)	(350,061)
Extraordinary item		(409,062)	-	-	-
Ruby mine impairment		(2,292,890)	-	-	-
Loss before income tax	2	( 3,030,439)	(1,153,119)	( 4,311,524)	(996,082)
Income tax expense		-	-	-	-
Profit for year		( 3,030,439)	(1,153,119)	( 4,311,524)	(996,082)
Basic earnings per share	18	( 0.21)	(0.09)		

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

	Note	Consolidated Group			Parent Entity		
		Issued Capital	Retained Earnings	Asset Revaluation Reserve	Issued Capital	Retained Earnings	Asset Revaluation Reserve
		\$	\$	\$	\$	\$	\$
Balance as at 1 January 2008		48,813,807	(35,692,434)	108,516	48,813,807	(35,702,591)	108,516
Shares issued during year		1,075,052			1,075,052		
Loss attributable to members			(1,153,119)			(996,082)	
Balance as at 31 December 2008		49,888,859	(36,845,553)	108,516	49,888,859	(36,698,673)	108,516
Shares issued during year		1,682,271			1,682,271		
Loss attributable to members			(3,030,439)			(4,311,524)	
Balance as at 31 December 2009	16,17	51,571,130	(39,875,994)	108,516	51,571,130	(41,010,197)	108,516

**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2009**

Note	Consolidated Group		Parent	Entity
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	17,337	75,596	17,337	36,602
Payments to suppliers and employees	( 968,347)	(971,785)	(906,022)	(923,125)
Interest received	14,942	55,725	14,942	55,708
Borrowing costs	(27,490)	(34,192)	(27,490)	(34,192)
Goods and services tax paid	19,612	(4,477)	11,873	(5,209)
Net operating cash flows	21(b) (943,946)	(879,133)	(889,360)	(870,216)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Exploration and development expenditure	(591,076)	(1,116,564)	(72,875)	(1,145,570)
Payments for property, plant & equipment	(12,630)	(141,875)	(12,630)	(141,875)
Proceeds from sale of property, plant & equipment	222,117	3,000	222,117	3,000
Loans to controlled entities	-	-	(573,693)	46,038
Net investing cash flows	(381,589)	(1,255,439)	(437,081)	(1,238,407)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Allotted share proceeds	1,682,271	1,075,052	1,682,271	1,075,052
Unallotted share proceeds	-	-	-	-
Receipt of bank loan	-	-	-	-
Net financing cash flows	1,682,271	1,075,052	1,682,271	1,075,052
Net (decrease) / increase in cash held	356,736	(1,059,520)	355,830	(1,033,571)
Cash at the beginning of the year	417,640	1,477,160	382,187	1,415,758
Cash at the end of the year	21(a) 774,376	417,640	738,017	382,187



# **NOTES TO THE FINANCIAL STATEMENTS**

## **FOR THE YEAR ENDED 31 DECEMBER 2009**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the consolidated group of Cluff Resources Pacific NL and controlled entities, and Cluff Resources Pacific NL as an individual parent entity. Cluff Resources Pacific NL is a listed public company, incorporated and domiciled in Australia.

The financial report of Cluff Resources Pacific NL and controlled entities, and Cluff Resources Pacific NL as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

#### **Basis of Preparation**

The accounting policies set out below have been consistently applied to all years presented.

#### **Reporting Basis and Conventions**

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets for which the fair value basis of accounting has been applied.

#### **Accounting Policies**

##### **Principals of Consolidation**

A controlled entity is any entity Cluff Resources Pacific NL has the power to control the financial and operating policies so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 9 to the financial statements. All controlled entities have a December financial year-end.

All inter-company balances and transactions between entities in the controlled group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

##### **Going Concern**

The financial report has been prepared on the basis that the consolidated group is a going concern. It is the Directors' intentions to expand the controlled group's operations to exploit and develop its mining tenements. The directors have been conducting assessments of the alternative paths to take with respect to developing appropriate markets. The directors are containing cost levels and presently believe that there are sufficient funds to carry out these ongoing operations. If as a result of this assessment a project is to be developed economically, then at that point in time the Company will consider its funding options which would include raising further capital from share placements or rights issues.

##### **Exploration, Evaluation and Pre-development Expenditure**

Exploration, evaluation and pre-development expenditures incurred are charged against earnings as incurred except in the case of identifiable areas of interest where:

- A. it is expected that the expenditure will be recouped by successful development or sale; or
- B. at balance date, exploration and evaluation activities have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves, and active and significant operations are continuing.

Where conditions set out in A or B above is met, expenditure is capitalised.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each identifiable area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

## Development Properties

Development expenditure incurred is accumulated separately for each identifiable area of interest in which economically recoverable mineral resources have been identified to the satisfaction of the directors.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as "Development Properties". All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward, to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

Amortisation is not charged until production commences. Amortisation charges are determined on the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each identifiable area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

## Property, Plant & Equipment

Property, plant and equipment are held at cost or at directors' valuation. A review by the Directors of the carrying value of the consolidated group's property, plant and equipment showed that the current carry values were appropriate and no impairment was noted.

The cost of property, plant and equipment is depreciated on a straight-line basis over the period of the estimated useful lives of the consolidated group commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

	<u>Life</u>	<u>Method</u>
Buildings	50 years	Straight line
Office furniture and equipment	4 years	Straight line
Motor vehicle	4 years	Straight line
Plant and equipment	4 years	Straight line

## Inventories

Inventories of diamonds, rubies and sapphires are valued at the lower of cost and net realisable value. Cost comprises direct material, labour and transportation expenditure in getting such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure. Cost also includes an appropriate allocation of exploration, evaluation and pre-development expenditure once production has commenced in an area of interest. Net realisable value is the amount estimated as obtainable from the sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

## Borrowing Costs

Borrowing costs are expensed as incurred.

## Foreign Exchange

Transactions in foreign currencies have been converted at the rates of exchange applicable at the date of each transaction. Foreign currency balances arising from these transactions have been converted at the rates of exchange ruling at 31 December 2009. Gains and losses arising from exchange rate fluctuations are brought to account in the income statement.

## Provision for Rehabilitation

The provision for rehabilitation represents charges against profits for future estimated total restoration and rehabilitation costs relating to areas from which natural resources have been extracted. In determining the costs of site restoration there is uncertainty regarding the nature and the extent of the restoration due to community expectations and future legislation.

## Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date. Deferred tax assets and liabilities are ascertained based on the temporary differences

arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets relating to temporary differences and unused tax losses are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Cluff Resources Pacific NL and its wholly owned Australian subsidiaries have formed an income tax consolidation group under tax consolidation legislation.

### Employee Entitlements

The amounts expected to be paid to employees for their pro-rata entitlement to long service and annual leave are accrued annually at current pay rates, including on costs such as payroll tax, superannuation and workers compensation, having regard to experience of employee turnover rates and periods of service.

### Impairment

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

## 2. LOSS FOR THE YEAR

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Depreciation of property, plant & equipment		47,281	146,927	4,205	35,532
Auditors' remuneration					
- Audit		20,000	20,000	12,000	12,000
- Other		-	-	-	-
Write-off interco loan		-	-	3,655,821	-
Write down of inventories to net realisable value		22,677	16,888	22,677	1,248
Impairment of pre-development expenditure	12	2,292,890	-	-	-
(Profit)/Loss on disposal of property, plant and equipment		(222,117)	(3,000)	(222,117)	(3,000)
Finance charges		27,490	34,358	27,490	34,358
The extraordinary item reflects use of interco loans provision related to impairment of predevelopment expenditure		(409,062)			

## 3. REVENUE

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating activities				
Sales of gemstones & jewellery sets	11,297	2,111	11,297	2,111
Other revenue:				
Interest received or receivable - other corporations	14,942	55,725	14,942	55,708

Profit/(Loss) on disposal of property, plant and equipment	222,117	3,000	222,117	3,000
Other revenue	6,040	73,485	6,040	36,491
	<u>243,099</u>	<u>132,210</u>	<u>243,099</u>	<u>95,199</u>
<b>Total Revenue</b>	<u>254,396</u>	<u>134,321</u>	<u>254,396</u>	<u>97,310</u>

#### 4. INCOME TAX

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Reconciliation of prima facie income tax:				
Loss from ordinary activities before income tax	<u>(3,030,439)</u>	<u>(1,153,119)</u>	<u>(4,311,524)</u>	<u>(996,092)</u>
Prima facie income tax on operating loss at 30%	(909,132)	(345,936)	(1,293,457)	(298,828)
Tax effect of adjustments to derive income tax expense:				
Timing differences - provisions	242	4,068	3,641	3,886
Exploration and pre-development expenditure	<u>(196,072)</u>	<u>(362,161)</u>	<u>(38,113)</u>	<u>(343,671)</u>
Income tax effect of current year tax loss not brought to account	<u>(1,104,962)</u>	<u>(704,029)</u>	<u>(1,327,929)</u>	<u>(638,613)</u>
Income tax credit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The consolidated entity has unconfirmed carry forward tax losses, calculated according to Australian income tax legislation, estimated at \$30,500,000 (2008 - \$30,500,000), which will be deductible from future assessable income provided that income is derived, and:

- the parent entity and its controlled entities carry on prescribed petroleum or mining operations as defined in the Income Tax Assessment Act, as appropriate, or
- the parent entity and its controlled entities carry on a business of, or a business that includes, exploration or prospecting in Australia, for the purpose of discovering or extraction of minerals, as appropriate, and
- no changes in tax legislation adversely affect the parent entity and its controlled entities in realising the benefit from the deductions for the losses.

The benefit of these losses will only be recognised where it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

#### 5. CASH ASSETS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash at bank and in hand	388,175	31,394	387,815	31,941
Bank short-term deposits	128,066	128,066	128,066	128,066
Other short-term deposits	<u>258,136</u>	<u>258,180</u>	<u>222,136</u>	<u>222,180</u>
Total cash and cash equivalents	<u>774,376</u>	<u>417,640</u>	<u>738,017</u>	<u>382,187</u>

The effective interest rate on short-term bank deposits was 5.7% (2008 – 6.0%); these deposits have an average maturity of 360 days.

**6. RECEIVABLES**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>				
Trade receivables	3897	388	3897	388
Other receivables	16,280	35,447	21,228	32,656
	<u>20,177</u>	<u>35,835</u>	<u>25,125</u>	<u>33,044</u>
Provision for impairment	-	-	-	-
Net receivables	<u>20,177</u>	<u>35,835</u>	<u>25,125</u>	<u>33,044</u>

**7. INVENTORIES**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>				
At net realisable value				
Stock on hand – uncut loose gems	42,362	42,362	19,200	19,200
Stock on hand – cut loose gems	57,057	57,058	5,945	5,946
Stock on hand – jewellery	-	30,561	-	30,561
Total inventories	<u>99,419</u>	<u>129,981</u>	<u>25,145</u>	<u>55,707</u>

**8. RECEIVABLES**

	<b>Consolidated Group</b>		<b>Parent Entity</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NON-CURRENT</b>				
Receivable from wholly owned subsidiaries	-	-	4,939,432	8,494,189
Provision for impairment	-	-	(3,664,351)	(4,180,056)
Net receivables	<u>-</u>	<u>-</u>	<u>1,275,081</u>	<u>4,314,133</u>

**9. OTHER FINANCIAL ASSETS**

<b>Investments in controlled entities</b>	<b>Parent Entity</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Shares in controlled entities, at cost	746,021	746,021
Provision for impairment	(746,021)	(746,021)
Shares in controlled entities, net	<u>-</u>	<u>-</u>

The following were controlled entities at or during the year ended 31 December 2008 and have been included in the consolidated accounts. The shares issued by the controlled entities are all ordinary shares.

	% Ownership	Place of Incorporation and business
NSW Tin Pty Ltd	100	New South Wales Aust
Cluff Minerals (Australia) Pty Limited	100	New South Wales Aust
NSW Gold NL	100	New South Wales Aust
Cluff Mining Pty Limited	100	New South Wales Aust
Cluff Open Cut Mining Pty Limited	100	New South Wales Aust
Karnataka Gold Pty Limited	100	New South Wales Aust
Egerton Gold Pty Limited	100	New South Wales, Aust
Elephant Metals Pty Limited	100	New South Wales, Aust

## 10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Office furniture and equipment, at deemed cost				
Opening balance	8,288	8,288	8,288	8,288
Additions	-	-	-	-
Disposals	-	-	-	-
Closing balance	8,288	8,288	8,288	8,288
Accumulated depreciation				
Opening balance	(8,288)	(8,288)	(8,288)	(8,288)
Depreciation for year	-	-	-	-
Disposals	-	-	-	-
Closing balance	(8,288)	(8,288)	(8,288)	(8,288)
Net book value	-	-	-	-
Office furniture and equipment, at cost				
Opening balance	118,929	117,435	118,929	117,435
Additions	12,629	1,494	12,629	1,494
Disposals	(3,301)	-	(3,301)	-
Closing balance	128,257	118,929	128,257	118,929
Accumulated depreciation				
Opening balance	(112,748)	(106,800)	(112,748)	(106,800)
Depreciation for year	(4,206)	(5,948)	(4,206)	(5,948)
Disposals	(3,301)	-	(3,301)	-
Closing balance	(113,653)	(112,748)	(113,653)	(112,748)
Net book value	14,604	6,181	14,604	6,181
Motor vehicles, at deemed cost				
Opening balance	22,938	22,938	22,938	22,938
Additions	-	-	-	-
Disposals	-	-	-	-
Closing balance	22,938	22,938	22,938	22,938
Accumulated depreciation				
Opening balance	(22,938)	(22,938)	(22,938)	(22,938)
Additions	-	-	-	-
Disposals	-	-	-	-
Closing balance	(22,938)	(22,938)	(22,938)	(22,938)
Net book value	-	-	-	-
Motor vehicles, at cost				
Opening balance	337,193	327,779	337,193	327,779
Additions	-	9,414	-	9,414
Disposals	(122,350)	-	(122,350)	-
Closing balance	214,843	337,193	214,843	337,193

Accumulated depreciation				
Opening balance	(328,759)	(298,434)	(328,759)	(298,434)
Depreciation for year	(2,354)	(30,325)	(2,354)	(30,325)
Disposals	122,350	-	122,350	-
Closing balance	(208,763)	(328,759)	(208,763)	(328,759)
Net book value	6,080	8,434	6,080	8,434

Plant and equipment, at cost				
Opening balance	1,373,558	1,317,590	1,373,558	1,317,590
Additions	-	130,968	-	130,968
Disposals	(213,989)	(75,000)	(213,989)	(75,000)
Closing balance	1,159,569	1,373,558	1,159,569	1,373,558
Accumulated depreciation				
Opening balance	(1,169,594)	(1,080,990)	(1,169,594)	(1,080,990)
Depreciation for year	(94,891)	(163,604)	(94,891)	(163,604)
Disposals	213,989	75,000	213,989	75,000
Closing balance	(1,050,496)	(1,169,594)	(1,050,496)	(1,169,594)
Net book value	109,073	203,964	109,073	203,964

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Plant and equipment, at deemed cost				
Opening balance	541,978	541,978	541,978	541,978
Additions	-	-	-	-
Disposals	(144,715)	-	(144,715)	-
Closing balance	397,263	541,978	397,263	541,978
Accumulated depreciation				
Opening balance	(541,978)	(541,978)	(541,978)	(541,978)
Depreciation for year	-	-	-	-
Disposals	(144,715)	-	144,715	-
Closing balance	(397,264)	(541,978)	(397,264)	(541,978)
Net book value	-	-	-	-

Land and buildings, at cost				
Opening balance	495,951	495,951	495,951	495,951
Additions	-	-	-	-
Disposals	-	-	-	-
Closing balance	495,951	495,951	495,951	495,951
Accumulated Depreciation				
Opening balance	(12,455)	(11,686)	(12,455)	(11,686)
Depreciation for year	-	(769)	-	(769)
Disposals	-	-	-	-
Closing balance	(12,455)	(12,455)	(12,455)	(12,455)
Net book value	483,496	483,496	483,496	483,496

Total property, plant & equipment				
- at deemed cost	428,489	573,204	428,489	573,204
- at cost	1,998,621	2,325,632	1,998,621	2,325,632
Total Accumulated depreciation	(1,813,857)	(2,196,761)	(1,813,857)	(2,196,761)
Property, plant & equipment	613,253	702,075	613,253	702,075

Office furniture and equipment, motor vehicles and plant and equipment were last revalued by the Directors as at 31 December 2002. Valuations were based on the Directors' assessments of recoverable values of each asset, having regard to current market values.

## 11. EXPLORATION, EVALUATION AND PRE-DEVELOPMENT EXPENDITURE

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Exploration and evaluation expenditure, at cost				
Expenditure brought forward	2,109,430	1,608,964	1,108,883	608,417
Less: transfer to pre-development	-	-	-	-
Add: expenditure for year	535,576	500,466	2,861	500,466
Less: expenditure written off on areas relinquished		-		-
	<u>2,645,006</u>	<u>2,109,430</u>	<u>1,111,744</u>	<u>1,108,883</u>
Provision for impairment				
Provision brought forward	602	602	-	-
Add: Increase during year	-	-	-	-
	<u>602</u>	<u>602</u>	<u>-</u>	<u>-</u>
Exploration and evaluation expenditure	<u>2,644,404</u>	<u>2,108,828</u>	<u>1,111,744</u>	<u>1,108,883</u>
Pre-development expenditure, at cost				
Expenditure brought forward	10,187,467	9,525,567	7,934,452	7,272,552
Add: transfer from exploration and evaluation	-	-	-	-
Add: expenditure for year	118,000	661,900	118,000	661,900
Add back Interco profit elimination		-	43,106	-
	<u>10,305,467</u>	<u>10,187,467</u>	<u>8,095,558</u>	<u>7,934,452</u>
Provision for impairment				
Provision brought forward	2,019,850	2,019,850	676,799	676,799
Less: decrease during year	-	-	-	-
	<u>2,019,850</u>	<u>2,019,850</u>	<u>676,799</u>	<u>676,799</u>
Pre-development, net	<u>8,285,617</u>	<u>8,167,617</u>	<u>7,418,759</u>	<u>7,257,653</u>
Total exploration, evaluation and pre-development expenditure	<u>10,930,021</u>	<u>10,276,445</u>	<u>8,530,503</u>	<u>8,366,536</u>

The exploration and evaluation expenditure has been accounted for on the basis set out in Note 1 and relates to areas of interest in the exploration phase and which have not yet reached the stage where a reasonable estimate of the existence or otherwise of economically recoverable reserves can be made. Pre-development exploration expenditure has been accounted for on the basis set out in Note 1. Pre-development expenditure relates to areas of interest in the sampling and trial mining phase and for which the directors believe economically recoverable mineral reserves have not yet been established, and commercial levels of production have not yet commenced. No amortisation is provided in respect of such expenditure until commercial mining has commenced.

The ultimate recovery of the costs incurred on areas for which current title is held is dependent upon the successful exploration, exploitation and development of areas of interest or by their sale, and accordingly is uncertain. As disclosed in Note 1, the directors will need to raise further capital from share placements and/or rights issues to enable ongoing activity in these areas of interest.



## 12. DEVELOPMENT PROPERTIES

	Consolidated Group		Parent Entity	
	2009	2008	2008	2007
	\$	\$	\$	\$
Development properties expenditure, at cost				
Expenditure brought forward	2,298,388	2,290,472	-	-
Add: expenditure for year	-	7,916	-	-
Less: mine impairment	(2,298,388)	-	-	-
	-	2,298,388	-	-
Provision for impairment				
Provision brought forward	5,498	5,498	-	-
Less: decrease during year	(5,498)	-	-	-
	-	5,498	-	-
Total development properties expenditure	-	2,292,890	-	-

## 13. PAYABLES

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Unsecured				
Trade creditors	40,725	134,574	40,725	134,574
Accrued expenses	109,979	84,773	93,371	60,156
Total payables	150,704	219,347	134,096	194,730

## 14. PROVISIONS

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
CURRENT				
Rehabilitation of mining properties	85,923	85,923	25,000	25,000
Annual Leave	66,966	67,774	48,580	42,172
Total provisions	152,889	153,697	73,580	67,172

Obligations under exploration and mining leases granted by NSW Department of Mineral Resources are secured against cash deposits with the NSW Department of Mineral Resources. Included with Cash and cash equivalents of \$ 774,376 for the consolidated entity (2008 – \$ 417,640) are cash deposits of \$386,246 (2008 - \$386,246) held by the NSW Department of Mineral Resources, Queensland Department of Natural Resources & Energy and Victorian Department of Primary Industry as security against rehabilitation of mining properties.

## 15. FINANCIAL LIABILITIES

NON-CURRENT Secured liabilities	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Bank Loan	330,000	330,000	330,000	330,000

The carrying amounts of non-current assets pledged as security are:

First Mortgage	2009	2008	2009	2008
Freehold land & buildings	483,496	483,496	483,496	483,496
Cash and cash equivalents	128,066	128,066	128,066	128,066

The bank loan is for a term of ten years and expires on 22 December 2015. Repayments are interest only for 3 years and principal and interest from 22 December 2008 to repay the loan over the remaining term of seven year.

## 16. ISSUED CAPITAL

	2009		2008	
	Number of shares	\$	Number of shares	\$
Issued capital fully paid				
At the beginning of the year	1,616,968,122	49,788,859	1,498,288,472	48,713,807
Issued during the year (a)	450,638,558	1,682,271	118,679,650	1,075,052
On issue at the end of the year	<u>2,067,606,680</u>	<u>51,471,130</u>	<u>1,616,968,122</u>	<u>49,788,859</u>
Issued capital partly paid				
At the beginning of the year	73,724,328	100,000	73,724,328	100,000
Issued during the year	-	-	-	-
On issue at the end of the year	<u>73,724,328</u>	<u>100,000</u>	<u>73,724,328</u>	<u>100,000</u>
Total shares on issue at the end of the year	<u>2,141,331,008</u>	<u>51,571,130</u>	<u>1,690,692,450</u>	<u>49,888,859</u>

During the year, a total of 450,594,558 (2008 – 118,679,650) fully paid listed shares were issued to provide an increase in working capital and funds for the carrying out the Company's exploration and mining program.

## 17. RESERVES

	Consolidated Group		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Asset revaluation reserve	108,516	108,516	108,516	108,516

The Asset revaluation reserve records revaluations of non-current assets.

## 18. EARNINGS PER SHARE

	Consolidated Group	
	2009	2008
Basic earnings per share (cents per share)	Cents (0.21)	Cents (0.09)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>1,418,211,387</u>	<u>1,230,613,288</u>

## 19. FINANCIAL REPORTING BY SEGMENTS

The consolidated entity and parent entity operate predominantly in one industry and one geographic area, being the participation in prospecting and mining for rubies, diamonds and sapphires within Australia.

## 20. OTHER COMMITMENTS

### Exploration

To retain its interest in various permits the consolidated entity is committed to contribute its share of costs as they are incurred. Due to the nature of the consolidated entity's operations in the exploration and evaluation of areas of interest it is not possible to forecast the nature or amount of such future expenditure.

### Guarantees

Bank guarantees in respect of the controlled entity's share of mineral exploration expenditure commitments for certain areas of interest which were outstanding at 31 December, 2009 amounted to \$115,000 for the consolidated entity (2008 - \$115,000) and \$Nil for the parent entity (2008 - \$Nil).

### Security Deposit

Security deposits have been lodged with the NSW Department of Mineral Resources, Queensland Department of Natural Resources and Mines Guyra Shire Council, the Commonwealth Bank and the Westpac Banking Corporation. Included in Cash and cash equivalents of \$774,376 for the consolidated entity (2008 - \$417,640) are short term deposits of \$386,246 (2008 - \$386,246).

## 21. CASH FLOW INFORMATION

### (a) Reconciliation of Cash

For the purpose of the Cash Flow Statement, cash includes cash on hand and at banks and deposits. Cash at the end of the financial year in the Cash Flow Statement is reconciled to Cash and cash equivalents in the Balance Sheet as follows:

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash and cash equivalents	774,376	417,640	738,017	382,187

**(b) Reconciliation of Cash Flow from Operations with Loss after Income Tax**

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loss from after income tax	(3,030,439)	(1,153,119)	(4,311,524)	(996,082)
Non Cash Flows in Loss from Ordinary Activities				
Write off interco loan			3,655,821	-
			-	-
Depreciation expense	47,281	146,927	4,205	35,532
Audit fee accrual	20,000	20,000	12,000	12,000
Write-off of exploration and development properties expenditure	2,292,890	-	-	-
(Profit)/Loss on disposal of property, plant & equipment	( 222,117)	(3,000)	(222,117)	(3,000)
Stock write-down	22,677	16,888	22,677	1,248
Change in assets and liabilities (Decrease) / increase in creditors and provisions	(97,781)	67,485	(66,226)	65,126
Decrease / (increase) in receivables	15,658	71,279	7,919	13,880
Decrease / (increase) in inventories	7,885	(45,593)	7,885	1,080
Net cash outflow from operating activities	<u>(943,946)</u>	<u>(879,133)</u>	<u>( 889,360)</u>	<u>(870,216)</u>

**22. STAFF COSTS**

**Remuneration of Directors**

The number of directors of the parent entity and of the consolidated entity who received, or were due to receive, remuneration including brokerage, commissions, bonuses and salaries, directly or indirectly, from the parent entity or any related corporation, as shown in the following bands, were:

\$	2009	2008
10,000 - 19,999	0	1
20,000 - 29,999	0	1
40,000 - 59,999	0	0
80,000 - 89,999	0	1
90,000 - 99,999	1	0
170,000 - 199,999	1	1

The aggregate remuneration of the directors referred to in the above bands is \$284,740 (2008 - \$315,144).

**Superannuation Commitments**

The consolidated entity contributes to a number of superannuation funds in respect of superannuation guarantee obligations to employees and salary sacrifice.

**23. COMPARATIVE INFORMATION**

Where required by Accounting Standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

## DIRECTORS' DECLARATION

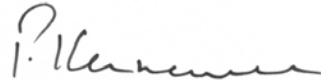
The director's of the company declare that:

1. the financial statements and notes are in accordance with the Corporations Act 2001:
  - i) comply with Accounting Standards and the Corporations Regulations 2001; and
  - ii) give a true and fair view of the financial position as at 31 December 2009 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and the Chief Finance Officer have each declared that:
  - i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - ii) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - iii) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



SCOTT ENDERBY  
Director



PETER KENNEWELL  
Director

Hornsby, NSW  
15 March 2010

## STATEMENT OF CORPORATE GOVERNANCE

### THE BOARD OF DIRECTORS

The Company, being an independent exploration and mining company, operates such that the majority of management and other decisions are undertaken by the Board of Directors directly. Accordingly, the Board takes responsibility for corporate governance and operates in accordance with the following principles:

- the Board comprises a minimum of four directors;
- not less than half the Board should be Non-executive Directors;
- the Chairman should be a Non-executive Director who is elected by the full Board;
- the Board should comprise Directors with a broad range of skills and experience relevant to the business of the Company; and
- the issue of board membership is generally a matter to be decided by the shareholders at general meetings.

### INDEPENDENT PROFESSIONAL ADVICE

Directors may seek independent professional advice at the Company's expense with the approval of the Board of Directors.

### TRADING POLICY

The Company's policy regarding directors and employees trading in its securities is set by the Remuneration Committee. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

### REMUNERATION POLICIES

The remuneration of directors is determined by the Remuneration Committee based on commercial rates relevant to the nature of services provided. The members of the Remuneration Committee during the year were P Kennewell, S Enderby, I Johns and P Ashcroft. The remuneration is disclosed in notes 21 and the director's report.

### AUDIT COMMITTEE

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the consolidated group. It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report. Among its specific responsibilities, the committee reviews and advises the Board on the nomination and remuneration of auditors and reviews the terms of their engagement, and the scope and quality of their audit.

The members of the Audit Committee during the year were P Kennewell, S Enderby, I Johns and P Ashcroft.

# INDEPENDENT AUDIT REPORT

To the Members of Cluff Resources Pacific NL:

## Scope

I have audited the financial report of Cluff Resources Pacific NL and controlled entities for the financial year ended 31 December 2009 as set on pages 14 to 33. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. I have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

My audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. My procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with my understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

## Independence

In conducting my audit I followed applicable independence requirements of Australian professional and ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, I declare to the best of my knowledge and belief that the auditor's independence declaration set out on page 38 of the financial report has not changed as at the date of providing my audit opinion.

## Audit Opinion

In my opinion, the financial report of Cluff Resources Pacific NL is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001 and
- (b) other mandatory professional reporting requirements in Australia

## Inherent Uncertainty Regarding Continuation as a Going Concern and Recoverability of Assets

Without qualification to the opinion expressed above, attention is drawn to the following matter:

As a result of the matter described in Note 1, there is uncertainty whether the company will be able to continue as a going concern, and therefore, whether it will realize its assets and extinguish its liabilities in the normal course of business, and at the amounts stated in the financial statements.

Included in current assets are gemstone inventories of \$99,419 and in other non-current assets, exploration, evaluation and pre development expenditure of \$10,930,019. The ability of the company to continue as a going concern is dependent on the recovery of the book value of these assets, the raising of further capital through rights issues and share placements, successful development of current and future areas of interest and the expansion of new markets for the company's gemstone products.

**Ronald Smith & Co**  
**Chartered Accountant**



**Ronald Hamilton Smith**  
**Signed at Hornsby, NSW on 15 March 2010**

AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF CLUFF RESOURCES PACIFIC LIMITED

I declare to the best of my knowledge and belief that during the year ended 31 December 2009 there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

**Ronald Smith & Co**  
**Chartered Accountant**

A handwritten signature in black ink that reads "Ronald Smith". The signature is written in a cursive, flowing style.

**Ronald Hamilton Smith**

**Signed at Hornsby, NSW on 15 March 2010**



## SUBSTANTIAL SHAREHOLDERS

The company's register of substantial shareholders recorded the following information as at 15 March 2010. Shareholdings in this name represent 5 percent or more of each class of equity.

Name	Number	% of Holdings
<b>Fully paid shares</b>		
Citicorp Nominees Pty Limited	128,891,872	6.19 %
Johns Corporation Pty Ltd (Johns Family A/C)	153,372,167	7.37 %
<b>Listed July 31 2010 Options exercisable at \$0.006</b>		
Reef Securities Limited	50,000,000	14.89 %
Citicorp Nominees Pty Limited	40,383,555	12.02 %
<b>Listed July 31 2011 Options exercisable at \$0.01</b>		
Citicorp Nominees Pty Limited	40,383,555	12.02%
<b>Partly paid shares</b>		
Television Corporation of Australia Pty Limited	73,724,328	100.00%

## SPREAD OF SHAREHOLDINGS AND VOTING RIGHTS

At 15 March 2010 there were 7,634 holders of shares. The shareholders are entitled to one vote for each share held.

Distribution of Shareholdings	Shareholders
1 - 1,000	159
1,001 - 5,000	780
5,001 - 10,000	766
10,001 - 100,000	3,679
Over 100,001	<u>2,250</u>
	<u>7,634</u>

As at 15 March 2010 there were 5,639 shareholders holding less than a marketable parcel of 125,000 shares.

## TWENTY LARGEST SHAREHOLDERS AND OPTIONHOLDERS

The 20 largest holders of fully paid ordinary shares held 27.56% of the total issued.

The 20 largest holders of listed 31 July 2010 \$0.006 options held 59.58% of the total issued.

The 20 largest holders of listed 31 July 2011 \$0.01 options held 55.43% of the total issued.

The 20 largest holders of partly paid ordinary shares held 100.00% of the total issued.

The principal registered office in Australia is Unit 1, 30 Leighton Place, Hornsby NSW 2077.  
Telephone (02) 9482 4655. Facsimile (02) 9482 4987.

The share register is held at Advanced Share Registry Ltd, 150 Stirling Hwy Nedlands WA 6009  
Telephone (08) 9389 8033 Fax (08) 9389 7871

The names and addresses of the twenty largest shareholders as at 15 March 2010 have been lodged with the Australian Stock Exchange (Sydney) Limited.

The following are the names of and number of equity securities held by the 20 largest holders as at 15 March 2010.

**Cluff Resources Pacific NL Fully Paid Ordinary Shares  
Top 20 Holdings as at 15-03-2010**

<b>Holder Name</b>	<b>Balance at 15-03-2010</b>	<b>%</b>
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	153,372,167	6.194
CITICORP NOMINEES PTY LIMITED	128,891,872	12.022
PARKVIEW SERVICES (AUSTRALIA) PTY LTD <PARKVIEW SERVICES S/F A/C>	40,666,667	1.954
MR PHILIP MICHAEL BALDACCHINO	33,385,000	1.604
MR PETER KENNEWELL <SUPERANNUATION A/C>	28,238,898	1.357
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS STAFF A/C>	23,280,000	1.119
MR PETER JOHN FALKENSTEIN	20,000,000	0.961
REEF SECURITIES LIMITED	17,980,000	0.864
JONENDERBEE INVESTMENTS PTY LIMITED	14,856,240	0.714
MRS CARMELA BAIAMONTE	12,999,999	0.625
MR THOMAS THOMSON & MRS BARBARA HUTTON THOMSON MR CRAIG STUART THOMSON <THOMSON FAMILY SMSF A/C>	10,423,167	0.549
BOULEVADE INVESTMENTS PTY LTD	10,800,000	0.519
MARNET PTY LTD <THE M L WEINBERG FAMILY A/C>	10,600,000	0.509
MR SCOTT ENDERBY	10,556,666	0.507
MR TERRY LESLIE GALLAGHER	10,000,000	0.481
JACOBS CORPORATION PTY LTD	10,000,000	0.481
DR MARK JOHN OBLAK	10,000,000	0.481
MR RODNEY KENNETH DAVISON	9,600,000	0.461
MR VICTOR STANLEY KUDRA & MRS AMANDA EILEEN KUDRA <VSK & AEK FAM RETIREMENT A/C>	9,040,000	0.434
BEFAVO PTY LTD <H G SHORE SUPER FUND A/C>	8,717,401	0.419
	573,408,077	27.557
<b>TOTAL FULLY PAID ORDINARY SHARES</b>		<b>2,080,806,680</b>

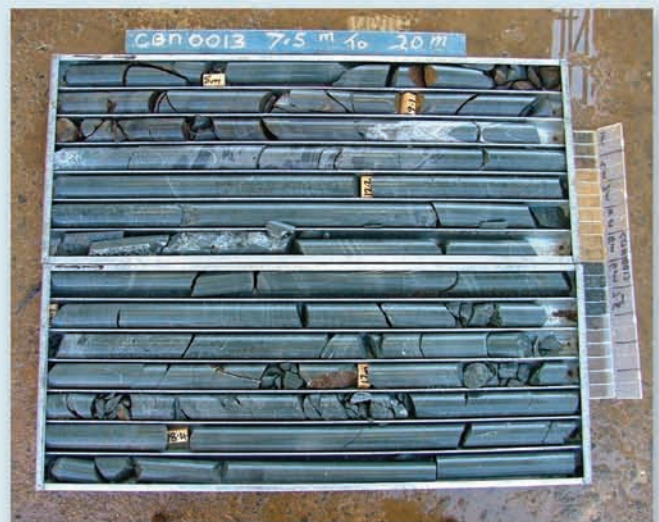
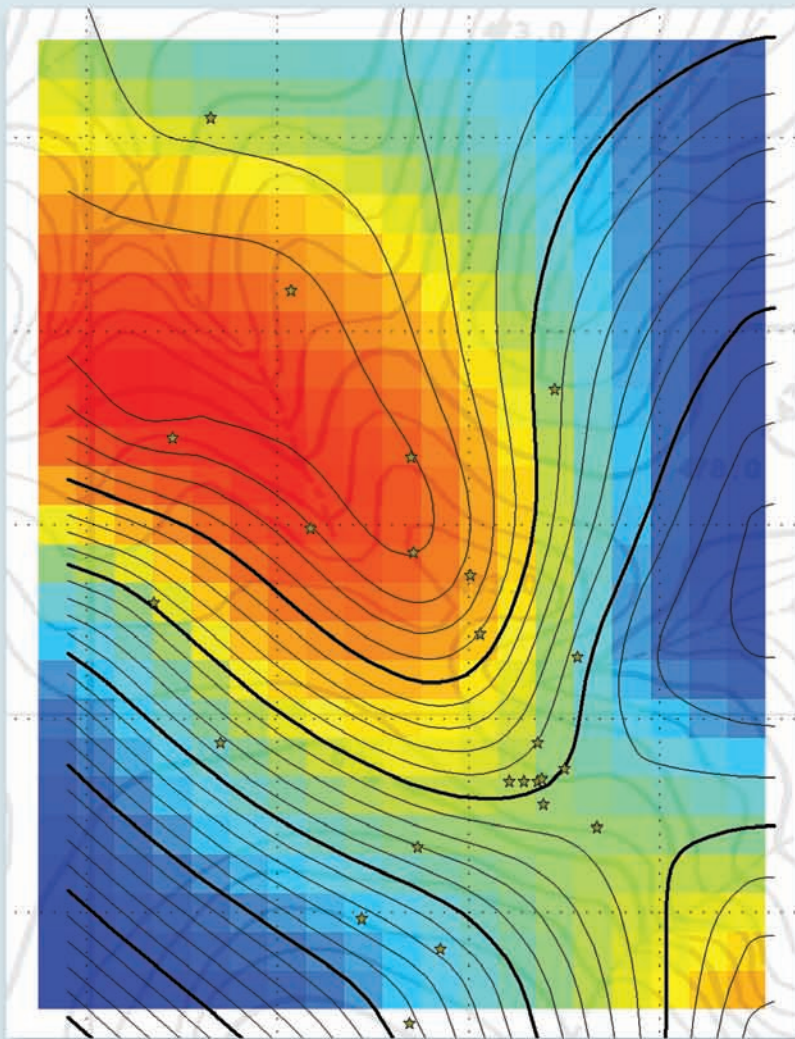
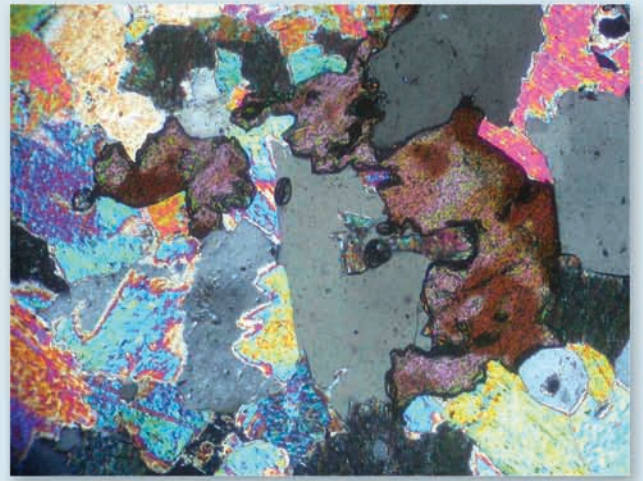
**Cluff Resources Pacific NL Listed 21 July 2010 \$0.006 Options  
Top 20 Holdings as at 15-03-2010**

<b>Holder Name</b>	<b>Balance at 15-03-2010</b>	<b>%</b>
REEF SECURITIES LIMITED	50,000,000	14.885
CITICORP NOMINEES PTY LIMITED	40,383,555	12.022
JESTAR PTY LIMITED	14,016,800	4.173
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	13,089,805	3.897
MR PETER JOHN FALKENSTEIN	13,000,000	3.870
MR MATTHEW DAVID BURFORD	10,688,772	1.375
SERLETT PTY LTD <DILIGENT SUPER FUND A/C>	8,600,000	2.560
FNL INVESTMENTS PTY LTD <STAFF SUPER FUND A/C>	7,516,000	2.238
KEFU UNDERWRITERS PTY LIMITED	6,016,800	1.791
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS STAFF A/C>	5,400,000	1.608
FNL INVESTMENT PTY LTD	5,016,666	1.493
MR MATTHEW DAVID BURFORD	4,620,000	1.375
MR IAN ANTHONY JOHNS	4,184,202	1.246
VAGG INVESTMENT MANAGEMENT SERVICES	3,016,800	0.898
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS PROV FND A/C>	2,533,333	0.754
MRS WENDY CHERIE EDWARDS	2,526,000	0.752
ASHWARE HOLDINGS PTY LTD C/- MRS J ASHCROFT	2,500,000	0.744
GRANT AND JUDITH KELLY PTY LTD <GRANT & JUDITH KELLY FT A/C>	2,500,000	0.744
JONENDERBEE INVESTMENTS PTY LTD	2,476,040	0.509
MRS CARMELA BAIAMONTE	2,166,666	0.507
	200,252,105	59.578
<b>TOTAL LISTED 31 JULY 2010 \$0.006 OPTIONS</b>		<b>336,115,766</b>

**Cluff Resources Pacific NL Listed 21 July 2011 \$0.01 Options  
Top 20 Holdings as at 15-03-2010**

<b>Holder Name</b>	<b>Balance at 15-03-2010</b>	<b>%</b>
CITICORP NOMINEES PTY LIMITED	40,383,555	12.016
REEF SECURITIES LIMITED	16,470,348	4.901
JESTAR PTY LIMITED	14,016,800	4.171
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	13,089,805	3.895
MR PETER JOHN FALKENSTEIN	13,000,000	3.868
MR MATTHEW DAVID BURFORD	10,688,772	3.180
MR JOHN RICHARD HABIB & DR JANE FRANCIS HABIB	10,000,000	2.975
SERLETT PTY LTD <DILIGENT SUPER FUND A/C>	8,600,000	2.559
FNL INVESTMENTS PTY LTD <STAFF SUPER FUND A/C>	7,516,000	2.236
KEFU UNDERWRITERS PTY LIMITED	6,016,800	1.790
MR PETER ANDREW THOMPSON & MRS JENNIFER ROBYN THOMPSON	6,000,000	1.785
G J ALT PTY LIMITED	5,900,000	1.755
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS STAFF A/C>	5,400,000	1.607
FNL INVESTMENT PTY LTD	5,016,666	1.493
DR MARK JOHN OBLAK	5,000,000	1.488
MR MATTHEW DAVID BURFORD	4,620,000	1.375
MR BRUCE WARREN CLARK	4,400,000	1.309
MR IAN ANTHONY JOHNS	4,184,202	1.245
VAGG INVESTMENT MANAGEMENT SERVICES	3,016,800	0.898
GOFFACAN PTY LIMITED	2,971,848	0.884
	186,292,262	55.429
<b>TOTAL LISTED 31 JULY 2011 \$0.01 OPTIONS</b>		<b>336,093,366</b>

**The following pages have been intentionally left blank.**



Clockwise from top left:

1. Diamond core drilling at the Bingara Diamond Project
2. Petrographic thin section of Bingara drill core
3. Exploration trench, Bingara
4. Drill core of pelletal claystone from Bingara
5. GIS mapping of thickness of the pelletal claystone



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