

Cluff Resources Pacific NL
ABN 72 002 261 565

Financial Report for the Financial Year Ended 31 December 2010

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CORPORATE GOVERNANCE STATEMENT

Overview

The Board of directors of Cluff Resources Pacific NL are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the “Principles of Good Corporate Governance and Best Practice recommendations” set by the ASX Corporate Governance Council (“CGC”).

Where there has been a variation or departure from these recommendations, it is because the board believes that the company is not yet of sufficient size nor are its financial affairs of such complexity to justify some of these recommendations. Recommendations not followed have been disclosed with the reasons for the departure.

Compliance with ASX Corporate Governance Council best practice recommendations

The ASX listing rules require publicly listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations.

This statement provides details of the company’s adoption of the best practice recommendations.

Principle 1 – Lay solid foundations for management and oversight

Companies should establish and disclose their respective roles and responsibilities of Board and management.

Board Responsibilities

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

Directors Education

The company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

CORPORATE GOVERNANCE STATEMENT (CONT.)

Role of Executive Officers

The Executive Officers are responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring the Directors are properly briefed for meetings. The Executive Officers are also responsible for implementing the Consolidated Group's strategies and Board policies.

Performance is assessed against pre-determined objectives on a regular basis and the non-executive officers provide an oversight function.

Role of Chairman

The Chairman is responsible for ensuring that general meetings are conducted efficiently and shareholders have adequate opportunity to air their views and obtain answers to their queries. The Chairman also presents the view of the Board formally.

Principle 2 – Structure the board to add value

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

Board of directors

Composition of the Board

The Board of directors is comprised of an executive Director and two non-executive Directors, all of whom have a broad range of skills and experience.

The Company does not comply with recommendations 2.1 and 2.2 which recommend that the majority of the Board consist of independent Directors and the chair should be an independent director.

Each director's independence status is regularly assessed by the board.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Due to the size of the Board, there are currently no independent directors.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the company in its current circumstances. It is the intention of the Board to appoint independent directors when it is cost effective and appropriate to do so.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of ten.

Details of the members of the board, including their experience, expertise and qualifications are set out in the director's report on page 7.

The position/status and term in office of each Director at the date of this report is as follows:

Name of Director	Position/Status	Term in Office
Peter Ashcroft	Chairman	2 years 3 months
Ian Johns	Non-Executive Director	2 years 3 months
Scott Enderby	Executive Director, Company Secretary	14 years, 11 months

The Board met ten times during the year and Directors attendance is disclosed on page 9 of the Director's Report.

CORPORATE GOVERNANCE STATEMENT (CONT.)

Access to independent professional advice

All directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, each Director has the right of access to all relevant company information and to the Company's Executives. The Directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of this resource is co-ordinated through the Chairman of the board.

Nomination committee

The Australian Securities Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee and all matters that would normally be the responsibility of a nominations committee are dealt with by the full Board of Directors.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next annual general meeting of shareholders.

For Directors retiring by rotation, the board assesses that director before recommending re-election.

Board performance evaluation

The company has processes in place to review the performance of the board and its committees and individual Directors. Each year the board of Directors give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Principle 3 – Promote ethical and responsible decision making

Companies should actively promote ethical and responsible decision making.

Code of conduct

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the Consolidated Group.

The shareholder communications strategy, the securities trading policy and continuous disclosure policy collectively form a solid ethical foundation for the company's ethical practices.

Policy on dealing in Company securities

The Company has a policy on how and when the Directors and employees may deal in the Company's securities. The purpose of this policy is to ensure that the Directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all Directors and employees to seek approval from the Chairman and Company Secretary prior to dealing in the Company's securities.

The Company has introduced compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

Principle 4 – Safeguard Integrity in financial reporting

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

CORPORATE GOVERNANCE STATEMENT (CONT.)

Audit committee

The Board has not yet formed an audit committee as it does not consider the Company and the Board to be currently of sufficient size to justify the establishment of a separate Audit Committee. All matters normally considered by the Audit Committee are dealt with by the Board of Directors.

External auditors

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board receives regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

The current auditor, Ronald Smith & Co. was appointed at the annual general meeting of the company held on 30 May 2008.

The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years. Ronald Smith & Co. confirms that they conform to the requirements of the statement.

Ronald Smith & Co are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

Principle 5 – Making timely and balanced disclosure

Companies should promote timely and balanced disclosure of the matters concerning the company. The company promotes timely and balanced disclosure of any material matters concerning the company.

The Company has a written policy on information disclosure that focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary, in consultation with the Chairman, is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

Principle 6 – Respect the rights of shareholders

Companies should respect the rights of shareholders and facilitate their effective exercise of those rights.

Communication with shareholders

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

CORPORATE GOVERNANCE STATEMENT (CONT.)

The Company achieves this through the following avenues:

Regular mailings

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

General meetings

All shareholders are invited to attend the Annual General Meetings which are held in Sydney. The full Board and senior executives are present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

The Company also posts corporate information on its website (www.cluff.com.au).

Principle 7 – Recognise and manage risk

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the company performance in light of risks identified by such reports.

Management are also required to design implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Board does not require written confirmation from the Chief Executive Office that the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control system is operating efficiently in all material respects. The Board considers that given its current size and structure it is neither appropriate nor effective for confirmation to take place.

Principle 8 – Remunerate fairly and responsibly

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that the relationship to performance is clear.

The role of the remuneration committee is undertaken by the full board of Directors.

The main responsibilities of a remuneration committee are: -

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan;
- review and approve the remuneration levels for non-executive Directors;

The Board meets for remuneration committee purposes as often as required but no less than once per year.

CORPORATE GOVERNANCE STATEMENT (CONT.)

Executive Directors and executive remuneration

The Board jointly reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the company's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Non-executive directors

Remuneration of Non-Executive Directors is determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Non-Executive Directors have the right to participate in the Company's Employee Share Purchase Plan.

Further information on directors and executive remuneration is included in the remuneration report which forms part of the directors' report.

Cluff Resources Pacific NL
ABN 72 002 261 565 and Controlled Entities

DIRECTORS' REPORT

In respect of the financial year ended 31 December 2010, the Directors of Cluff Resources Pacific NL present their report together with the Financial Report of the Company and the Consolidated Financial Report of the Consolidated Group, being the Company and its controlled entities, and the Auditor's Report thereon.

DIRECTORS

The following persons held office as Directors of Cluff Resources NL at anytime during or since the end of the financial year:

Mr Peter J Ashcroft
Mr Peter J Kennewell (terminated 8 June 2010)
Mr Scott M Enderby
Mr Ian A Johns

Unless otherwise stated all Directors have been in office for the whole of the period.

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.

Information on Directors in Office at the Date of this Report

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.

Scott Enderby 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 has held the position of Company Secretary for the past 6 years.

Ian Johns Director

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

Principal Activities

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

DIRECTORS' REPORT (CONT.)

Results of Operations

The consolidated loss (prior to other comprehensive income) for the Consolidated Group for the financial year ended 31 December 2010 is \$868,286 (2009: \$3,030,439).

Dividends

No dividends were paid or declared by the Consolidated Group since the end of the previous financial year and the Directors do not recommend dividends be paid for the year ended 31 December 2010.

Review of operations

A review of the operations of the Consolidated Group during the financial year and the result of those operations precedes this report. During the year the Consolidated Group has continued the development of its diamond exploration and tin exploration projects, conducted negotiations over projects in India, and entered into an MOU and subsequent Joint Venture over gold and gemstone mining tenements in Madagascar. These activities have been funded by existing cash reserves, the exercise of options into shares and sale of Group assets.

Significant changes in the state of affairs

During the year the Consolidated Group raised \$1,009,879 from share issues net of costs of capital and the exercising of options (2009: \$1,302,271). 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 Group during the financial year.

Likely Developments and Expected Results of Operations

In 2011, the Company expects to change its strategic direction from developing its diamond exploration projects in New South Wales towards the exploration and production of gold and gemstones in Madagascar. This is to be undertaken as a joint venture with Varun Madagascar and has been referenced in ASX announcements throughout early 2011.

The Company also plans to rationalise its corporate structure by winding up several of its unused subsidiaries and applying for their deregistration with ASIC. These companies held no tenements and have no other assets or legal liabilities.

Matters Subsequent to Year End

At the date of this report the following events have arisen since 31 December 2010 and will significantly affect the operations of the Consolidated Group:

- Post balance date, the Company has attained 35% share ownership in Varun Cluff International SARL in Madagascar (a company incorporated in the legal jurisdiction of Madagascar), which is the beneficial holder of three permits, including two mining licence equivalents and one exploration licence;
- In January 2011, the Company announced work programs for the Madagascar joint venture tenements, which require further exploration and expenditure under the terms of the joint venture. This had an indicative capital requirement of \$400,000 AUD in addition to other reasonable costs;
- On 3 February 2011, the Company announced that funding had been secured for these work programs via a underwritten placement to sophisticated investors which raised \$426,000 (\$415,350 after costs of raising capital);

DIRECTORS' REPORT (CONT.)

- Terms of the costs of raising the shares also included the subsequent issue of 9 million unlisted options exercisable at \$0.005 and expiring on 31 December 2012;
- The Company has also successfully negotiated the sale of its land and building in Inverell, NSW, for gross sale price of \$320,000.

There have been no other significant events since balance date.

Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the financial year ended 31 December 2010 and the number of meetings attended by each director were:

Director	Directors Meetings	
	Held whilst in office	Attended
Peter Ashcroft	10	10
Scott Enderby	10	10
Ian Johns	10	10
Peter Kennewell	6	6

Directors' Interests

The Directors' and their associates' interests in shares and options of the Company at 31 December 2010 were:

	Peter Ashcroft	Ian Johns	Scott Enderby
Ordinary shares	50,059,167	159,977,382	10,356,666
<u>Listed options</u>			
\$0.01 expiring 31 July 2011	5,492,500	19,774,007	111,111
<u>Unlisted options</u>			
<i>Employee options</i>			
\$0.005 exercise, expiring 31 Aug 2012	21,660,000	21,660,000	21,660,000
\$0.0033 exercise, expiring 14 Oct 2013	20,000,000	20,000,000	5,000,000
<i>Other options</i>			
\$0.00448 exercise, expiring 31 Dec 2011	10,000,000	10,000,000	-
\$0.00948 exercise, expiring 31 Dec 2011	10,000,000	10,000,000	-
\$0.004 exercise, expiring 31 Dec 2012	10,000,000	10,000,000	-
\$0.01 exercise, expiring 31 Dec 2012	10,000,000	10,000,000	-

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and executives of Cluff Resources Pacific NL.

Directors and Key Management Personnel

The full board of Directors sets remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors, other Senior Executives and Non-Executive Directors.

Executive remuneration and other terms of employment are reviewed annually having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors and executives are also able to participate in an Employee Share Scheme.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing Consolidated Group's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by shareholders from time to time.

The Board undertakes an annual review of its performance and the performance of the board Committees against goals set at the start of the year.

Details of the nature and amount of each element of the emoluments of each Director of Cluff Resources Pacific NL are set out below.

Directors

Names and positions held of key management personnel in office at any time during the financial year are:

Key Management Personnel	Position
Peter Ashcroft	Chairman
Scott Enderby	Director and Company Secretary
Ian Johns	Director
Peter Kennewell	Director, terminated 8 June 2010

DIRECTORS' REPORT (CONT.)

Key Management Personnel Compensation

	Salary, wages and directors fees \$	Bonus \$	Non-monetary benefits \$	Other employee entitlements \$	Total \$
2010					
Directors	137,588	-	180,000	27,712	345,300
Total Compensation	137,588	-	180,000	27,712	345,300
2009					
Directors	217,168	-	-	67,575	284,743
Total Compensation	217,168	-	-	67,575	284,743

Shares Held by Key Management Personnel and Their Associates

	Balance 1 Jan 2010	Granted as Compensation	Purchases	Disposals	Balance 31 Dec 2010
Peter Ashcroft	50,059,167	-	-	-	50,059,167
Ian Johns	159,977,382	-	-	-	159,977,382
Scott Enderby	12,266,666	-	-	(1,910,000)	10,356,666
Total	222,303,215	-	-	(1,910,000)	220,393,215

Options Held by Key Management Personnel and Their Associates

Peter Ashcroft	82,645,000	40,000,000	13,000,000	(48,492,500)	87,152,500
Ian Johns	101,208,014	40,000,000	41,000,000	(80,774,007)	101,434,007
Scott Enderby	26,782,222	5,000,000	9,000,000	(14,011,111)	26,771,111
Total	210,635,236	85,000,000	63,000,000	(143,277,618)	215,357,618

Loans to Directors and Key Management Personnel

There were no loans made to directors or key management personnel of the Company and the Consolidated Group during the period commencing at the beginning of the financial year and up to the date of this report.

Retirement, Election and Continuation in Office of Directors

At the Annual General Meeting held on 8 June 2010, shareholders resolved to remove Mr Peter Kennewell as Managing Director of the Company and its subsidiaries.

DIRECTORS' REPORT (CONT.)

ENVIRONMENTAL REGULATIONS

The Consolidated Group's operations are subject to normal Government Environmental Regulations. There were no breaches of these regulations during the financial year and up to the date of this report.

INDEMNIFICATION

During or since the end of the financial year the Company has not been indemnified or made a relevant agreement to indemnify an officer or auditor of the Company or any related entity against liability incurred as such an officer or auditor. In addition, the Company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or an auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

DECLARATION BY THE CHAIRMAN AND COMPANY SECRETARY

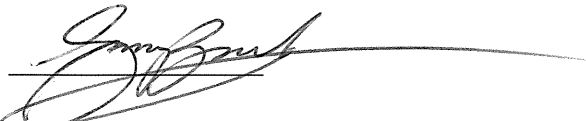
The Directors have received and considered declaration from the Chairman and Company Secretary in accordance with Section 295A of the Corporations Act. The declaration states that in their opinion the Company's and Consolidated Group's financial reports for the twelve month period ended 31 December 2010 in all material aspects present a true and fair view of the financial position and performance and are in accordance with the relevant accounting standards.

The auditor's independence declaration for the period ended 31 December 2010 has been received and can found on page 13 of the financial report.

Non-audit Services

The external auditor did not provide any non-audit services to the Company during the year ended 31 December 2010.

Signed in accordance with a resolution of the Board of Directors:



Scott Enderby

Director

Sydney 2 March 2011

CLUFF RESOURCES PACIFIC NL
ABN 72 002 261 565
AND CONTROLLED ENTITIES

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

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2010 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



Ronald Hamilton Smith

Signed at Sydney, NSW on 2 March 2011

Cluff Resources Pacific NL

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2010

	Note	Consolidated Group 2010 \$	Consolidated Group 2009 \$	Company 2010 \$	Company 2009 \$
Sales revenue		1,736	11,297	1,736	11,297
Cost of sales		(20,370)	(57,047)	(890)	(30,612)
Gross profit		(18,634)	(45,750)	846	(19,315)
Other revenue	2	242,593	243,099	240,572	243,099
Bad debts expense		-	-	-	(3,655,821)
Depreciation and amortisation expense		(59,942)	(47,281)	(59,942)	(4,205)
Impairment expense		-	(2,292,890)	-	-
Employee benefits expense	5	(237,674)	(207,218)	(237,674)	(207,218)
Equity based employee benefits		(187,644)	-	(187,644)	-
Due diligence and professional services		(294,396)	(172,666)	(292,301)	(164,666)
Finance costs		(19,681)	(52,141)	(16,728)	(50,077)
Exploration expenditure		(73,968)	(83,299)	(56,462)	(83,299)
Other expenses		(218,940)	(372,293)	(218,816)	(370,022)
Loss from ordinary activities before income tax expenses		(868,286)	(3,030,439)	(828,149)	(4,311,524)
Income tax expense relating to ordinary activities	4	-	-	-	-
Loss attributable to members of the parent entity		(868,286)	(3,030,439)	(828,149)	(4,311,524)
Other comprehensive income		183,200	380,000	183,200	380,000
Total comprehensive income for the period		(685,086)	(2,650,439)	(644,949)	(3,931,524)
Basic earnings per share	7	(0.0004)	(0.0021)	(0.0004)	(0.0030)

These financial statements should be read in conjunction with the accompanying notes.

Cluff Resources Pacific NL

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	Consolidated Group 2010 \$	Consolidated Group 2009 \$	Company 2010 \$	Company 2009 \$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	210,478	774,376	52,791	738,017
Inventories		80,084	99,419	25,617	25,145
Trade and other receivables	9	20,217	20,177	27,239	25,125
TOTAL CURRENT ASSETS		310,779	893,972	105,647	788,287
NON-CURRENT ASSETS					
Trade and other receivables	9	237,733	-	9,915,835	1,275,081
Property, plant and equipment	12	202,450	613,254	202,450	613,254
Capitalised exploration assets	13	11,563,121	10,930,019	901,080	8,530,503
TOTAL NON-CURRENT ASSETS		12,003,304	11,543,273	11,019,365	10,418,838
TOTAL ASSETS		12,314,083	12,437,245	11,125,012	11,207,125
CURRENT LIABILITIES					
Trade and other payables	14	101,088	217,670	65,633	182,676
Short term provisions	15	84,550	85,923	25,000	25,000
TOTAL CURRENT LIABILITIES		185,638	303,593	90,633	207,676
NON-CURRENT LIABILITIES					
Financial liabilities		-	330,000	-	330,000
TOTAL NON-CURRENT LIABILITIES		-	330,000	-	330,000
TOTAL LIABILITIES		185,638	633,593	90,633	537,676
NET ASSETS		12,128,445	11,803,652	11,034,379	10,669,449
EQUITY					
Issued capital	16	52,201,009	51,191,130	52,201,009	51,191,130
Reserves	17	183,200	380,000	183,200	380,000
Accumulated losses		(40,255,764)	(39,767,478)	(41,349,830)	(40,901,681)
TOTAL EQUITY		12,128,445	11,803,652	11,034,379	10,669,449

These financial statements should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2010

	Note	Share Capital			Total
		Shares on Issue	Accumulated Losses	Options Reserve	
		\$	\$	\$	
Consolidated Group					
Balance at 1 January 2009		49,888,859	(36,737,039)	-	13,151,820
Loss for the period		-	(3,030,439)	-	(3,030,439)
Other comprehensive income for the period		-	-	380,000	380,000
Total comprehensive income for the period		-	(3,030,439)	380,000	(2,650,439)
Shares issued during the period		1,302,271	-	-	1,302,271
Balance at 1 January 2010		51,191,130	(39,767,478)	380,000	11,803,652
Loss for the period		-	(868,286)	-	(868,286)
Other comprehensive income for the period		-	380,000	(196,800)	183,200
Total comprehensive income for the period		-	(488,286)	(196,800)	(685,086)
Shares issued during the period		1,029,852	-	-	1,029,852
Cost of capital raising		(19,973)	-	-	(19,973)
Balance at 31 December 2010	16	52,201,009	(40,255,764)	183,200	12,128,445
Company					
Balance at 1 January 2009		49,888,859	(36,590,157)	-	13,298,702
Loss for the period		-	(4,311,524)	-	(4,311,524)
Other comprehensive income for the period		-	-	380,000	380,000
Total comprehensive income for the period		-	(4,311,524)	380,000	(3,931,524)
Shares issued during the period		1,302,271	-	-	1,302,271
Balance at 1 January 2010		51,191,130	(40,901,681)	380,000	10,669,449
Loss for the period		-	(828,149)	-	(828,149)
Other comprehensive income for the period		-	380,000	(196,800)	183,200
Total comprehensive income for the period		-	(448,149)	(196,800)	(644,949)
Shares issued during the period		1,029,852	-	-	1,029,852
Cost of capital raising		(19,973)	-	-	(19,973)
Balance at 31 December 2010	16	52,201,009	(41,349,830)	183,200	11,034,379

These financial statements should be read in conjunction with the accompanying notes.

Cluff Resources Pacific NL

ABN 72 002 261 565

CONSOLIDATED STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2010

	Consolidated Group	Consolidated Group	Company	Company
Note	2010	2009	2010	2009
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	6,805	17,337	6,805	17,337
Payments to suppliers and employees	(892,027)	(948,735)	(891,882)	(894,149)
Financial charges	(19,681)	(27,490)	(16,729)	(27,490)
Payments for exploration	(75,340)	-	(56,462)	-
Interest received	25,368	14,942	23,347	14,942
Net cash (used in) operating activities	19 (954,875)	(943,946)	(934,921)	(889,360)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of sale of property, plant and equipment	588,906	222,117	588,906	222,117
Purchase of property, plant and equipment	(26,923)	(12,630)	(26,923)	(12,630)
Payments for exploration	(632,642)	(591,076)	(11,319)	(72,875)
Advances to subsidiaries	-	-	(942,605)	(573,693)
Net cash (used in) investing activities	(70,659)	(381,589)	(391,941)	(437,081)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	1,026,177	1,302,271	1,026,177	1,302,271
Costs of raising share equity	(19,973)	-	(19,973)	-
Proceeds from issue of options	-	380,000	-	380,000
Repayment of third party loan	(330,000)	-	(330,000)	-
Net cash provided by financing activities	676,204	1,682,271	676,204	1,682,271
Net (decrease) increase in cash held	(349,330)	356,736	(650,658)	355,830
Adjustment for reclassification of cash assets to non-current receivables	(214,568)	-	(34,568)	-
Cash and cash equivalents at beginning of financial year	774,376	417,640	738,017	382,187
Cash and cash equivalents at end of financial year	210,478	774,376	52,791	738,017

These financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report includes the consolidated financial statements and notes of Cluff Resources Pacific NL and controlled entities ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Cluff Resources Pacific NL as an individual parent entity ('Company')

Basis of Preparation

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

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are reported below. They have been consistently applied unless stated otherwise.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

a. Principles of Consolidation

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

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a 31 December 2010 financial year-end for this current year.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-company balances and transactions between entities in the Consolidated 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 Company.

Where controlled entities have entered or left the Consolidated Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the consolidated Balance Sheet and in the Consolidated Income Statement.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

b. **Income Tax**

The charge for current income tax expense is based on the results 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 is accounted for using the balance sheet liability method in respect of 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 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 are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

Cluff Resources Pacific NL formed an income tax consolidated group under the tax consolidation regime with its domestic subsidiaries listed under Note 11.

c. **Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to 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:

Class of Fixed Asset	Depreciation Rate
Office equipment and furniture	25%
Plant and equipment	25%
Motor vehicles	25%
Buildings and improvements	2%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

d. **Exploration and Evaluation Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Currently the practice is to capitalise all expenses that have been incurred and are in direct relation to the exploration of resources.

Indirect costs such as administrative and general operational costs will be expensed on the basis that they are necessarily incurred.

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.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

e. **Financial Instruments**

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Investments

Investments in controlled entities are carried in the company's financial statements at cost. All inter-group transactions are eliminated on consolidation.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

f. **Impairment of Assets**

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.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. **Investments in Associates**

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post acquisition reserves of associates.

i. **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of the cash flows.

j. **Equity-settled Compensation**

There has been no equity based compensation with the exception of that described at Note 21. The capital subscribed to as per this note was acquired at fair value at the time of purchase.

Options issues have their fair value determined with reference to an approved valuation methodology, such as the Black-Scholes valuation method. On issue, the fair value of an option is taken to the Income Statements equity settled compensation, with a corresponding credit to the options reserve. This is then disclosed as other comprehensive income in the income statement to show other net profit position of the Group from a third party perspective.

Shares have their value determined using the direct method of share price at date of issue multiplied by the number of shares issued.

k. **Cash and Cash Equivalents**

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

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

l. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established

Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

m. Finance

Finance costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other finance costs are recognised in income in the period in which they are incurred.

n. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows. There is provision made in the cash flow statements to disclose the applicable GST refunds/payments that have been remitted to the ATO to accurately show the cash position of Cluff Resources Pacific NL.

o. Comparative Figures

Comparative figures have been derived from the audited financial statements for Cluff Resources Pacific NL for the year ended 31 December 2009, and changes in presentation are made where necessary to comply with accounting standards.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

p. **Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Key Judgments — Doubtful Debts Provision

As a result of no trading throughout the period, Cluff Resources Pacific NL has no questionable receivables.

Key Judgments — Recoverability of Capitalised Exploration Assets

To date, Cluff Resources Pacific NL has achieved results which have been verified through independent reporting and testing. The capitalised exploration assets are therefore concluded to be fully recoverable at balance date.

In the current year, the Group has adopted all of the new and revised current standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised standards and interpretations' has not resulted in changes to the groups accounting policies.

At the date of authorisation of the financial report the following Australian Accounting Standards have been issued or amended and are applicable to the Company and Consolidated Group but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date and the Directors do not expect that these changes will have a material impact on the financial performance or position in future periods.

q. **Adoption of new and revised accounting standards**

The Consolidated Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant include:

Amendments to AASB 5, 8, 101, 107, 117, 118, 136 and 139 as a consequence of AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

AASB 2009-5 Introduces amendments into Accounting Standards that are equivalent to those made by the IASB under its program of annual improvements to its standards. A number of the amendments are largely technical, clarifying particular terms, or eliminating unintended consequences. Other changes are more substantial, such as the current/non-current classification of convertible instruments, the classification of expenditures on unrecognised assets in the statement of cash flows and the classification of leases of land and buildings.

The adoption of these amendments has not resulted in any changes to the Consolidated Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

r. **Adoption of new and revised accounting standards**

At the date of authorisation of the financial report, new accounting standards have been issued but are not yet effective. Directors do not expect that these changes will have a material effect on the financial report in future periods.

s. **Going concern**

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the financial year ended 31 December 2010, the Consolidated Group incurred a net loss after tax of \$868,286 (2009: loss \$3,030,439). The Group generated negative cash flows from operating activities for the year of \$954,875 (2009: negative \$943,946). The Group's net current asset position at 31 December 2010 was \$125,141 (Company: \$15,014) and its cash balance amounted to \$210,478 (Company: \$52,791) at that date.

The Directors' cash flow forecasts project that the Company and the Group will continue to be able to meet their liabilities and obligations as and when they fall due for a period of at least 12 months from the date of signing of this financial report. The cash flow forecasts are dependent upon the generation of sufficient cash flows from operating activities, or the receipt of additional debt or equity funds, to meet working capital requirements and the ability of the Group to manage discretionary spending.

The Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied as to the ability of the company and the Group to implement the above.

The Directors continue to assess the financing and capital requirements of the Group, which may include the need to raise additional funds to meet future obligations and expansion. However, the Directors believe that the ability of the company and the Group to continue to pay their liabilities and obligations as and when they fall due and to meet their contractual commitments is not dependent upon the raising of additional funds.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the company and the Group not continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

t. **Revision to Previously Issued Financial Report**

This financial report contains information which is different to that reported in the financial report for the year ended 31 December 2009, which was signed and dated by the Directors on 15 March 2010 and lodged with the ASX on 31 March 2010.

In accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, adjustments have been made to the comparative figures for the 31 December 2009 financial year to retrospectively:

- Reduce the amount of share capital contributed during the year ended 31 December 2009;
- Add an Options Reserve which equalled the amount reduced against share capital as there was an error in the prior year which credited options to share equity; and
- Reduce the gain on sale of assets in prior years by the balance of the Asset Revaluation Reserve, which reduced the reserve to nil.

The impact on of this adjustment may be summarised as follows:

	Consolidated Group 2009	Revised Consolidated Group 2009	Company 2009	Revised Company 2009
	\$	\$	\$	\$
Asset revaluation reserve	108,516	-	108,516	-
Options reserve	-	380,000	-	380,000
Accumulated losses	(39,875,994)	(39,767,478)	(41,010,197)	(40,901,681)
Share capital	51,571,130	51,191,130	51,571,130	51,191,130

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 2: REVENUE

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
Other revenue				
— Interest received	25,368	14,942	23,347	14,942
— Profit on disposal of non-current assets	211,121	222,117	211,121	222,117
— Gain on revaluation of inventory	1,034	-	1,034	-
— Other revenue	5,070	6,040	5,070	6,040
Total other income	242,593	243,099	240,572	243,099

NOTE 3: PROFIT FOR THE YEAR

Expenses:

Impairment of pre-development expenditure	-	2,292,890	-	-
Depreciation of plant and Equipment	59,942	47,281	59,942	4,205

NOTE 4: INCOME TAX EXPENSE

The components of tax expense comprise:

Current tax	-	-	-	-
Deferred tax	-	-	-	-
Total	-	-	-	-

Prima facie tax benefit on loss from ordinary activities before income tax at 30%:

Add tax effect of:

— Other non allowable items	56,705	242	56,705	3,641
Subtotal	(203,781)	(908,890)	(191,740)	(1,289,816)
Less tax effect of:				
— Items deductible for taxation but not accounting	(268,451)	(196,072)	(47,686)	(38,113)
Deferred tax assets not brought to account:	(472,232)	(1,104,962)	(239,426)	(1,327,929)
Income tax attributable to entity	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 4: INCOME TAX EXPENSE (CONT.)

The Consolidated Group has carry forward tax losses, calculated according to Australian income tax legislation of \$29,293,372 (2009: \$28,826,577), which will be deductible from future assessable income provided that income is derived, and:

- a) The Company and its controlled entities carry on prescribed mining operations as defined in the income Tax Assessment Act, as appropriate; or
- b) The Company 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 extracting minerals. As appropriate; and
- c) No change in tax legislation adversely affects the Company and its controlled entities in realising the benefit from the deduction 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.

NOTE 5: EMPLOYEE BENEFITS EXPENSE

	Consolidated Entity 2010 \$	Consolidated Entity 2009 \$	Company 2010 \$	Company 2009 \$
Employee benefits incurred during the year:				
— Salaries and wages	197,687	115,156	197,687	115,156
— Superannuation	35,644	69,652	35,644	69,652
— Other employee benefits	4,343	22,410	4,343	22,410
Total:	237,674	207,218	237,674	207,218

NOTE 6: AUDITOR REMUNERATION

Remuneration of the auditor of the Group for:

— auditing or reviewing the financial report	20,000	20,000	20,000	12,000
Total:	20,000	20,000	20,000	12,000

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 7: EARNINGS PER SHARE

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
a. Reconciliation of earnings:				
Loss	(868,286)	(3,030,439)	(828,149)	(4,311,524)
	No.	No.	No.	No.
b. Weighted average number of ordinary shares outstanding during the year used in calculating EPS	2,289,329,624	1,418,211,387	2,289,329,624	1,418,211,387
	\$	\$	\$	\$
c. Basic EPS	(0.0004)	(0.0021)	(0.0004)	(0.0030)
d. Diluted EPS	(0.0004)	(0.0021)	(0.0004)	(0.0030)

NOTE 8: CASH AND CASH EQUIVALENTS

Cash at bank and in hand	210,478	774,376	52,791	738,017
Total	210,478	774,376	52,791	738,017

NOTE 9: TRADE AND OTHER RECEIVABLES

CURRENT

Trade and other receivables from third parties:

— Trade receivables	2,026	16,810	-	3,897
— Other receivables	18,191	3,367	27,239	21,228
Total current assets	20,217	20,177	27,239	25,125

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 9: TRADE AND OTHER RECEIVABLES (CONT.)

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
NON-CURRENT				
Trade and other receivables from third parties:				
— Bonds on deposit	23,165	-	23,165	-
— Deposits with government bodies	214,568	-	34,568	
Trade and other receivables from related parties:				
— Loan to wholly owned subsidiaries	-	-	13,522,453	4,939,432
— Less: provision for impairment	-	-	(3,664,351)	(3,664,351)
Total non-current assets	237,733	-	9,915,835	1,275,081

There is no expectation of the Director's that any of the above amounts are required to be impaired as all amounts are anticipated to be fully recoverable. Whilst the above amounts are unsecured, there is no question as to the creditworthiness of the Group's debtors.

The loans to wholly owned subsidiaries represent unsecured loans from Cluff Resources Pacific NL.

Increases to these loans of \$8,583,021, were largely due to the Company transferring its direct interest in several tenements into subsidiaries of the Group (see Note 13).

Allowance for impairment loss

Trade receivables and other receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual receivable is impaired. No impairment has been recognised by the Consolidated Group and Company in the current year. No receivable is past due.

Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Consolidated Group's policy to transfer on-sell receivables to special purpose entities.

Interest rate risk

Detail regarding interest rate risk exposure is disclosed in Note 23.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 10: FINANCIAL ASSETS

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
Interests in controlled entities				
a. Controlled entities				
Investment at cost	-	-	746,021	746,021
Less: provision for impairment	-	-	(746,021)	(746,021)
Total	-	-	-	-

NOTE 11: CONTROLLED ENTITIES.

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2010
PARENT ENTITY:		
Cluff Resources Pacific NL	Australia	
SUBSIDIARIES OF CLUFF RESOURCES PACIFIC NL:		
NSW Tin Pty Ltd	Australia	100
Cluff Minerals (Australia) Pty Limited	Australia	100
NSW Gold NL	Australia	100
Cluff Mining Pty Limited	Australia	100
Cluff Open Cut Mining Pty Limited	Australia	100
Torian Exploration Pty Ltd	Australia	100
Egerton Gold Pty Limited	Australia	100
Elephant Metals Pty Limited	Australia	100

* Percentage of voting power is in proportion to ownership

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 12: PLANT AND EQUIPMENT

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
OFFICE EQUIPMENT				
At cost	83,381	136,545	83,381	136,545
Accumulated depreciation	(74,622)	(121,941)	(74,622)	(121,941)
Total office equipment	8,759	14,604	8,759	14,604
PLANT AND EQUIPMENT				
At cost	1,034,950	1,556,833	1,034,950	1,556,833
Accumulated depreciation	(967,904)	(1,447,759)	(967,904)	(1,447,759)
Total property, plant and equipment	67,046	109,074	67,046	109,074

NOTE 12: PLANT AND EQUIPMENT (CONT.)

MOTOR VEHICLES				
At cost	107,802	237,781	107,802	237,781
Accumulated depreciation	(107,802)	(231,701)	(107,802)	(231,701)
Total motor vehicles	-	6,080	-	6,080
LAND & BUILDINGS				
At cost	138,900	495,951	138,900	495,951
Accumulated depreciation	(12,255)	(12,455)	(12,255)	(12,455)
Total office equipment	126,645	483,496	126,645	483,496
Total	202,450	613,254	202,450	613,254

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 12: PLANT AND EQUIPMENT (CONT.)

a. Movements in Carrying Amounts

	Office Equipment	Plant and Equipment	Motor Vehicles	Land and Buildings	Total
	\$	\$	\$	\$	\$
Consolidated Group:					
Balance at 1 January 2009	6,181	203,964	8,434	483,496	702,076
Additions	12,629	-	-	-	12,629
Depreciation expense	(4,206)	(94,891)	(2,354)	-	(101,451)
Balance at 1 January 2010	14,604	109,074	6,080	483,496	613,254
Additions	1,913	25,010	-	-	26,923
Disposals	(3,488)	(12,983)	(4,463)	(356,851)	(377,785)
Depreciation expense	(4,270)	(54,054)	(1,618)	-	(59,942)
Balance at 31 December 2010	8,759	67,046	-	126,645	202,450
Company:					
Balance at 1 January 2009	6,181	203,964	8,434	483,496	702,076
Additions	12,629	-	-	-	12,629
Depreciation expense	(4,206)	(94,891)	(2,354)	-	(101,451)
Balance at 1 January 2010	14,604	109,074	6,080	483,496	613,254
Additions	1,913	25,010	-	-	26,923
Disposals	(3,488)	(12,983)	(4,463)	(356,851)	(377,785)
Depreciation expense	(4,270)	(54,054)	(1,618)	-	(59,942)
Balance at 31 December 2010	8,759	67,046	-	126,645	202,450

b.

The movements in the current year accounts were largely due to the rationalisation of the Company's assets in the 2010 financial year.

During the year, all motor vehicles were sold, land and buildings at Hornsby were disposed of with the proceeds used to repay the \$330,000 in outstanding financial liabilities at 31 December 2009.

Other asset sales of general property, property plant and equipment were made through trade sales and auctions to recover funds and rationalise the Groups asset base.

c. Subsequent events regarding Property Plant & Equipment

The company has agreed and signed contracts of sale (sold subject to development approval) to sell the land and buildings at Inverell for a total of \$320,000. Combined, these have a written down value at 31 December 2010 of \$126,645.

Proceeds from the sale will be used to fund the Company's principal activities subsequent to balance date.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 13: CAPITALISED EXPLORATION ASSET

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
Exploration expenditure capitalised	13,578,559	12,945,457	1,577,880	9,207,303
Provision for impairment	(2,015,438)	(2,015,438)	(676,800)	(676,800)
Total	11,563,121	10,930,019	901,080	8,530,503
Balance at beginning of financial year	10,930,019	10,276,445	8,530,503	8,366,536
Additions	633,102	653,574	11,320	163,967
Transfer to subsidiaries	-	-	(7,640,743)	-
Balance at end of financial year	11,563,121	10,930,019	901,080	8,530,503

Intangibles will be amortised once their useful life has been determined when the exploration and development phase has concluded, and production begins.

**NOTE 14: TRADE AND OTHER PAYABLES
CURRENT**

Accounts payable	32,523	40,725	32,523	40,725
Employee benefits payable	32,937	66,966	8,793	48,580
Share applications	770	-	770	-
Other payables	34,858	109,979	23,547	93,371
Total	101,088	217,670	65,633	182,676

NOTE 15: SHORT TERM PROVISIONS

CURRENT

Provision for rehabilitation	84,550	85,923	25,000	25,000
Total	84,550	85,923	25,000	25,000

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 16: ISSUED CAPITAL

	2010		2009	
	No of Shares	\$	No of Shares	\$
Ordinary shares				
<i>Fully Paid</i>				
At the beginning of reporting period	2,067,606,680	51,091,130	1,616,968,122	49,788,859
Shares issued during the year	226,518,398	1,029,852	450,638,558	1,302,271
Costs of raising share capital	N/A	(19,973)	N/A	-
At reporting date	2,294,125,078	52,101,009	2,067,606,680	51,091,130
<i>Partly Paid</i>				
At the beginning of reporting period	73,724,328	100,000	73,724,328	100,000
Shares issued during the year	-	-	-	-
At reporting date	73,724,328	100,000	73,724,328	100,000

The company has authorised share capital amounting to **2,367,849,406** ordinary shares of no par value.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's capital includes ordinary share capital, shares and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distribution to shareholders and share issues.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 17: RESERVES

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
Options reserve	183,200	380,000	183,200	380,000
Total reserves	183,200	380,000	183,200	380,000

The options reserve records the fair value of options on issue.

NOTE 18: SEGMENT REPORTING

The Consolidated Group and Company operate predominantly in one industry and one geographic area, being the participation in prospecting and mining for rubies, diamonds, and sapphires within Australia.

NOTE 19: CASH FLOW INFORMATION

**Reconciliation of Cash Flow from
Operations with Profit after Income Tax**

Loss after income tax	(868,286)	(3,030,439)	(828,149)	(4,311,524)
Non-cash flows in profit:				
Write off on inter-company loan	-	-	-	3,655,821
Depreciation	59,942	47,281	59,942	4,205
Accrued expenses	-	20,000	-	12,000
Write off on capitalised exploration expenditure	-	2,292,890	-	-
Profit on disposal of investments	(211,121)	(222,117)	(211,121)	(222,117)
Write down on inventory	-	22,677	-	22,677
Equity based payments	187,644	-	187,644	
Inventory transferred at cost	-	-	327	-
Changes in current assets and liabilities:				
(Increase)/decrease in trade and term receivables	(20,606)	15,658	(22,679)	7,919
(Increase)/decrease in inventories	19,335	7,885	(472)	7,885
Increase/(decrease) in accounts payable and accruals	(121,783)	(97,781)	(120,413)	(66,226)
Cash flow from operations	(954,875)	(943,946)	(934,921)	(889,360)

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 20: RELATED PARTY TRANSACTIONS

	Consolidated Group	Consolidated Group	Company	Company
	2010	2009	2010	2009
	\$	\$	\$	\$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
— Ashlaw Legal Services	108,740	91,200	108,740	91,200
— Terradoodle Pty Ltd	45,607	-	45,607	-

Mr Peter Ashcroft is the principal of Ashlaw Legal Services, which throughout the year has provided legal advisory and compliance services to the Group. All fees tendered have been on an arm's length basis.

Mr Scott Enderby is a director of Terradoodle Pty Ltd, which the throughout the year has provided company secretarial and other consultancy services to the Group. All fees tendered have been on an arm's length basis.

Key Management Personnel

The following were key management personnel of the Company at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Peter Ashcroft	Chairman
Ian Johns	Director
Scott Enderby	Director, Company Secretary

Shares Held by Key Management Personnel and Their Associates

	Balance 1 Jan 2010	Granted as Compensation	Purchases	Disposals	Balance 31 Dec 2010
Peter Ashcroft	50,059,167	-	-	-	50,059,167
Ian Johns	159,977,382	-	-	-	159,977,382
Scott Enderby	12,266,666	-	-	(1,910,000)	10,356,666
Total	222,303,215	-	-	(1,910,000)	220,393,215

Options Held by Key Management Personnel and Their Associates

Peter Ashcroft	82,645,000	40,000,000	13,000,000	(48,492,500)	87,152,500
Ian Johns	101,208,014	40,000,000	41,000,000	(80,774,007)	101,434,007
Scott Enderby	26,782,222	5,000,000	9,000,000	(14,011,111)	26,771,111
Total	210,635,236	85,000,000	63,000,000	(143,277,618)	215,357,618

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 20: RELATED PARTY TRANSACTIONS (CONT.)

Directors' and Executive Officers' Remuneration

The Board sets all remuneration packages. The broad remuneration policy is to ensure that each senior staff member's remuneration package properly reflects the person's duties and responsibilities. Current market conditions are also taken into account in determining the appropriate remuneration package.

	Salary, wages and directors fees \$	Bonus \$	Non-monetary benefits \$	Other employee entitlements \$	Total \$
2010					
Directors	137,588	-	180,000	27,712	345,300
Total Compensation	<u>137,588</u>	<u>-</u>	<u>180,000</u>	<u>27,712</u>	<u>345,300</u>
2009					
Directors	217,168	-	-	67,575	284,743
Total Compensation	<u>217,168</u>	<u>-</u>	<u>-</u>	<u>67,575</u>	<u>284,743</u>

NOTE 21: SHARE BASED PAYMENTS

On 9 June 2010, 40 million unlisted options were issue to the Directors in lieu of any cash remuneration for non-executive directors' fees for the year from the 2010 AGM to the 2011 AGM, as approved by shareholders at the 2010 AGM. The options are exercisable on or before 31 December 2012 and do not carry any voting or dividend rights and are non-transferrable.

On 14 October 2010, 45 million unlisted options were issued at no consideration to the Directors under the provisions of the Company's Employee Options Scheme. The options are exercisable on or before 14 October 2013 and do not carry any voting or dividend rights and are non-transferrable.

Options granted to key management personnel are as follows:

Grant Date	Number
9 June 2010	40,000,000
14 October 2010	45,000,000

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 21: SHARE BASED PAYMENTS (CONT.)

The company established the Cluff Employee Options Scheme in May 2004 as a long term incentive scheme to recognise talent and motivate executives to strive for group performance. The general terms and conditions of the options are as follows:

- Number of employee options on issue at any given point in time do not exceed 5% of Fully Paid Ordinary Shares in the Company;
- Exercise price is to be determined as no less than 105% of the average of the previous 5 trading days' weighted average share price;
- Eligible employees include executive and non-executive directors and employees;
- The options will be unlisted and are not transferable prior to being exercised.

Options are forfeited after the holders cease to be employed by the Group, unless the board determines otherwise (this is usually only in the case of retirement, redundancy, death or disablement.)

A summary of the movements of all company options issued is as follows:

	Number of Options	Weighted Average Exercise Price
Options Outstanding as at 31 December 2009	941,549,132	0.0075
Granted	374,555,555	0.0083
Forfeited	-	-
Exercised	(19,851,732)	0.0058
Expired	(562,036,034)	0.0064
Options Outstanding as at 31 December 2010	<u>734,216,921</u>	<u>0.0088</u>
Options Exercisable as at 31 December 2010	<u>734,216,921</u>	<u>0.0088</u>

Value of options issued during the year were calculated using the Black-Scholes option pricing model applying the following inputs:

	Options Issued on:				
	9 Jun 2010	9 Jun 2010	9 Jun 2010	9 Jun 2010	14 Oct 2010
Share price	\$0.004	\$0.004	\$0.004	\$0.004	\$0.003
Exercise price	\$0.005	\$0.010	\$0.004	\$0.010	\$0.0033
Days to expiry	206	206	936	936	1096
Interest rate	4.57%	4.57%	4.57%	4.57%	4.90%
Volatility	110%	110%	110%	110%	110%

A basket of comparable companies has been used as a proxy for the volatility of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 21: SHARE BASED PAYMENTS (CONT.)

Shares granted to key management personnel are as follows:

Grant Date	Number
9 June 2010	1,111,111

The value of those fair value equity instruments, determined by reference to market price, was \$0.004.

These shares were issued as compensation to key management of the Group. Further details are provided in the 2010 Results on Annual General Meeting.

Included under equity based employee benefits in the statement of comprehensive income is \$187,644 which relates to equity-settled share based payment transactions.

\$180,000 of this relates to options as issued to the Directors. The balance of \$7,644 was a mixture of shares and options directed to key employees.

NOTE 22: EVENTS AFTER THE BALANCE SHEET DATE

At the date of this report the following events have arisen since 31 December 2010 and will significantly affect the operations of the Consolidated Group:

- Post balance date, the Company has attained 35% share ownership in Varun Cluff International SARL in Madagascar (a company incorporated in the legal jurisdiction of Madagascar), which is the beneficial holder of three permits, including two mining licence equivalents and one exploration licence;
- In January 2011, the Company announced work programs for the Madagascar joint venture tenements, which require further exploration and expenditure under the terms of the joint venture. This had an indicative capital requirement of \$400,000 AUD in addition to other reasonable costs;
- On 3 February 2011, the Company announced that funding had been secured for these work programs via a underwritten placement to sophisticated investors which raised \$426,000 (\$415,350 after costs of raising capital);
- Terms of the costs of raising the shares also included the subsequent issue of 9 million unlisted options exercisable at \$0.005 and expiring on 31 December 2012;
- The Company has also successfully negotiated the sale of its land and building in Inverell, NSW, for gross sale price of \$320,000.

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 23: FINANCIAL INSTRUMENTS

General Objectives, Policies and Processes

The company is exposed to risks that arise from its use of financial instruments. This note describes the company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the company's risk management objectives and policies. The company's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of objectives where such impacts may be material. The Board periodically reviews the effectiveness of the process put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible. Further details regarding these policies are set out below:

Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the group. The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the group.

The maximum exposure to credit risk at balance date is as follows:

	Consolidated Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Trade receivables	2,026	14,784	-	3,897
Security bonds	23,165	-	23,165	-
Deposits with government bodies	214,568	-	34,568	-

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

Liquidity Risk

Liquidity risk is the risk that the group may encounter difficulties raising funds to meet commitments associated with financial instruments due to creditors. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. The Group's operations require it to raise capital on an on-going basis to fund its planned exploration program and to commercialise its tenement assets.

Maturity Analysis of Financial Liabilities

Consolidated Group	Carrying Amount	Contractual Cash Flows	< 6 Months
	\$	\$	\$
2010			
CURRENT LIABILITIES			
Accounts payable	32,523	32,523	32,523
Employee benefits payable	32,937	32,937	6,805
Other payables	34,858	34,858	34,858
2009			
CURRENT LIABILITIES			
Accounts payable	40,725	40,725	40,725
Employee benefits payable	66,966	66,966	-
Other payables	109,979	109,979	109,979
Company			
2010			
CURRENT LIABILITIES			
Accounts payable	32,523	32,523	32,523
Employee benefits payable	8,793	8,793	1,869
Other payables	23,547	23,547	23,547
2009			
CURRENT LIABILITIES			
Accounts payable	40,725	40,725	40,725
Employee benefits payable	48,580	45,580	-
Other payables	93,371	93,371	93,371

NOTES TO THE FINANCIAL STATEMENTS (CONT.)

NOTE 23: FINANCIAL INSTRUMENTS (CONT.)

Interest Rate Risk

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the entity's surplus (through the impact on adjusted interest rate)

	Consolidated Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Change in Cash and Cash Equivalents				
Increase in interest rate by 1%	2,105	7,744	528	7,380
Decrease in interest rate by 1%	(2,105)	(7,744)	(528)	(7,380)

NOTE 24: COMPANY DETAILS

Cluff Resources Pacific NL

The **registered office** of the company is::

Cluff Resources Pacific NL
Suite 21
Level 7
44 Bridge Street
Sydney NSW 2000

The **principal places of business** is:

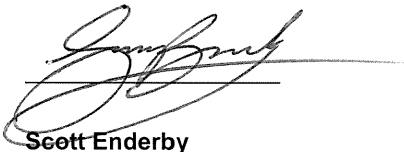
Cluff Resources Pacific NL
Suite 21
Level 7
44 Bridge Street
Sydney NSW 2000

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes, as set out on pages 14 to 43, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 31 December 2010 and of the performance for the year ended on that date of the company and Consolidated Group;
2. the Chief Executive Officer and Company Secretary have each declared that:
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. The financial statements and the notes for the financial year comply with the accounting standards; and
 - c. the financial statements and notes for the financial year give a true and fair view; and
3. in the Director's 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

Sydney 2 March 2011

CLUFF RESOURCES PACIFIC NL
ABN 72 002 261 565
AND CONTROLLED ENTITIES

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 2010 as set on pages 14 to 43 . 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 13 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 2010 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

CLUFF RESOURCES PACIFIC NL
ABN 72 002 261 565
AND CONTROLLED ENTITIES

Inherent Uncertainty Regarding Future Cash Flow 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, the company's cash flow forecasts are dependant upon the generation of sufficient cash from operating activities or the receipt of additional debt or equity funds.

Included in current assets are gemstone inventories of \$80,084 and other non-current assets, exploration expenditure capitalised of \$11,563,121. 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, and options being exercised together with the successful development of current and future areas of interest and the expansion of new markets for the company.

Ronald Smith & Co
Chartered Accountant



Ronald Hamilton Smith

Signed at Sydney, NSW on 2 March 2011

Cluff Resources Pacific NL
ABN 72 002 261 565 and Controlled Entities

SUBSTANTIAL SHAREHOLDERS

Cluff Resources Pacific NL Fully Paid Ordinary Shares
Top 20 Holdings as at 24-02-2011

Holder Name	Balance at 24 Feb 2011	%
CITICORP NOMINEES PTY LIMITED	128,551,872	5.28
FIREBIRD GLOBAL MASTER FUND	111,111,111	4.56
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	78,538,834	3.22
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	74,833,333	3.07
COMSEC NOMINEES PTY LTD	45,860,182	1.88
PARKVIEW SERVICES (AUSTRALIA) PTY LTD <PARKVIEW SERVICES S/F A/C>	40,666,667	1.67
REEF SECURITIES LIMITED	39,080,238	1.60
JOHN HABIB	25,100,000	1.03
ACCBELL NOMINEES PTY LTD	25,000,000	1.03
MRS WENDY CHERIE EDWARDS	23,959,345	0.98
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS STAFF A/C>	23,480,000	0.96
JOHN RICHARD HABIB AND DR JANE FRANCIS HABIB <MUNGO SUPER FUND A/C>	20,000,000	0.82
PETER JOHN FALKENSTEIN	20,000,000	0.82
JONENDERBEE INVESTMENTS PTY LIMITED	14,856,240	0.61
MRS JOSEPH IGNATIUS D'SOUZA	14,510,000	0.60
COLIN HOLFORD JORY AND MRS PAULA MARY JORY	14,000,000	0.58
PAUL KALDAWI	12,067,761	0.50
MR TERRY LESLIE GALLAGHER	12,000,000	0.49
MARNET PTY LTD <THE M L WEINBERG FAMILY A/C>	10,600,000	0.44
MR SCOTT ENDERBY	10,556,666	0.43
	744,772,249	30.57
TOTAL FULLY PAID ORDINARY SHARES		2,436,072,885

Cluff Resources Pacific NL

ABN 72 002 261 565

SUBSTANTIAL SHAREHOLDERS (CONT.)

Cluff Resources Pacific NL Listed 31 July 2011 \$0.01 Options

Top 20 Holdings as at 24-02-2011

Holder Name	Balance at 24-02-2011	%
FIREBIRD GLOBAL MASTER FUND LTD	111,111,111	20.52
CITICORP NOMINEES PTY LIMITED	40,383,555	7.46
REEF SECURITIES LIMITED	40,000,010	7.39
COMSEC NOMINEES PTY LIMITED	25,780,752	4.76
ACCBELL NOMINEES PTY LTD	20,055,699	3.70
BENJAY PTY LTD	16,000,000	2.95
TERRY LESLIE GALLAGHER	14,000,000	2.59
JOHNS CORPORATION PTY LTD <JOHNS FAMILY A/C>	13,089,805	2.42
MR MATTHEW DAVID BURFORD	10,688,772	1.97
MR JOHN HABIB	10,000,000	1.85
MR JOHN RICHARD HABIB & DR JANE FRANCIS HABIB	10,000,000	1.85
MS SHILOH MARITO GULTOM	10,000,000	1.85
JONENDERBEE INVESTMENTS PTY LTD <STARLOTTERS STAFF A/C>	7,933,333	1.46
FNL INVESTMENTS PTY LTD <STAFF SUPER FUND A/C>	7,516,666	1.39
LEET INVESTMENTS PTY LIMITED	6,666,667	1.23
YORKE EDUCATIONAL CENTRE PTY LIMITED	5,555,555	1.03
LA HUYE PTY LTD	5,555,555	1.03
FNL INVESTMENT PTY LTD	5,016,666	0.93
MR DANIEL JOSEPH FOLEY	5,000,000	0.92
MR MATTHEW DAVID BURFORD	4,620,000	0.85
	368,974,146	68.12
TOTAL LISTED 31 JULY 2011 \$0.01 OPTIONS		541,604,941