

# **Anglo Pacific Group PLC**

**Report and Accounts**

**2008**



**ANGLO PACIFIC GROUP PLC  
ANNUAL GENERAL MEETING  
FORM OF PROXY**

I/We

.....

of.....

being (a) member(s) of Anglo Pacific Group PLC (“the Company”) hereby appoint the Chairman of the meeting, or,

.....

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11.00 a.m. on Thursday 23<sup>rd</sup> April 2009 at 17 Hill Street, London W1J 5NZ and any adjournment thereof.

Date.....Signature(s).....

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an "X". If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

<b>Resolution</b>	<b>For</b>	<b>Against</b>	<b>Withheld</b>
Ordinary 1. Resolution to receive the 2008 Accounts.			
Ordinary 2. Resolution to approve the Directors’ Remuneration Report.			
Ordinary 3. Resolution to declare a final dividend of 4.35p per Ordinary Share.			
Ordinary 4. Resolution to re-elect M. J. Tack as a director.			
Ordinary 5. Resolution to re-elect M. H. Atkinson as a director.			
Ordinary 6. Resolution to re-appoint Messrs. Grant Thornton UK LLP as auditors and authorise the directors to fix their remuneration.			
Ordinary 7. Resolution to authorise scrip dividends.			
Ordinary 8. Resolution that the directors be authorised to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £707,814.			
Special 9. Resolution that the directors be authorised to allot treasury shares or new equity securities for cash up to an aggregate nominal amount of £106,172 free from statutory pre-emption rights.			
Special 10. Resolution that the Company be authorised to make one or more market purchases of up to 10,617,213 Ordinary Shares in the capital of the Company, subject to certain restrictions and provisions, including the maximum and minimum price at which such shares may be purchased.			

**Please indicate with an “X” how you wish your vote to be cast.**

*Notes*

1. To appoint as a proxy a person other than the Chairman of the meeting insert the full name in the space provided. A proxy need not be a member of the Company. You can also appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. The following options are available:
  - (a) To appoint the **Chairman** as your **sole proxy** in respect of all your shares, simply fill in any voting instructions in the appropriate box and sign and date the Form of Proxy
  - (b) To appoint a **person other than the Chairman as your sole proxy** in respect of all your shares, delete the words 'the Chairman of the meeting (or)' and insert the name and address of your proxy in the spaces provided. Then fill in any voting instructions in the appropriate box and sign and date the Form of Proxy
  - (c) To appoint **more than one proxy**, you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. If you wish to appoint the Chairman as one of your multiple proxies, simply write 'the Chairman of the Meeting'. All forms must be signed and should be returned together in the same envelope
2. Unless otherwise indicated the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
3. The Form of Proxy below must arrive not later than 48 hours before the time set for the meeting at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU during usual business hours accompanied by any Power of attorney under which it is executed (if applicable)
4. A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney.
5. The Form of Proxy is for use in respect of the shareholder account specified above only and should not be amended or submitted in respect of a different account.
6. The 'Vote Withheld' option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a resolution.
7. Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
8. Completion and return of the Form of Proxy will not preclude you from attending and voting in person at the Meeting should you subsequently decide to do so

# Anglo Pacific Group PLC

## Annual Report 2008

### CONTENTS

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	<i>Page</i>
Directors and advisers	2
Chairman's review	3
Directors' report	6
Corporate governance	18
Directors' remuneration report	22
Directors' responsibilities in the preparation of financial statements	25
Report of the independent auditor	26
Consolidated income statement	27
Consolidated and company balance sheets	28
Consolidated statement of changes in equity	29
Company statement of changes in equity	30
Consolidated and company cash flow statements	31
Notes to the consolidated financial statements	32
Shareholder statistics	55
Notice of Annual General Meeting	56

# Anglo Pacific Group PLC

## Annual Report 2008

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### DIRECTORS

#### *Executive*

P.M. BOYCOTT (*Chairman*)  
M.J. TACK (*Finance Director*)  
B.M. WIDES (*Chief Executive*)

#### *Non-Executive*

M.H. ATKINSON (*Senior Independent Director*)  
J.G. WHELLOCK  
A.H. YADGAROFF

### SECRETARY

M.J. TACK

### HEAD OFFICE

17 HILL STREET, LONDON W1J 5NZ

### REGISTERED OFFICE

17 HILL STREET, LONDON W1J 5NZ  
Registered in England No. 897608

### AUDITORS

GRANT THORNTON UK LLP  
Grant Thornton House, Melton Street, London NW1 2EP

### BANKERS

BARCLAYS BANK PLC  
Business Banking Larger Business  
27<sup>th</sup> Floor  
Churchill Place  
London E14 5HP

### REGISTRARS

CAPITA REGISTRARS LIMITED  
Northern House  
Woodsome Park  
Fenay Bridge, Huddersfield  
Yorkshire HD8 0LA

### STOCKBROKERS

LIBERUM CAPITAL LIMITED  
Citypoint  
10<sup>th</sup> Floor  
One Ropemaker Street  
London EC2Y 9HT

### LISTINGS

LONDON STOCK EXCHANGE  
Full Listing  
Symbol APF

AUSTRALIAN STOCK EXCHANGE  
Dual Listing  
Symbol AGP

### WEBSITE

[www.anglopacifigroup.com](http://www.anglopacifigroup.com)

# Anglo Pacific Group PLC

## Annual Report 2008

### CHAIRMAN'S REVIEW

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In the year under review, I am pleased to report that the Group has produced steady earnings and raised the total dividends for the year in an increasingly difficult mining environment.

#### Financial Highlights

- Coal royalties for the year of £22.1 million (2007: £8.4 million)
- Realised profits from mature mining interests of £14.0 million (2007: £25.6 million)
- Earnings of 27.56p per share (2007: 28.72p)
- Proposed final dividend of 4.35p per share (2007: 4.35p)
- Total dividends for the year increased by 6% to 7.80p (2007: 7.35p)
- Profit before tax of £35,255,000 (2007: £33,768,000)
- Profit after tax of £29,261,000 (2007: £29,740,000)
- Australian coal royalty independent valuation of £93.3 million (2007: £60.9 million)
- Total strategic interests, including other royalties, valued at £53.5 million (2007: £95.8 million)
- Cash and royalty receivables of £28.7 million (2007: £20.8 million)
- Total assets of £176.4 million (2007: £178.2 million)

#### Operational Highlights

- Record coal royalty receipts
- Two gold royalties acquired and first new royalty payment received
- Several new royalties under negotiation
- Further progress on private Canadian coal projects
- Decline in value of quoted strategic interests in line with markets
- Increased exposure to energy and gold during the period
- Substantial cash reserves and no debt

#### 2008 Review and Results

During the first half of 2008, the outlook for the world economy started to deteriorate due to increasing fears of recession and stagflation. The commodity markets were characterised by sharp increases in the prices of energy products, particularly oil, and by the record contracted prices achieved by the major mining groups for steaming and coking coal. Despite these high energy costs the price of uranium remained subdued.

The setback in mining stock markets in the early part of the year turned into a major collapse of prices in the autumn as banking and financial problems developed into a worldwide liquidity and credit crisis. This uncertainty has kept the price of gold buoyant.

Against this background the Group has benefited from the strength of its diversified strategic interests, with a continued emphasis on energy, precious metals and coal. Critically, the Group has remained focused on securing new royalties. In this respect, during the year, the Group acquired two new gold royalties in Spain and Brazil at a cost of C\$7.5 million and A\$4 million.

Whilst the Group's strategic quoted mining investments have fallen in value in line with the mining markets as a whole, coal royalty receipts for the year have been at record levels. Furthermore, the sharp falls in the prices of junior mining stocks and collapse in metal prices has all but closed the normal sources of finance available to small mining companies. This has resulted in more opportunities for the Group to secure new royalties.

With coking coal prices trebling to nearly US\$300 per ton, the group received from the Kestrel and Crinum mines in Queensland record coal royalties of £22.1 million (A\$48 million) compared to £8.4 million in 2007. With the prospect of lower coking coal prices in 2009, the value of the Group's coal royalty interests has declined to £93.3 million from £96.8 million at 30<sup>th</sup> June 2008, but is still substantially higher than the valuation of £60.9 million as at 31<sup>st</sup> December 2007.

# Anglo Pacific Group PLC

## Annual Report 2008

### CHAIRMAN'S REVIEW

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Due to the reduction in liquidity and sharp falls in junior mining markets, the Group realised reduced profits on the sale of mining and exploration interests of £14.0 million (2007: £25.6 million). The value of the Group's quoted and unquoted strategic interests and cash as at 31<sup>st</sup> December 2008 was £70.7 million (2007: £114.7 million). The Group remains cash generative and in a strong financial position, being well capitalised and debt free.

Earnings for the year were 27.56p per share compared to 28.72p per share in 2007.

With a background of overwhelming recessionary forces in the markets as well as uncertainty over the future pricing of coking coal, the Group has decided to keep its final dividend unchanged at 4.35p per share (2007: 4.35p). However, total dividends for the year increased by 6% to 7.80p (2007: 7.35p).

The Group's strategic interests, which include quoted and unquoted investments and other royalties, were valued at 31<sup>st</sup> December 2008 at £53.5 million compared to £95.8 million a year ago. This valuation includes all the private mining interests which remain in the financial statements at cost. In British Columbia work has continued on both the Groundhog and Trefi coalfields where drilling programmes are planned and dialogue with local interest groups continues. The Group intends to prove up a compliant resource statement for Trefi during 2009.

At 31<sup>st</sup> December 2008 the Group had no borrowings and over £17 million of cash in the bank. The Group's mining interests and royalty revenues are mainly denominated in US, Canadian and Australian dollars and its liquid resources are held in a spread of currencies and banks.

#### Strategy and Progress

The Group's strategy remains focused on securing new royalties by acquisition and through investment in its mining interests in order to generate strong cashflows and continue to pay dividends to its shareholders.

- In March 2008 the Group agreed a 2.5% royalty for C\$7.5 million from Kinbauri Gold Corp. on its gold deposit in northern Spain, subject to due diligence. The royalty increases to 3% in the event that the gold price exceeds US\$1,100 an ounce. This deal completed in October 2008.
- In September 2008 the Group agreed a 2.5% gold royalty with Mundo Minerals Ltd on its producing Engenho mine in Brazil for A\$4 million, subject to due diligence. The deal completed in November 2008. The Group has been a significant shareholder in Mundo Minerals for some time and was therefore in a position to provide finance for working capital when a short term production shortfall affected cashflow. The first royalty payment from this investment has recently been received.
- In December 2008 the Group agreed, subject to due diligence, to acquire a 2% net smelter royalty for A\$5 million with Indo Mines Ltd, developer of the Jogjakarta iron sands project in Indonesia. The funds will be principally used to complete the feasibility study and to acquire additional iron sands properties. The Group has been and continues to be a significant shareholder in Indo Mines and was the first port of call to provide finance when the normal sources of capital were unavailable.
- Two further royalties are currently under negotiation and subject to due diligence processes.
- The Group's strategic interests, cash and royalty receivables were valued at 31<sup>st</sup> December 2008 at £82.2 million (2007: £116.5 million). The recent valuation of the Group's coal royalties raises the Group's total assets to £176.4 million with no debt. This does not include any excess over cost attributable to the real value of the Group's substantial private coal and other mining interests in British Columbia and Australia.



# Anglo Pacific Group PLC

## Annual Report 2008

### CHAIRMAN'S REVIEW

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The Group's quoted equity interests disclosed on the LSE, ASX and TSX, where initial equity stake disclosure levels are 3%, 5% and 10% respectively, amount to £29 million in twenty three different holdings. The balance of quoted holdings of £5 million is made up of a further twenty one incubator investments. The split of the Group's strategic interests by commodity is now on the Group's website at [www.anglo-pacific-group.com](http://www.anglo-pacific-group.com) where all the equity disclosures can also be accessed.

Subject to approval at the AGM to be held in London on 23<sup>rd</sup> April 2009, the 2008 final dividend of 4.35p per share will be paid to shareholders on 3<sup>rd</sup> July 2009. This brings the total dividends for the year to 7.80p (2007: 7.35p). Depending on the share price at the time, the Board will consider whether shareholders will again be given the opportunity to elect to receive a scrip dividend instead of cash.

#### **Outlook**

Recent months have seen many of the major mining companies closing down their marginal mines as well as cutting back on planned capital expenditure on new and existing projects. This has and will continue to reduce supply of metal to world markets. When the recovery in demand starts this should lead to higher commodity prices.

The timing of this recovery and in particular the future demand for steel products will determine the price of coking coal for the next year or two. The extent to which governments around the world promote infrastructure projects to revive their economies will also prove an important factor.

The collapse in the junior quoted mining sector has made project finance very difficult to raise from conventional lenders or through the stock market without severe dilution for shareholders. This environment has produced many opportunities and the Group is confident that, with conservative management of its cash and other resources, it can maintain its strategic focus to achieve new royalty flows and continue to pay dividends.

Finally, I would like to thank shareholders for their support and directors and staff for their hard work during a challenging year.

P.M. Boycott  
Chairman

25<sup>th</sup> February 2009

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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The directors submit their report and the Group financial statements of Anglo Pacific Group PLC for the year ended 31<sup>st</sup> December 2008.

Anglo Pacific Group PLC is a public limited company, incorporated in England, and quoted on the London Stock Exchange and the Australian Stock Exchange.

#### **Principal activities**

The activities of the Group, conducted through the holding company and its subsidiary undertakings, are summarised below: -

##### *Coal royalties*

The Group, via its wholly owned Australian subsidiary Gordon Resources Limited, owns half of a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland other than Crown areas. The basis of calculation of the royalty is 7% of the invoiced value of the coal, without deduction for any costs pertaining to rail and road freight, or any other costs incurred in relation to the sale or disposal of the coal other than port and related charges. On 3<sup>rd</sup> June 2008 the Queensland Government announced that from 1<sup>st</sup> July 2008 a two tier coal royalty rate will apply. The 7 % rate will apply to the value of coal produced by a mine sold below A\$100 per tonne and a higher 10 % rate will apply to the value of coal sold above A\$100 per tonne.

##### *Other royalties*

The Group owns a 2.5% Net Smelter Royalty (NSR) on the Engenho gold project in Brazil, operated by Mundo Minerals Limited. The Group also owns a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain. This deposit is currently being developed by Kinbauri Gold Corp. In addition, the Group holds the royalty rights to mineral exploration tenures covering approximately 4.8m acres of the Athabasca Basin, Canada. These tenures are currently being explored by a number of listed and unlisted companies for uranium.

##### *Mining and exploration interests*

At 31<sup>st</sup> December 2008 the Group owned a number of strategic mining and exploration interests held for the purposes of generating additional royalty flows including:

- a. A number of quoted and unquoted coal, uranium, gold, diamond, base metals and PGM mining projects.
- b. Mineral licences in the Groundhog and Peace River Coal deposits in British Columbia, Canada.
- c. A joint venture with Core Resources to identify mining opportunities in Australia as well as carrying out detailed investigations into a potential new coal area in Australia.
- d. A substantial talc deposit in Shetland.

#### **Results and dividends**

The consolidated income statement is set out on page 27 of the financial statements.

The Group profit after tax decreased by 2% to £29,261,000 (2007: £29,740,000)

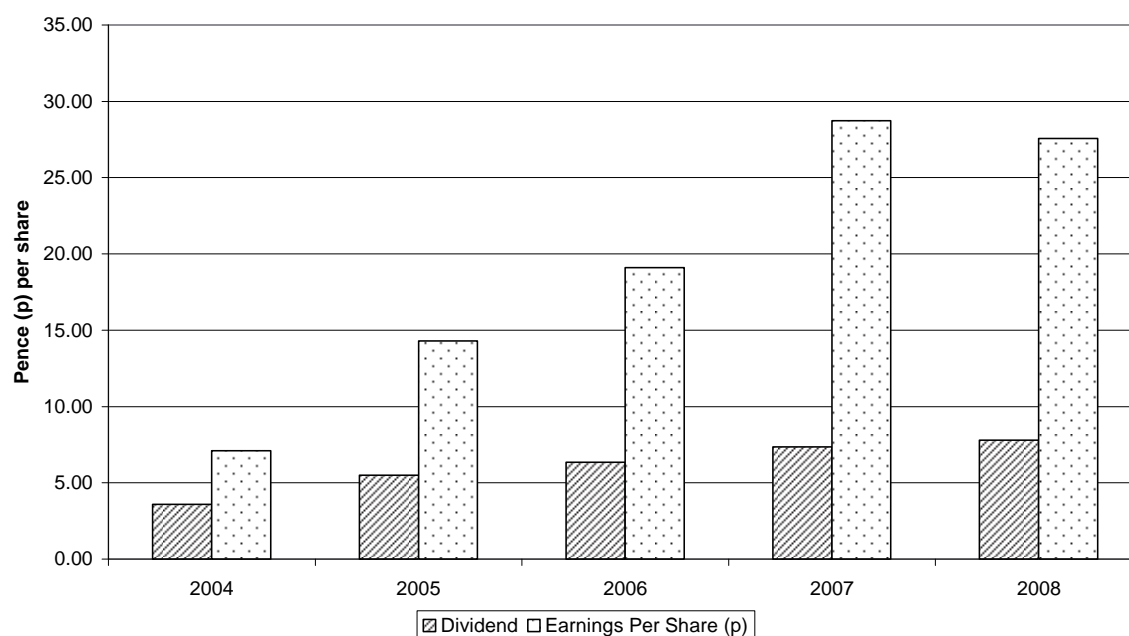
The Directors recommend a final dividend of 4.35p per share for the year ended 31<sup>st</sup> December 2008 which with the interim dividend of 3.45p per share paid on 7<sup>th</sup> January 2009 will make a total for 2008 of 7.80p per share (2007: 7.35p). The Board proposes to pay the final dividend on 3<sup>rd</sup> July 2009 to shareholders on the Company's share register at the close of business on 8<sup>th</sup> May 2009. As with the interim dividend, depending on the share price at the time, shareholders will be given the opportunity to elect to receive a scrip dividend instead of cash.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

#### 5 Year Earnings per share and Dividend Performance



#### Review of the business

This business review comprises the Financial and Operational Reviews set out below as well as the Chairman's Review on pages 3 to 5. The Key Performance Indicators and Principal Risks and Uncertainties laid out on pages 10 to 12 also form part of this review.

The Group's business is a going concern as interpreted by the Guidance on Going Concern and Financial Reporting for directors of listed companies registered in the United Kingdom, published in November 1994.

#### Financial Review

Group profits before tax for the year ended 31<sup>st</sup> December 2008 were £35,255,000 compared to £33,768,000 for the previous year. Earnings per share for the year decreased by 4% to 27.56p (2007: 28.72p). The Group had realised capital gains of £14,016,000 (2007: £25,612,000) from its various mining interests.

The Group's Australian coal royalty interests have been independently valued at £93.3 million as at 31<sup>st</sup> December 2008 (2007: £60.9 million). The change in the valuation compared to last year has been credited to the revaluation reserve after accounting for deferred tax.

The Group's gold royalty interests, which were acquired during the year, were valued at £7.8 million at 31<sup>st</sup> December 2008. The change in valuation of the royalty income stream from the date of acquisition has been credited to revaluation reserve after accounting for deferred tax. The change in valuation of the share options associated with these royalty interests of £126,000 has been credited to Group profits.

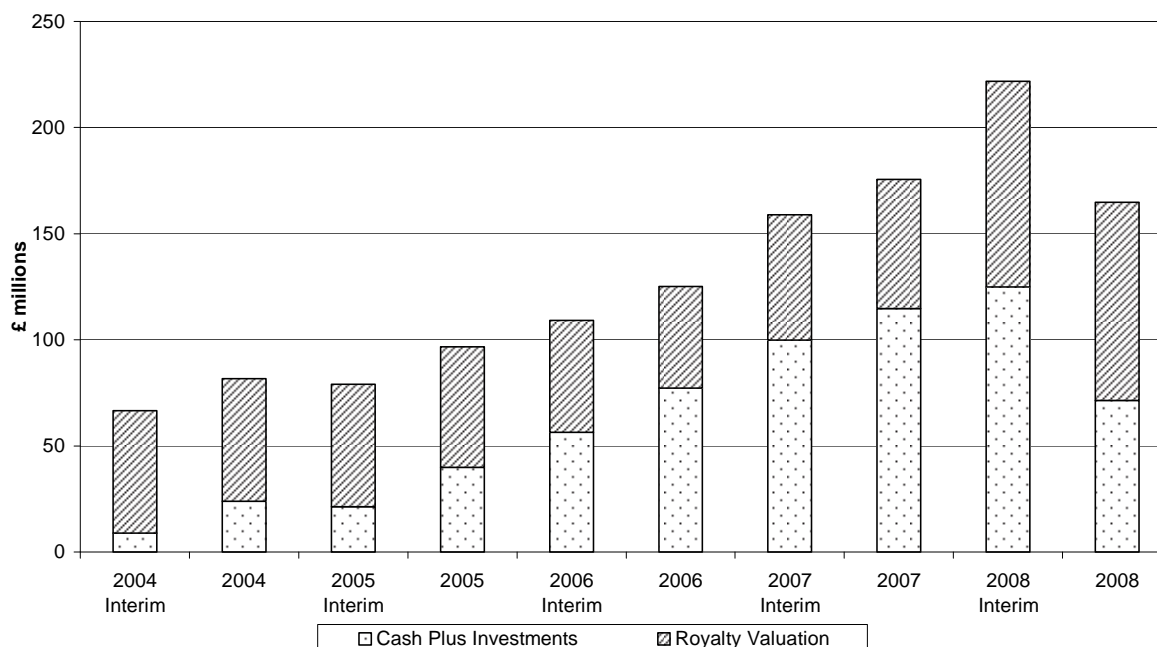
The Group's private mining operational interests and quoted stakes in mining projects were valued at 31<sup>st</sup> December 2008 at £45.8 million after having realised profits of £14.0 million over the year. This valuation included an additional unrealised loss over book value of £26.0 million, which included a valuation gain for foreign exchange movements. The Group had cash of £17.1 million at 31<sup>st</sup> December 2008 (2007: £18.9 million) with no borrowings. The Group still has unused capital losses of approximately £1.9 million to offset against future gains.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

#### 5 Year Royalty and Investment History



#### Operational Review

##### Coal Royalties

In Australia, coal royalty receipts from the Kestrel and Crinum mines, operated by Rio Tinto Limited and BHP Billiton Limited respectively, were £22,072,000 (2007: £8,439,000).

The independent valuation of these interests at the year-end was A\$193 million (£93.3 million) compared to A\$139 million (£60.9 million) at 31<sup>st</sup> December 2007 and is based on the net present value of the pre-tax cashflow discounted at a rate of 7%. The net royalty income is taxed in Australia at a rate of 30%.

The coal royalty is computed by reference to Queensland Government legislation, which resulted in an increase in the rate of royalty from 7% to 10% on the marginal price of coal in excess of A\$100 per tonne in July 2008. The legislation applies to both ground owned by the Crown and certain other privately owned areas in which the Group participates. During 2008 coal royalties increased to £22 million due to this increased royalty rate and higher coal prices. This also resulted in the value of the Group's coal royalty interests increasing over the year.

##### Other Royalties

During the year the Group acquired two gold royalties.

The Group acquired a 2.5% Net Smelter Royalty (NSR) on the Engenho gold project in Brazil, operated by Mundo Minerals Limited for A\$4 million. Until the A\$4 million has been received in royalties the Group retains the right to convert the difference between royalties received and this sum into shares of Mundo Minerals Limited at a price of A\$0.35 per share. The first royalty payment relating to gold sales in the December 2008 quarter was received in January 2009.

The Group also acquired a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain for C\$7.5 million. This deposit is currently being developed by Kinbauri Gold Corp. In the event that production from the El Valle mill does not exceed a rate of 90,000 ounces of gold per year on or before 31<sup>st</sup> December 2012, the difference between the sum advanced and the royalties received by the Group can be converted at the Group's option into common shares at a price equal to the lower of C\$0.96 or an agreed discounted market price at the time of conversion.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

In addition, the Group holds the royalty rights to mineral exploration tenures covering approximately 4.8m acres of the Athabasca Basin, Canada. These tenures are currently being explored by a number of listed and unlisted companies for uranium.

#### *Coal Interests*

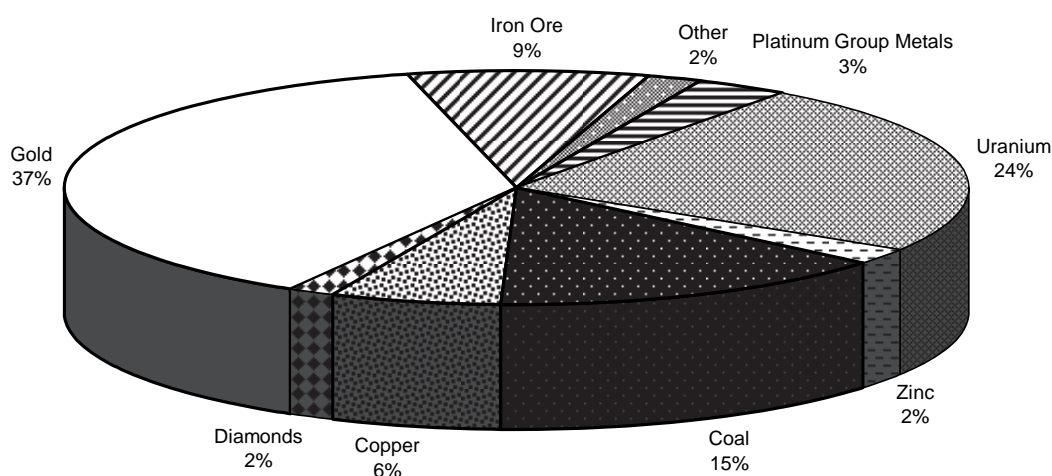
The Group retains the licences and tenancies of both its Groundhog and Peace River deposits. At Peace River the Group commissioned a geological study and computer model to facilitate the planning of the drilling programme. As a result of the study the Group applied for an additional 1050 hectares of licences adjacent to the existing Peace River licences. Sites for the preliminary drill programme have been identified, archaeological studies have been completed, Water Use Permit granted, Road Use Agreements are in place and the Notice Of Work giving permission to drill has been received from the British Columbian authorities. Drilling will commence in 2009 with the aim of producing a maiden Joint Ore Reserves Committee (JORC) and National Instrument 43-101 compliant resource. At Groundhog a geological study and computer model has been commissioned and the Group has held preliminary discussions with the Tahltan, Gitksan and Skii km Lax Ha First Nations.

In Australia the Group retains its near 20% interest in Core Resources. The sale process of the Vasse coal project in Western Australia, in which Core has a 30% interest, is continuing. In addition, Core and the Group each currently have a 22% interest in the Tiaro coal project where drilling and exploration work is being funded by Hudson Resources and Dynasty Metals. Core's other business opportunities and services arise mainly from enquiries generated by the Albion process which is under licence to Core from Xstrata. This technology is used in recovery of base and precious metals from complex or refractory ores. The Group has a number of other public and private coal and coal mine methane interests.

#### *Other Metal Interests*

The Group's other metal interests remain focused on precious metals and uranium. The Group has widened its exposure to gold and platinum group metals during the year with increased holdings in Mundo Minerals in Brazil and in Atna Resources and Maudore Minerals in North America. Further exposure to the uranium sector has been achieved with increased holdings in Mantra Resources, Berkeley Resources and Top End Uranium. Other mining interests include several copper, zinc and iron ore projects.

**Strategic Mining Interests By Commodity**



# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### Key Performance Indicators

The Board have identified five main key performance indicators, all of which are financial:-

- Total value of new royalties acquired
- Total value of mining and exploration interests and cash excluding the coking coal royalty
- Realised profits on mature mining and exploration interests
- Earnings per share
- Dividends per share

In addition to these financial KPIs, the Board also considers non-financial factors such as the Group's compliance with Corporate Governance Standards and environmental considerations relevant to some of the Group's mining interests. These factors cannot be efficiently measured so do not form part of the Group's KPIs.

#### Risks and uncertainties

The Board have identified five main economic risks that could affect the Group's performance:-

- A prolonged, world-wide economic recession
- Sustained low commodity prices
- A fall in precious metal prices
- Further deterioration in the banking system
- Currency volatility

Measures taken by the Board to manage these risks include:-

- Daily mining project management meetings and discussions
- Regular documented project review meetings
- Substantial cash holdings
- A spread of projects covering a number of commodities
- Substantial exposure to gold and other precious metals
- Regular review of sovereign risk
- Cash being held at a number of banks and stockbrokers in a spread of currencies and short term financial instruments

The Board is also aware of the need for succession planning. The associated risks to the Group are under constant review. Further appointments will be made to the Board at the appropriate time.

#### Future developments

The Group's current strategy is set out in the Chairman's Review. The directors consider that this strategy will continue to provide positive returns for shareholders, with the limited finance options for small mining companies in the current environment creating more opportunities for the Group to secure royalties. The continuing work of Group staff and the joint ventures undertaken by the Group are essential to the development of the Group's unlisted interests. Management policies will continue to be reviewed in the light of changing commodity and equity markets and macroeconomic conditions.

#### Financial instruments

The Company's principal treasury objective is to provide sufficient liquidity to meet operational cash flow and dividend requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Company operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised below, while detailed discussion and sensitivity analysis relating to these risks is contained in note 19 to these accounts.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### *Liquidity and funding risk*

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At the year end there was no debt outstanding. The Company has a strong credit rating and has good access to capital markets, if required.

#### *Credit risk*

The Group's principal financial assets are bank balances, trade and other receivables and investments. These represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its other receivables, including royalty receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. There are no doubtful receivables in this period. In relation to the two royalties acquired during the year, in the event of non-payment the Group have security against plant and equipment and the royalties are registered against mining title where possible. In addition, the Group is entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

In 2007 the Group created a derivative financial instrument to provide finance to an unlisted mining development company (note 15). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to 5 years. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group on a continual basis.

#### *Foreign exchange risk*

The Group's transactional foreign exchange exposure arises from income, expenditure and purchase and sale of assets denominated in foreign currencies. As each material commitment is made, the risk in relation to currency fluctuations is assessed by the Board and regularly reviewed. The Group does not have a hedging programme in place at this time.

The tables below show the extent to which the Group has residual financial assets and liabilities in currencies other than sterling. Foreign exchange differences on retranslation of these assets and liabilities are taken to the income statement of the Group.

	Net Foreign currency monetary asset/(liability)			
	AUD £'000	CAD £'000	Euro £'000	Total £'000
<b>Functional currency of operation</b>				
<b>2008</b>				
Sterling	16,173	18,280	16	34,469
<b>2007</b>				
Sterling	41,548	31,130	0	72,678

#### *Interest rate risk*

The Group has no borrowings or debt and the Group's financial instruments have limited exposure to fluctuations as a result of changes in interest rates. This is regularly reviewed by management.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### *Other price risk*

The Group's mining and exploration interests are held for the purposes of generating additional royalties and are considered long-term, strategic investments. This strategy is unaffected by recent severe fluctuations in prices for mining and exploration equities, however changes in market conditions may affect the value and recoverability of the amounts invested. The Group has detailed investment review processes in place to manage this risk to the greatest extent possible.

The royalties acquired during the year expose the Group to other price risk through fluctuations in commodity prices, particularly the price of gold, which may affect the future cash flows received from these royalties.

#### **Management**

##### *Directors*

The following directors have held office since 1<sup>st</sup> January 2008:

P.M. Boycott	(Executive Chairman)
M.J. Tack	(Finance Director)
B.M. Wides	(Chief Executive)
M.H. Atkinson	(Non-Executive and Senior Independent Director)
J.G. Whellock	(Non-Executive Director)
A.H. Yadgaroff	(Non-Executive Director)

The directors who are due to retire by rotation at the next Annual General Meeting are Mr M.J. Tack and Mr M.H. Atkinson, who, being eligible, offer themselves for re-election.

The biographical details of Mr Atkinson and Mr Tack are as follows:

Matthew Tack (Finance Director) is a Chartered Accountant (Australia) who joined the Group as Group Financial Controller in July 2004. He was appointed as Company Secretary on 27<sup>th</sup> September 2004 and he joined the Board as Finance Director on 5<sup>th</sup> July 2006. He has experience preparing financial statements and maintaining statutory company records across a wide range of industries in both Australia and the UK.

Mike Atkinson (Non-Executive Director) is a qualified management accountant and was appointed as a director on 9<sup>th</sup> February, 2006. He worked for 10 years for the National Coal Board as a capital investment analyst before joining the UK Department of Energy (later DTI). He was a senior civil servant for nearly 20 years until his retirement in 2004, and held a range of financial, management and policy posts including Director of Coal and later Chairman of British Coal.

Biographies for all directors are available at [www.anglopacificgroup.com](http://www.anglopacificgroup.com).

The Group maintains insurance for its directors and officers against certain liabilities in relation to the Group.

The post of Chairman remains an executive role to allow the Group to continue to function as efficiently as possible. The Board believes that, with six directors (three of whom are non-executive) and three additional staff members, the appointment of a separate non-executive Chairman would not enhance either the performance or the effectiveness of the Group in creating value for shareholders. The Board feels that, with three independent non-executive directors on the Board, the Corporate Governance of the Group is not adversely affected by the combination of these roles. The executive Chairman and Chief Executive have distinct roles with a clear division of responsibilities agreed by the Board.



# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### *Directors' interests*

The beneficial interests of the directors in office at 1<sup>st</sup> January 2008 and 31<sup>st</sup> December 2008 in the issued share capital of the Company are as follows:

	18 <sup>th</sup> February 2009	Ordinary shares of £0.02 each	
		31 <sup>st</sup> December 2008	31 <sup>st</sup> December 2007
P.M. Boycott (Chairman)	3,275,291	3,275,291	3,129,944
B.M. Wides (Chief Executive)	3,661,443	3,661,443	3,647,792
M.J. Tack (Finance Director)	34,852	34,852	24,456
M.H. Atkinson (Non-executive)	3,622	3,622	3,556
J.G. Whellock (Non-executive)	13,084	13,084	10,084
A.H. Yadgaroff (Non-executive)	176,380	176,380	159,502

#### *Management team*

To assist the Board of Directors outside consultants are used in evaluating projects. In addition the Group has appointed a Chief Investment Officer and Chief Operating Officer to further strengthen the management team.

Chris Orchard joined the Group in December 2007 as the Group's Chief Investment Officer. Mr Orchard graduated with a Mining Hons degree from Leeds University, before working in the South African mining industry. He then spent 20 years as an investment banker in the City specializing in the resources sector, his last roles being MD of Hambros Equity UK and a Director of RBC Dominion Securities. More recently he managed the investment operations of a private wealth management group. His primary role in the Group is to assist management in identifying and analysing opportunities for royalty generation and capital growth in the mining sector.

John Theobald joined the Group as Chief Operating Officer in April 2008. Mr. Theobald is a qualified geologist and Chartered Engineer and has held senior positions with major and junior mining companies covering a wide range of metallic and non-metallic minerals. Prior to joining the Group Mr Theobald was an Operations Director for SCR-Sibelco, a major industrial minerals group. He has also worked for Anglo American, Phelps Dodge and Iscor amongst others and has extensive experience in exploration, acquisitions and developing and operating mines in a number of different countries. His primary role in the Group is to facilitate the development of the Group's private coal interests and to conduct technical due diligence on both royalty and equity acquisitions.

#### **Corporate governance**

A report on corporate governance and compliance with the Combined Code on Corporate Governance as appended to the Listing Rules of the Financial Services Authority is set out on pages 18 to 21. The directors' remuneration report, as set out on pages 22 to 24, will be proposed for approval at the AGM to be held on 23<sup>rd</sup> April 2009. In accordance with the Directors' Remuneration Report Regulations 2002, the vote on such resolution is advisory and no director's remuneration is conditional upon the passing of the resolution.

#### **Internal Monitoring**

The Group has a policy whereby any employee may contact the Chairman or the members of the Audit Committee at any time in relation to any concerns regarding conduct that is contrary to the values of the Group. Such matters may include unethical practices in accounting, internal accounting controls, financial reporting or auditing matters, or any other legal or ethical concern. By virtue of the size of the Group all employees are in regular contact with the members of the Board, and any concerns are treated in the strictest confidence.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### **Corporate Social Responsibility**

##### *Donations*

It is a continuing policy of the Group not to make political or charitable donations. However, employees are encouraged to support their chosen charities utilising the Give As You Earn payroll contribution scheme.

No donations were made to charities during the year (2007: nil).

No political donations were made during the year (2007: nil).

##### *Policy on payment of creditors*

The Company's policy with regard to the payment of suppliers is to:

- agree terms of payment at the start of business with each supplier; ensure that suppliers are made aware of the terms of payment;
- pay suppliers in accordance with contractual and legal obligations.

During the year to 31<sup>st</sup> December 2008 the Company took an average of 15 days to settle its bills with suppliers (2007: 16 days). The Company acknowledges the importance of paying invoices promptly, especially those of small businesses.

##### *The Environment*

The Group remains committed to an Environmental Policy of collaborating fully with statutory authorities, local communities and special interest groups to minimise effects of its activities on the natural and human environment associated with its operations, where appropriate.

The Group acknowledges that, while its activities have little direct environmental impact, it does have the ability to positively influence the environmental practices and policies of companies it conducts business with. Management discussions necessarily address common environmental policy ideals, and the Board remains committed to working with its fellow mining companies to ensure that the environmental impact of mineral exploration and development activities is minimised as much as possible. The Board has access to consultants with requisite mining and environmental expertise to ensure the Group's partners meet their covenants in this regard.

##### *Employees*

The Group has 6 employees, 3 of whom are executive directors. More information regarding the Group's employees can be found on pages 12 and 13.

##### *Social and Community issues*

The Group acknowledges that, while its activities have little direct contact with communities, it can positively influence the social practices and policies of companies it conducts business with. Positive social and community relationships are essential to profitable and successful mineral extraction activities, and the Group is committed to ensuring that companies it works with have appropriate procedures in place to facilitate this. The Group also consults with local community groups where its activities could have an impact to ensure all relevant parties are presented with the opportunity to engage at the planning stage.

#### **Essential Contracts**

The Group has a number of members of staff, who due to their knowledge of the Group and its intellectual property, are essential to the continued smooth running of the business. The Group reviews its employment policies on an annual basis, including a review of its performance-related pay policies, so as to ensure these members of staff continue to remain incentivised and their goals remain congruent with those of the Group. All employee contracts contain non-compete agreements and also stipulate that all intellectual property remains that of the Group.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### Capital Structure

The structure of the Group's ordinary capital at 18<sup>th</sup> February 2009 is as follows:

	Issued No.	Nominal value per shares £	Total £	% of total capital
Ordinary shares	106,172,139	0.02	2,123,443	100%

#### Rights and Obligations

##### *Dividends*

The £0.02 ordinary shares carry the right to dividends determined at the discretion of the Group's directors.

##### *Voting rights*

The £0.02 ordinary shares carry the right to one vote per share.

##### *Restrictions on transfer of holdings*

There are no restrictions on the transfer of the Company's shares. There are no known agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or voting rights.

##### *Special control rights*

None of the shares carry any special control rights. There are no known agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid.

##### *Treasury*

No shares are currently held in treasury by the Company.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### Substantial Shareholdings

The Company has been notified of the following interests of 3% or more in the Share Capital of the Company at 18<sup>th</sup> February 2009.

	Ordinary Shares of 2p each	Representing
Ransomes Dock Ltd	9,059,965	8.53%
AXA Investment Managers UK	7,950,368	7.49%
Rathbones Brothers PLC	6,634,163	6.25%
Legal and General Group PLC	5,694,948	5.36%

#### Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

#### Auditors

Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on 23<sup>rd</sup> April 2009.

#### Annual General Meeting

The notice of the Annual General Meeting (refer to page 56) contains ordinary and special resolutions detailed below.

##### *Scrup Dividend Authority*

Resolution 7 seeks to renew the authority taken at last year's Annual General Meeting to offer shareholders the option to take dividends in ordinary shares instead of cash.

##### *Authority to Allot Shares and Partial Disapplication of Pre-emption Rights*

Resolution 8 seeks a new authority, to replace the present authority and be effective until the earlier of 23<sup>rd</sup> April 2014 and the conclusion of the annual general meeting held in 2014, to authorise the Directors to allot relevant securities up to a maximum nominal amount of £707,814 representing about 33.33 per cent of the issued ordinary share capital at the date of this report. The Directors have no present intention of exercising this authority.

Resolution 9 seeks a waiver of the pre-emption rights of existing shareholders, but only for new securities or shares (if any) held in treasury up to a maximum aggregate nominal value of £106,172 (5% of the issued share capital at the date of this report) or, if less, 5% of the Company's issued share capital from time to time. The directors also seek authority to make appropriate exclusions from any rights issue, because it may not be possible to issue new shares to some shareholders (for example, those resident in foreign jurisdictions where regulatory difficulties might arise). The directors will be able to use this authority, if granted, to allot new securities or issue shares held in treasury without further reference to shareholders. However, the directors have no plans at present to make such an allotment and the proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or fifteen months from the date of passing of the resolution. No shares are currently held in treasury by the Company.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REPORT

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#### *Authority to purchase own shares*

Resolution 10 gives authority for the Company to purchase its own shares and specifies the maximum number of shares which may be acquired (10,617,213, being approximately 10% of the Company's issued ordinary share capital as at the date of this report) and the maximum (the higher of 105% of the 5 day average middle market price and the last independent trade or bid) and minimum (the nominal value) prices at which shares may be bought. The directors intend to exercise this power only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share. They will also have regard to whether, at the time, this represents the best use of the Company's resources and is in the best interests of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will either be cancelled and the number of shares in issue reduced accordingly, or else held in treasury. In total there are options outstanding over 91,039 ordinary shares; they represent 0.09% of the current issued share capital and would represent 0.10% of the issued share capital if the full buy back authority was used and the shares so acquired cancelled. The proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or eighteen months from the date of passing of the resolution. At 31<sup>st</sup> December 2008 the Company still had authority to acquire 10,617,213 shares under Resolution 10 passed at the last Annual General Meeting.

#### *Recommendation*

The directors believe that all of the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and the directors unanimously recommend that shareholders vote in favour of all of the resolutions.

#### **Cautionary statement on forward- looking statements and related information**

This document contains a number of forward-looking statements relating to the Group with respect to, amongst others, the following: financial conditions; results of operations; economic conditions in which the Group operates; the business of the Group; and the management plans and objectives. The Group considers that any statements that are not historical facts are "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Group to differ materially from the information presented in the relevant forward-looking statement. When used in this document the words "estimate", "project", "intend", "aim", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Group or the management of it, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Neither the Group nor any member of the Group's management undertake any obligation publicly to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable laws, the Listing Rules, and other regulations.

#### *Registered Office*

17 Hill Street  
London  
W1J 5NZ

By Order of the Board

M.J. Tack C.A.  
Company Secretary

9<sup>th</sup> March 2009

# Anglo Pacific Group PLC

## Annual Report 2008

### CORPORATE GOVERNANCE

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#### **Principles of Corporate Governance**

The Group's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. It believes that corporate governance involves more than a simple "box ticking" approach to establish whether the Group has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in Section 1 of the Principles of Good Governance and Code of Best Practice ("the Combined Code 2006") published by the Financial Reporting Council) in a sensible and pragmatic fashion having regard to the individual circumstances of the Group's business. The key objective is to enhance and protect shareholder value.

#### **Board Structure**

The Board currently comprises the Executive Chairman, the Chief Executive, the Finance Director and three independent non-executive directors. A statement of directors' responsibilities in respect of the financial statements is set out on page 25. Directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. The day to day management of the Group is delegated to the executive directors including the Chairman, save for certain matters reserved for consideration by the Board. There is a specific list of matters reserved for the Board's consideration which is provided to the Board as guidance. However it is the policy of the Group for the executive directors to report and refer to the Board at regular intervals on all matters relating to the running of the Group. The Board meets at least six times a year. Prior to each meeting, directors are sent an agenda and backup papers on individual agenda items where applicable. Directors may request additional Board papers on any topic.

The Group's directors have a wide range of expertise as well as experience in financial, commercial and mining activities. Individual directors, in conjunction with other Board members, may take training tailored to their own requirements. During the year directors attended, inter alia, workshops and briefings on mining industry developments, corporate governance best practice and corporate social responsibility. To enable the Board to discharge its duties, directors are able to take both independent professional advice and appropriate training at the Group's expense.

New director appointments are considered formally by the Board following recommendations from the Nomination Committee. All directors are subject to election by shareholders at the first opportunity after their appointment. Under the terms of the Company's Memorandum and Articles of Association, all directors retire by rotation on the basis of one-third their number each year, and are required to be re-appointed by the shareholders at an Annual General Meeting. In effect this means that all directors are subject to re-election by shareholders at least every 3 years. Non-executive directors are not subject to specified terms as all directors are subject to the 3 year re-election requirement. The Board considers this appropriate and will review the situation at regular intervals.

Biographies of all directors are available at [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com).

#### **Committees of the Board**

The following committees, which have written terms of reference, deal with specific aspects of the Group's affairs.

##### *Remuneration Committee*

The Remuneration Committee, comprising solely the independent non-executive directors, is responsible for making recommendations to the Board on the Group's framework of Executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. It is chaired by Mr A.H. Yadgaroff and has access to recruitment consultants when required. The Board itself determines the remuneration of the non-executive directors. The report on Directors' remuneration is set out on pages 22 to 24.

# Anglo Pacific Group PLC

## Annual Report 2008

### CORPORATE GOVERNANCE

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#### *Audit Committee*

The Audit Committee comprises solely the independent non-executive directors and is chaired by Dr J.G. Whellock. Its prime tasks are to review the scope of internal and external audit, to receive regular reports from Grant Thornton UK LLP and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. The committee also considers whether a need for an internal audit function is present. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The Committee reviews annually the objectivity and independence of the external auditors.

The committee, which meets at least twice a year, provides a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Executive Chairman, the Chief Executive and the Finance Director.

The Audit Committee has considered the Group's circumstances and due to the close involvement of the executive directors in operational, financial and risk management and control, and in view of the Group's size, it believes that shareholders would not benefit from the implementation of an internal audit function at this time. This will continue to be reviewed annually.

#### *Nomination Committee*

The Nomination Committee comprises solely the independent non-executive directors and is responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies as they arise. Previously appointments were considered by the full Board. The committee also reviews the structure, size and composition required of the Board compared to its current position and makes recommendations to the Board with regard to any changes. It is chaired by Mr M.H. Atkinson and is authorised to utilise external legal or professional services when required. Meetings are held as and when required for the purposes of filling Board vacancies and considering Board structure. The committee held one meeting during the period.

#### *Senior Independent Director*

Mr M.H. Atkinson is the Group's Senior Independent Director (SID). The role of the SID is to be available to shareholders to discuss any concerns they may have about the running of the Group where the normal channels of communication are not appropriate. The SID is not required to seek meetings with shareholders, however is available to do so if required in order to understand shareholder concerns and take them to the Board for discussion. The SID is also required to lead discussions at meetings of non-executive directors.

#### *Evaluation and Appraisal*

The Board does not currently have a formal system in place for evaluating the performance of individual directors and committees. The presence of an open environment where feedback is continually sought provides an informal process that enables the continual improvement of directors and committees. The Board believes that this system is effective given the current size of the Board and the increasing executive requirements placed upon the Group's limited resources. The Board will consider the implementation of a formal evaluation process each year as appropriate.

# Anglo Pacific Group PLC

## Annual Report 2008

### CORPORATE GOVERNANCE

#### *Attendance*

Directors' attendance at Board and Committee meetings was as follows:

	<b>Audit</b>	<b>General</b>	<b>Remuneration</b>	<b>Nomination</b>
Total meetings held:	3	16	2	1
Attendance:				
P.M. Boycott	-	16	-	-
M.J. Tack	3	15	2	1
B.M. Wides	-	16	-	-
M.H. Atkinson	3	10	2	1
J.G. Whellock	3	10	2	1
A.H. Yadgaroff	3	11	2	1

A number of the Board meetings were held for the purpose of implementing decisions on matters not reserved for the full Board. In the future these will be delegated to an Executive Committee.

#### **Internal Control**

The directors are responsible for the Group's system of internal control and reviewing its effectiveness.

The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- There are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against budgets and forecasts;
- The Finance Director is required annually to undertake a full assessment process to identify and quantify the risks that face the Group's businesses and functions, and assess the adequacy of the prevention, monitoring and modification practices in place for those risks. In addition, regular reports about significant risks and associated control and monitoring procedures are made to the Audit Committee. They are responsible for reviewing the risk assessment for completeness and accuracy. The consolidated results of these reviews are reported to the Board to enable the directors to review the effectiveness of the system of internal control. The process adopted by the Group accords with the guidance contained in the document "Internal Control Guidance for Directors on the Combined Code" issued by the ICAEW.

The Audit Committee receives reports from external auditors on a regular basis and from the executive directors of the Group. During the period, the Audit Committee has reviewed the effectiveness of the system of internal control as described above. The Board receives periodic reports from all committees.

There are no significant issues disclosed in the report and financial statements for the year ended 31<sup>st</sup> December 2008 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

The directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period.



# Anglo Pacific Group PLC

## Annual Report 2008

### CORPORATE GOVERNANCE

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#### **Relations with Shareholders**

The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year the directors had a number of meetings with institutional investors whose combined shareholdings represented over 40% of the total issued share capital of the Company.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit, Remuneration and Nomination Committees will be available at the Annual General Meeting to answer any shareholder questions.

This year's Annual General Meeting will be held on 23<sup>rd</sup> April 2009. The notice of the Annual General Meeting may be found on page 56.

#### **Going Concern**

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **Statement by the directors on compliance with the provisions of the Combined Code**

The Company confirms that it complies with the provisions set out in Section 1 of the Combined Code, except where disclosed below:

- Principle A6: Absence of a formal process to evaluate the performance of directors and committees;
- Provision A7.2: Non-executives not appointed for specific terms.

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REMUNERATION REPORT

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#### **The Remuneration Committee comprises:**

A.H. Yadgaroff (Chairman)  
M.H. Atkinson  
J.G. Whellock

In accordance with the recommendations of the Combined Code all the members of the Committee are independent non-executive directors. The Committee is responsible for determining the Group's policy on remuneration of its executive directors, including service contracts and compensation in the event of early termination. The Committee's full terms of reference are available on the Group's website.

The fees of non-executive directors are determined by the Board having regard to the commitment of time required and the level of fees in similar companies. Non-executive directors are not eligible to participate in the Company's bonus plan, share option schemes or pension scheme.

The Group's non-executive directors are employed on rolling contracts with a 30 day notice period by either party.

#### **The Policy and objectives**

The Committee's policy is to attract, retain and motivate full-time high quality executive directors with a competitive salary package which comprises a fixed monthly basic salary and a significant performance-related bonus award that is strongly aligned with the interests of shareholders. The Committee reviews the salary package annually having regard, amongst other factors, to the remuneration paid by companies of comparable size and business.

It is the Committee's policy that executive directors should have service contracts with an indefinite term providing for a notice of twelve months. Service contracts remain in force for P.M. Boycott, B.M. Wides, and M.J. Tack, who are all full-time employees of the Group.

The committee confirms that it complies with section 1 of the Combined Code in determining the Group's policy on remuneration of its executive directors, including service contracts and compensation.

#### **Executive directors' remuneration**

- (i) **Basic salary**  
The basic salary component is low relative to that paid by comparator companies, and the Committee's aim is to achieve an appropriate balance between basic salary and performance-related pay which provides a strong incentive for high performance. Executive directors' basic salaries have remained unchanged since July 2007.
- (ii) **Performance-Related Bonus**  
A performance-related bonus scheme has been established which creates a pool divisible between all executive directors at the discretion of the Committee from time to time. Half the bonus opportunity in 2008 relates to the Group's share price performance, and half to profit and asset growth achieved during 2007; total bonus payable is capped at twice basic salary. Of the total £490,000 bonus paid in 2008, £390,000 was paid in April 2008 and £100,000 in October 2008.
- (iii) **Share schemes**

#### *Unapproved Executive Share Option Scheme*

No executive share options have been granted to directors since 1999 and no options are currently exercisable under the scheme, which is unapproved by HM Revenue and Customs (HMRC).

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' REMUNERATION REPORT

The vesting period for the option scheme is either 3 or 5 years. In any event, if an option under the scheme remains unexercised after a period of 7 years from the date of grant, the option will lapse. The exercise condition of the option scheme stipulates that the Group's Earnings per Share (EPS) must grow at a rate of 2% in excess of the UK Retail Price Index (RPI) over the vesting period if it is 3 years or 4% in excess of the RPI over the vesting period if it is 5 years.

The market price of the shares at 31<sup>st</sup> December 2008 was 100p and the range during the year was 77p to 252p.

#### *Approved Employee Share Option Plan*

The Group operates a HMRC approved Company Share Option Plan. No options were granted to directors during the year under this plan.

The options of the directors at 31<sup>st</sup> December 2008 under this scheme were as undernoted for which nil has been paid.

	No. of Shares		Exercisable between	Exercise price
	2008	2007		
M.J. Tack	36,923	36,923	04/10/07 – 04/10/14	81.25p

There was no difference in the market price and the exercise price on the date the share options were granted.

The vesting period for the option plan is 3 years and, if an option remains unexercised after a period of 10 years from the date of grant, the option will lapse. The exercise condition of the option plan stipulates that the Group's Earnings per Share (EPS) must grow at a rate of 2% in excess of the UK Retail Price Index (RPI) over the vesting period. No options were exercised during the year.

(iv) Pension rights

The Company operates a Money Purchase Group Personal Pension Scheme which all employees and executive directors are eligible to join. Pension scheme assets are held by Standard Life. During the year the Group paid pension contributions in respect of M.J. Tack of £5,000 (2007: £4,125).

(v) Early termination

In the event of early termination, the executive directors' service contracts provide for compensation limited to 12 month's basic salary. There are no agreements between the Group and its directors resulting in compensation for loss of office or employment that may occur as a result of a takeover bid. The Board considers that this provision is appropriate in a competitive market place.

#### Directors' emoluments and compensation

	2008	2007
	£	£
Salaries	390,000	327,500
Bonus	490,000	660,000
Fees	99,000	94,500
	<u>979,000</u>	<u>1,082,000</u>

# Anglo Pacific Group PLC

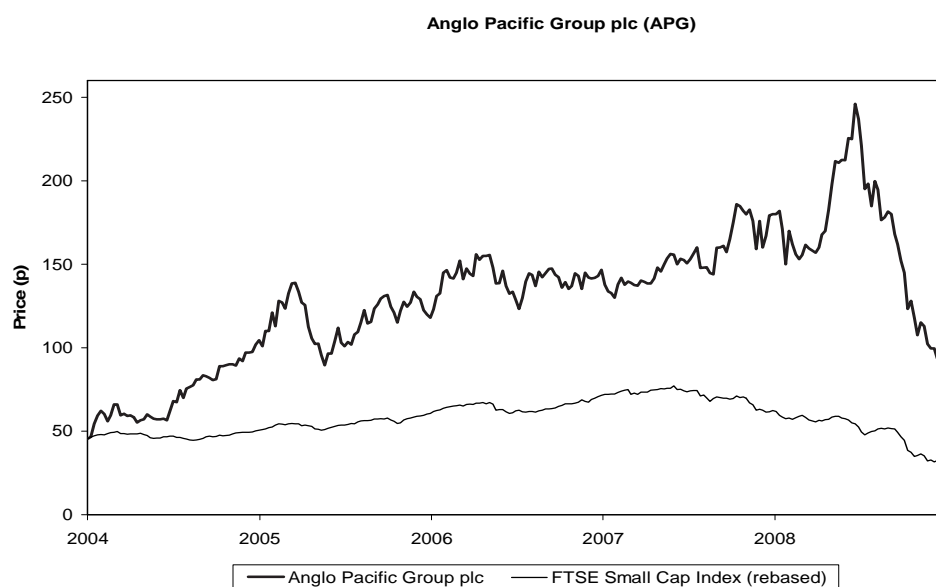
## Annual Report 2008

### DIRECTORS' REMUNERATION REPORT

The remuneration of the directors was as follows:-

	M.H. Atkinson £	P.M. Boycott £	M.J. Tack £	J.G. Whellock £	B.M. Wides £	A.H. Yadgaroff £	Total £
Salary	-	145,000	100,000	-	145,000	-	390,000
Bonus	-	182,150	125,700	-	182,150	-	490,000
Fees	33,000	-	-	33,000	-	33,000	99,000
12 months to 31 <sup>st</sup> December 2008	33,000	327,150	225,700	33,000	327,150	33,000	979,000
12 months to 31 <sup>st</sup> December 2007	31,500	402,500	182,500	31,500	402,500	31,500	1,082,000

### Share Price Performance



The above graph plots the movement for the ordinary share price of Anglo Pacific Group plc for the last 5 years against the FTSE Small Cap Index, which has been rebased to Anglo Pacific Group plc's share price at the start of the period in order to provide a graphical measure of comparative performance. The FTSE Small Cap Index has been selected as a comparable index because it is the nearest relevant index appropriate to the Group. The Group was admitted to the FTSE Small Cap Index in December 2004.

### Audit

Under Part 3 of Schedule 7A of the Companies Act 1985 the director's emoluments and compensation, and items (iii) and (iv) of the executive directors' remuneration section have been audited.

### Approval

This report was approved by the Board of Directors and authorised for issue on 9<sup>th</sup> March 2009 and signed on its behalf by:

M.J. Tack C.A.  
Company Secretary

9<sup>th</sup> March 2009

# Anglo Pacific Group PLC

## Annual Report 2008

### DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

UK company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") adopted by the European Union ("EU") and have elected to prepare the company financial statements in accordance with IFRS.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the Group and Company Financial Statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. for the Group and Company Financial Statements, state whether they have been prepared in accordance with IFRSs adopted by the EU, subject to an material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

To the best of my knowledge :

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Anglo Pacific Group plc website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

P.M. Boycott  
Director

9<sup>th</sup> March 2009

# Anglo Pacific Group PLC

## Annual Report 2008

### REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ANGLO PACIFIC GROUP PLC

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We have audited the consolidated and parent company financial statements (the "financial statements") of Anglo Pacific Group plc for the year ended 31<sup>st</sup> December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in members' equity, and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

#### **Opinion**

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

*GRANT THORNTON UK LLP  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS  
LONDON*

9<sup>th</sup> March 2009

# Anglo Pacific Group PLC

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

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	Notes	2008 £'000	2007 £'000
Royalty income	2	22,072	8,439
Other operating income	2	50	191
Finance income	2,5	957	623
		<u>23,079</u>	<u>9,253</u>
Profit on sale of mining and exploration interests	2	14,016	25,612
<b>Total income</b>		<u>37,095</u>	<u>34,865</u>
Net operating expenses	3	<u>(1,840)</u>	<u>(1,097)</u>
<b>Profit before tax</b>	3	<u>35,255</u>	<u>33,768</u>
Tax	6	<u>(5,994)</u>	<u>(4,028)</u>
<b>Profit attributable to equity holders</b>	22	<u>29,261</u>	<u>29,740</u>
<b>Total and continuing earnings per share</b>			
Basic earnings per share	8	<u>27.56p</u>	<u>28.72p</u>
Diluted earnings per share	8	<u>27.56p</u>	<u>28.72p</u>

# Anglo Pacific Group PLC

## CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	Consolidated		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Non-current assets</b>					
Property plant and equipment	10	829	832	829	832
Coal royalties	13	93,347	60,874	-	-
Other royalties	14	7,783	-	7,783	-
Investments in subsidiary undertakings	11	-	-	6,618	6,341
Mining and exploration interests	15	45,755	95,750	36,095	79,598
Deferred tax	18	-	-	1,603	-
		<u>147,714</u>	<u>157,456</u>	<u>52,928</u>	<u>86,771</u>
<b>Current assets</b>					
Current taxation	16	-	-	646	-
Trade and other receivables	16	11,575	1,874	321	854
Cash at bank	19	17,136	18,904	101	2,035
		<u>28,711</u>	<u>20,778</u>	<u>1,068</u>	<u>2,889</u>
<b>Total assets</b>		<u><u>176,425</u></u>	<u><u>178,234</u></u>	<u><u>53,996</u></u>	<u><u>89,660</u></u>
<b>Non-current liabilities</b>					
Deferred tax	18	28,857	19,252	-	393
		<u>28,857</u>	<u>19,252</u>	<u>-</u>	<u>393</u>
<b>Current liabilities</b>					
Current taxation	17	877	2,538	20	2,249
Trade and other payables	17	849	262	222	85
		<u>1,726</u>	<u>2,800</u>	<u>242</u>	<u>2,334</u>
<b>Total liabilities</b>		<u><u>30,583</u></u>	<u><u>22,052</u></u>	<u><u>242</u></u>	<u><u>2,727</u></u>
<b>Capital and reserves attributable to shareholders</b>					
Share capital	20	2,123	2,113	2,123	2,113
Share premium	20	18,604	17,742	18,604	17,742
Coal royalty revaluation reserve		58,430	40,899	-	-
Investment revaluation reserve		(22,149)	33,104	(21,733)	29,258
Share based payment reserve		78	48	78	48
Foreign currency translation reserve		7,230	2,224	82	82
Special reserve	21	632	632	632	632
Retained Earnings	22	80,894	59,420	53,968	37,058
		<u>145,842</u>	<u>156,182</u>	<u>53,754</u>	<u>86,933</u>
<b>Total equity and liabilities</b>		<u><u>176,425</u></u>	<u><u>178,234</u></u>	<u><u>53,996</u></u>	<u><u>89,660</u></u>

The financial statements on pages 27 to 54 were approved by the Board of Directors and authorised for issue on 9<sup>th</sup> March 2009 and are signed on its behalf by:

B.M. Wides                      Director  
P.M. Boycott                    Director



# Anglo Pacific Group PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2008

	Share capital	Share premium	Coal royalty revaluation reserve	Investment revaluation reserve	Share based payment reserve	Foreign currency translation reserve	Special reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1st January 2007</b>	<b>2,032</b>	<b>12,112</b>	<b>35,403</b>	<b>27,078</b>	<b>27</b>	<b>(1,930)</b>	<b>632</b>	<b>36,140</b>	<b>111,494</b>
<i>Changes in equity for 2007</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	8,759	-	-	4,247	-	-	13,006
Deferred tax on valuation	-	-	(3,263)	-	-	(1,134)	-	-	(4,397)
Available-for-sale investments:									
Valuation movement taken to equity	-	-	-	24,778	-	937	-	-	25,715
Deferred tax on valuation	-	-	-	(319)	-	15	-	-	(304)
Transferred to income statement on disposal	-	-	-	(18,433)	-	-	-	-	(18,433)
Foreign currency translation	-	-	-	-	-	89	-	-	89
Net income recognised direct into equity	-	-	5,496	6,026	-	4,154	-	-	15,676
Profit for the period	-	-	-	-	-	-	-	29,740	29,740
Total recognised income and expenses	-	-	5,496	6,026	-	4,154	-	29,740	45,416
Dividends paid	-	-	-	-	-	-	-	(6,460)	(6,460)
Scrip Dividend	18	1,350	-	-	-	-	-	-	1,368
Issue of share capital	63	4,280	-	-	-	-	-	-	4,343
Equity share options issued	-	-	-	-	21	-	-	-	21
<b>Balance at 1st January 2008</b>	<b>2,113</b>	<b>17,742</b>	<b>40,899</b>	<b>33,104</b>	<b>48</b>	<b>2,224</b>	<b>632</b>	<b>59,420</b>	<b>156,182</b>
<i>Changes in equity for 2008</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	25,943	-	-	6,530	-	-	32,473
Deferred tax on valuation	-	-	(8,412)	-	-	(1,844)	-	-	(10,256)
Available-for-sale investments:									
Valuation movement taken to equity	-	-	-	(40,881)	-	(111)	-	-	(40,992)
Deferred tax on valuation	-	-	-	4,286	-	(325)	-	-	3,961
Transferred to income statement on disposal	-	-	-	(18,658)	-	-	-	-	(18,658)
Foreign currency translation	-	-	-	-	-	756	-	-	756
Net expense recognised direct into equity	-	-	17,531	(55,253)	-	5,006	-	-	(32,716)
Profit for the period	-	-	-	-	-	-	-	29,261	29,261
Total recognised income and expenses	-	-	17,531	(55,253)	-	5,006	-	29,261	(3,455)
Dividends paid	-	-	-	-	-	-	-	(7,787)	(7,787)
Scrip Dividend	10	862	-	-	-	-	-	-	872
Issue of share capital	-	-	-	-	-	-	-	-	-
Equity share options issued	-	-	-	-	30	-	-	-	30
<b>Balance at 31st December 2008</b>	<b>2,123</b>	<b>18,604</b>	<b>58,430</b>	<b>(22,149)</b>	<b>78</b>	<b>7,230</b>	<b>632</b>	<b>80,894</b>	<b>145,842</b>

# Anglo Pacific Group PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2008

	Share capital £'000	Share premium £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1st January 2007</b>	<b>2,032</b>	<b>12,112</b>	<b>23,010</b>	<b>27</b>	<b>82</b>	<b>632</b>	<b>22,580</b>	<b>60,475</b>
<i>Changes in equity for 2007</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	21,158	-	-	-	-	21,158
Deferred tax on valuation	-	-	(393)	-	-	-	-	(393)
Transferred to income statement on disposal	-	-	(14,517)	-	-	-	-	(14,517)
Net income recognised direct into equity	-	-	6,248	-	-	-	-	6,248
Profit for the period	-	-	-	-	-	-	20,938	20,938
Total recognised income and expenses	-	-	6,248	-	-	-	20,938	27,186
Dividends paid	-	-	-	-	-	-	(6,460)	(6,460)
Scrip Dividend	18	1,350	-	-	-	-	-	1,368
Issue of share capital	63	4,280	-	-	-	-	-	4,343
Equity share options issued	-	-	-	21	-	-	-	21
<b>Balance at 1st January 2008</b>	<b>2,113</b>	<b>17,742</b>	<b>29,258</b>	<b>48</b>	<b>82</b>	<b>632</b>	<b>37,058</b>	<b>86,933</b>
<i>Changes in equity for 2008</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	(39,887)	-	-	-	-	(39,887)
Deferred tax on valuation	-	-	1,996	-	-	-	-	1,996
Transferred to income statement on disposal	-	-	(13,100)	-	-	-	-	(13,100)
Net expense recognised direct into equity	-	-	(50,991)	-	-	-	-	(50,991)
Profit for the period	-	-	-	-	-	-	24,697	24,697
Total recognised income and expenses	-	-	(50,991)	-	-	-	24,697	(26,294)
Dividends paid	-	-	-	-	-	-	(7,787)	(7,787)
Scrip Dividend	10	862	-	-	-	-	-	872
Issue of share capital	-	-	-	-	-	-	-	-
Equity share options issued	-	-	-	30	-	-	-	30
<b>Balance at 31st December 2008</b>	<b>2,123</b>	<b>18,604</b>	<b>(21,733)</b>	<b>78</b>	<b>82</b>	<b>632</b>	<b>53,968</b>	<b>53,754</b>

# Anglo Pacific Group PLC

## CONSOLIDATED CASH FLOW STATEMENT AND COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	Consolidated		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
<b>Cash flows from operating activities</b>					
Profit before taxation		35,255	33,768	25,100	23,174
Adjustments for:					
Interest received	5	(957)	(623)	(850)	(585)
Unrealised foreign currency loss		756	89	-	-
Depreciation of property, plant and equipment	3	9	10	9	10
(Gain) on disposal of mining and exploration interests		(14,016)	(25,612)	(12,041)	(21,362)
(Gain) on revaluation of assets held as fair value through profit or loss	14,15	(126)	-	(126)	-
Inter-company dividends		-	-	(12,450)	(650)
Share based payments	25	30	21	30	21
		<u>20,951</u>	<u>7,653</u>	<u>(328)</u>	<u>608</u>
(Increase) / Decrease in trade and other receivables excluding amounts due from subsidiary companies		(9,701)	(40)	(244)	13
Increase in trade and other payables		<u>588</u>	<u>7</u>	<u>136</u>	<u>15</u>
Cash generated from operations		11,838	7,620	(436)	636
Income taxes paid		<u>(4,342)</u>	<u>(2,883)</u>	<u>(3,285)</u>	<u>-</u>
<b>Net cash flows from operating activities</b>		<u>7,496</u>	<u>4,737</u>	<u>(3,721)</u>	<u>636</u>
<b>Cash flows from investing activities</b>					
Proceeds on disposal of mining and exploration interests		31,117	44,945	27,388	39,456
Purchase of mining and exploration interests and other royalties		(34,423)	(36,145)	(32,768)	(34,390)
Interest received	5	957	623	850	585
<b>Net cash flows from investing activities</b>		<u>(2,349)</u>	<u>9,423</u>	<u>(4,530)</u>	<u>5,651</u>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		-	-	-	-
Dividends paid		(6,915)	(5,092)	(6,915)	(5,092)
Net financing of related entities		-	-	13,232	(82)
<b>Net cash flows from financing activities</b>		<u>(6,915)</u>	<u>(5,092)</u>	<u>6,317</u>	<u>(5,174)</u>
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(1,768)</b>	<b>9,068</b>	<b>(1,934)</b>	<b>1,113</b>
<b>Cash and cash equivalents at beginning of period</b>	19	<u>18,904</u>	<u>9,836</u>	<u>2,035</u>	<u>922</u>
<b>Cash and cash equivalents at end of period</b>	19	<u>17,136</u>	<u>18,904</u>	<u>101</u>	<u>2,035</u>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 1. Accounting policies

The financial statements of the Group and the parent company have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

#### Basis of preparation and presentation of financial statements

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU (IFRS). These financial statements are presented in Sterling since that is the currency in which the majority of the Group's transactions are denominated.

#### Issued International Financial Reporting Standards ("IFRSs") that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but are not yet effective:

IAS 1	Presentation of Financial Statements (revised 2007) (effective 1 <sup>st</sup> January 2009)
IAS 23	Borrowing Costs (revised 2007) (effective 1 <sup>st</sup> January 2009)
Amendment:	IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1 January 2009)
IAS 27	Consolidated and Separate Financial Statements (Revised 2008) (effective 1 <sup>st</sup> July 2009)
Amendment:	IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective 1 <sup>st</sup> January 2009)
Amendments:	IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements - Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 <sup>st</sup> January 2009)
Amendment:	IAS 39 Financial Instruments: Recognition and Measurement - Eligible Hedged Items (effective 1 <sup>st</sup> July 2009)
Improvements:	IFRSs (effective 1 <sup>st</sup> January 2009 other than certain amendments effective 1 <sup>st</sup> July 2009)
IFRS 3	Business Combinations (Revised 2008) (effective 1 <sup>st</sup> July 2009)
IFRS 8	Operating Segments (effective 1 <sup>st</sup> January 2009)
IFRIC 13	Customer Loyalty Programmes (effective 1 <sup>st</sup> July 2008)
IFRIC 15	Agreements for the Construction of Real Estate (effective 1 <sup>st</sup> January 2009)
IFRIC 16	Hedges of a Net Investment in a Foreign Operation (effective 1 <sup>st</sup> October 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

#### Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements. It has concluded that there is no significant risk of these estimates and assumptions causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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Information about the estimates and judgements made by the Group are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

- Classification of mining and exploration interests – note 1 (h) and note 15
- Classification of royalties acquired during the year – note 1 (h) and note 14
- Judgements regarding the existence of embedded derivatives relating to royalties acquired – note 14
- Judgements regarding the reasonableness of assumptions made by independent coal industry advisors in valuing coal royalty – note 13
- Review of fair values of assets treated as fair value through profit and loss – note 1 (h) and note 14
- Impairment review of assets treated as available for sale – note 1 (h), note 14 and note 15
- Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 1(g), note 6 and note 18
- Recoverability of deferred tax assets – note 1 (g) and note 18

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year. These subsidiaries are all entities in which the Company retains the control of more than half the voting rights and exercises the power to determine the financial and operating policies of the enterprises.

In the accounts of Anglo Pacific Group PLC investments in subsidiaries are shown at cost less any provision for impairment. The results of subsidiaries are included in the consolidated income statement.

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

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

### **(a) Revenue and income recognition**

The turnover of the Group comprises royalty income and amounts receivable from external customers for services excluding value added tax and other sales related taxes. It is measured at the fair value of the consideration received or receivable. The royalty income becomes receivable on extraction and sale of the relevant minerals.

Disposals of mining and exploration interests are disclosed net of any commissions and foreign exchange.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### **(b) Foreign currencies**

The consolidated financial statements are presented in pounds sterling, which is also the functional currency of the parent company.

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognised in profit or loss. Non-monetary items measured at historical cost are translated using the exchange rates at the date of the transaction (not retranslated). Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than the pounds sterling (the Group's presentation currency) are translated into pounds sterling upon consolidation. The functional currency of the entities in the Group have remained unchanged during the reporting period.

On consolidation, assets and liabilities have been translated into pounds sterling at the closing rate at the reporting date. Income and expenses have been translated into the Group's presentation currency at the average rate over the reporting period.

Exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognised in equity are reclassified to profit or loss and recognised as part of the gain or loss on disposal.

### **(c) Business combinations**

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

### **(d) Investments in joint ventures**

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other partners under a contractual arrangement.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the proportionate consolidation method of accounting. The Group's share of the assets, liabilities, income and expenses of the joint ventures are incorporated with the similar items, line by line, in its financial statements.

Where a Group company transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

### **(e) Property, plant and equipment (excluding coal royalties)**

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Producing assets, including land	Unit of production
Fixtures and equipment	4 to 10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

### **(f) Leased assets**

Rentals payable under operating leases where substantially all of the benefits and risks of ownership are not transferred to the lessee are charged against profits on a straight line basis over the term of the lease.

### **(g) Taxation**

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

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from initial recognition of goodwill on business combinations.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

### **(h) Financial instruments**

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

#### *Cash and cash equivalents*

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

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition loans and receivables are stated at their fair value. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within 'other expenses'.

#### *Mining and exploration interests*

Mining and exploration interests are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, including transaction costs.

Mining and exploration interests are classified upon initial recognition as either available-for-sale or as assets at fair value through profit or loss, depending on the characteristics of the particular instrument and its purpose.

Interests classified as available-for-sale are measured at subsequent reporting dates at their fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity within the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Unquoted investments are initially recognised using cost as the best evidence of fair value.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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In the absence of an active market for these securities, the Group considers each unquoted security to ensure there has been no material change in the fair value since initial recognition. When a market price can be established the investments are revalued accordingly.

For mining and exploration interests classified as assets at fair value through profit or loss, gains and losses arising from changes in fair value are recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, commodity prices, production profiles and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using cost as the best evidence of fair value at acquisition (see note 15).

All mining and exploration interests held as available for sale are assessed for impairment at least at each reporting date and the assessment includes variables such as the instrument's valuation in active markets, the company's underlying assets as well as any potential for economic mineral development within the relevant company's licences.

### *Other royalties*

Other royalties are recognised or derecognised on completion date where a purchase or sale of the royalty is under a contract, and are initially measured at fair value, including transaction costs.

Other royalties are classified upon initial recognition as available-for-sale or as assets at fair value through profit or loss, depending on the characteristics of the particular instrument and its purpose. The Group assesses each royalty with reference to whether it would meet the applicable criteria for a derivative, and if the entire royalty contract meets the criteria it is classified as fair value through profit or loss. Some royalty contracts include clauses relating to the possibility of conversion to equity in the company granting the royalty. These clauses are treated as embedded derivatives and are classified as fair value through profit or loss.

Royalties classified as available-for-sale are measured at subsequent reporting dates at their fair value. For royalties classified in this manner gains and losses arising from changes in fair value are recognised directly in equity within the investment revaluation reserve, until the royalty is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period.

For royalties or embedded derivatives classified as assets at fair value through profit or loss, gains and losses arising from changes in fair value are recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, production profiles, commodity prices and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using cost as the best evidence of fair value at acquisition, however embedded derivatives are valued at acquisition and this fair value is separated from the balance of the royalty interest.

All royalties are assessed for impairment at least at each reporting date and the assessment includes variables such as the instrument's valuation in active markets, production profiles, commodity prices and management representations.

### *Financial liabilities and equity*

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

### *Trade payables*

Trade payables are not interest bearing and are stated at their fair value. After initial recognition these are measured at amortised cost using the effective interest method.

### *Equity instruments*

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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### (i) Coal royalties

The Group owns a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland, excluding the output from Crown areas. This entitlement is treated in the consolidated financial statements as a tangible fixed asset under IAS 16 Property Plant and Equipment and the Group has adopted the revaluation method accordingly. The coal royalties are valued at fair value based on future discounted cash flows calculated on a quarterly basis by an independent external consultant. Management consider the valuation on a quarterly basis for any indications of possible impairment considering factors such as pricing and production forecasts.

Any movement in the valuation of the royalties is recognised in the coal royalty revaluation reserve, excluding the effects of foreign currency changes and net of deferred taxation in accordance with IAS 12 Income Taxes.

### (j) Reserves

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Coal royalty revaluation reserve" represents revaluation of the coal royalty from the opening carrying value, excluding the effects of deferred tax and foreign currency changes.
- "Investment revaluation reserve" represents gains and losses due to the revaluation of the investments in mining and exploration interests and other royalties from the opening carrying values, excluding the effects of deferred tax and foreign currency changes.
- "Share based payment reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Special reserve" represents the level of profit attributable to the Group for the period ended 30<sup>th</sup> June 2002 which was created as part of a capital reduction performed in 2002.
- "Retained earnings" represents retained profits.

### (k) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. For the purposes of segment reporting the Group does not have separate geographical reporting segments.

### (l) Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7<sup>th</sup> November 2002 that were unvested as of 1<sup>st</sup> January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 3. Profit from operations

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Profit before tax is stated after charging:—		
Net realised foreign exchange (gains)	(567)	(675)
Depreciation of property plant and equipment (note 10)	9	10
Staff costs (note 4)	1,322	1,220
Movement in fair value through profit or loss investments (note 14 & note 15)	126	-
Payments under operating leases	66	123
<i>Auditors' remuneration:</i>		
Fees payable to the Company's auditor for audit of the financial statements	48	40
Other taxation services	15	3
Fees payable to the other group auditors for audit of the Company's subsidiaries	13	14
	<u>13</u>	<u>14</u>

### 4. Staff costs

	<b>2008</b>		<b>2007</b>	
	<b>Consolidated</b>	<b>Company</b>	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Wages and salaries	1,208	858	1,137	667
Social security costs	100	100	77	77
Other pension costs	14	14	6	6
	<u>1,322</u>	<u>972</u>	<u>1,220</u>	<u>750</u>

	<b>Consolidated and Company</b>	
	<b>2008</b>	<b>2007</b>
	<b>Number</b>	<b>Number</b>
Executive directors	3	3
Administration	3	2
	<u>6</u>	<u>5</u>

Directors salaries are shown in the director's remuneration report on pages 22 to 24, including the highest paid director.

### 5. Investment Income

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
On bank deposits and other loans	957	623
	<u>957</u>	<u>623</u>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 2. Business and geographical segments

For reporting purposes the Group is currently organised into two primary operating segments – royalty and mining and exploration interests.

The royalty segment encompasses all Group activities relating directly to the royalties received from mining operations. The mining and exploration interests segment encompasses all Group activities relating directly to the acquisition, disposition and continuing monitoring of the Group's investments in listed and unlisted entities operating in mining and mineral exploration. Any revenue, overheads, assets or liabilities that cannot be directly allocated to these segments is reported under "Unallocated". For the purposes of segment reporting the Group does not have separate geographical reporting segments. Segment information is presented below.

	Year ended 31st December 2008			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
<b>Revenue</b>	22,072	-	50	22,122
<b>Operating profit</b>	22,072	-	(1,781)	20,291
Profit on sale of mining and exploration interests	-	14,016	-	14,016
Interest received	-	-	957	957
Depreciation	-	-	(9)	(9)
Tax	-	-	(5,994)	(5,994)
<b>Segment Result</b>	22,072	14,016	(6,827)	29,261
Segment Assets	101,130	45,755	29,540	176,425
Segment Liabilities	(30,781)	1,924	(1,726)	(30,583)
<b>Net Segment Assets</b>	70,349	47,679	27,814	145,842
Capital Expenditure	-	-	6	6
	Year ended 31st December 2007			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
<b>Revenue</b>	8,439	-	191	8,630
<b>Operating profit</b>	8,439	-	(896)	7,543
Profit on sale of mining and exploration interests	-	25,612	-	25,612
Interest received	-	-	623	623
Depreciation	-	-	(10)	(10)
Tax	-	-	(4,028)	(4,028)
<b>Segment Result</b>	8,439	25,612	(4,311)	29,740
Segment Assets	60,874	95,750	21,610	178,234
Segment Liabilities	(19,252)	-	(2,800)	(22,052)
<b>Net Segment Assets</b>	41,622	95,750	18,810	156,182
Capital Expenditure	-	-	3	3

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 6. Income tax expense

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Total corporation tax charge	515	2,888
Deferred tax charged to income – current year (note 18)	3,062	(23)
Arising from retranslation of deferred tax – current year (note 18)	2,417	1,163
Tax on profit on ordinary activities	<u>5,994</u>	<u>4,028</u>
	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Factors affecting the tax charge for the year:		
Profit on activities before tax	<u>35,255</u>	<u>33,768</u>
Prima facie tax payable at UK rate of 28% (2007: 30%) and Australian rate of 30% (2007: 30%)	10,379	10,130
Adjustment for tax exempt income	(3,311)	(2,146)
Investment allowances	(120)	(330)
Utilisation of losses brought forward	(540)	(3,389)
Adjustment for foreign taxed income	196	(105)
Non-deductible expenses	(610)	26
Utilisation of previously unrecognised deferred tax assets	-	(158)
Total income tax expense	<u>5,994</u>	<u>4,028</u>

Refer to note 18 for information regarding the Group's deferred tax assets and liabilities.

### 7. Dividends

On 1<sup>st</sup> February 2008 an interim dividend of 3.00 pence per share was paid to shareholders in respect of the year ended 31<sup>st</sup> December 2007. On 1<sup>st</sup> August 2008 a final dividend of 4.35 pence per share was paid to shareholders to make a total dividend for the year of 7.35 pence per share.

On 7<sup>th</sup> January 2009 an interim dividend of 3.45 pence per share was paid to shareholders in respect of the year ended 31<sup>st</sup> December 2008. This dividend has not been included as a liability in these financial statements. The directors propose that a final dividend of 4.35 pence per share be paid to shareholders on 3<sup>rd</sup> July 2009, to make a total dividend for the year of 7.80 pence per share. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed final dividend for 2008 is payable to all shareholders on the Register of Members on 8<sup>th</sup> May 2009. The total estimated dividend to be paid is £4.62 million. This will be reduced to the extent that shareholders elect to receive scrip instead of cash under the Company's scrip dividend alternative, which will be offered depending on the share price at the time.

### 8. Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £29,261,000 (2007: £29,740,000) and the weighted average number of shares in issue during the year of 106,172,139 (2007: 103,546,147).

The diluted earnings per ordinary share is calculated on a profit after tax of £29,261,000 (2007: £29,740,000) and 106,177,235 shares (2007: 103,565,904). The numbers used in calculating basic and diluted earnings per share are restated below:

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

<b>Net profit attributable to shareholders</b>	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Earnings—basic	29,261	29,740
Earnings—diluted	29,261	29,740
<b>Weighted average number of shares in issue</b>	Number	Number
Ordinary shares in issue	106,172,139	103,546,147
Executive Share Option Scheme	-	-
Employee Share Option Scheme	5,096	19,757
	106,177,235	103,565,904

### 9. Results of Anglo Pacific Group Plc

Included in the consolidated profit attributable to the shareholders of Anglo Pacific Group PLC is a profit of £24,697,000 (2007: £20,938,000), which has been dealt with in the accounts of the holding company. As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements.

### 10. Property plant and equipment Group and Company

	<b>Producing assets £'000</b>	<b>Equipment and Fixtures £'000</b>	<b>Total £'000</b>
Cost or valuation:			
At 1st January 2007	821	140	961
Additions	-	4	4
At 31st December 2007	821	144	965
Additions	-	6	6
At 31st December 2008	821	150	971
Depreciation:			
At 1st January 2007	2	121	123
Charge for the year	-	10	10
At 31st December 2007	2	131	133
Charge for the year	-	9	9
At 31st December 2008	2	140	142
Net book value:			
At 1st January 2007	819	19	838
At 31st December 2007	819	13	832
At 31st December 2008	819	10	829

The Group's property plant and equipment are carried at cost less depreciation with the exception of leases relating to the talc deposit on Shetland held by the parent company. The producing asset on Shetland is included at a directors' valuation of £0.8 million (2007: £0.8 million) plus additions which are carried at cost. This valuation was carried out on 26<sup>th</sup> March 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 11. Investments in subsidiary undertakings Company

	Shares in subsidiary undertakings £'000
Cost:	
At 1st January 2007	1,657
Additions:	5,029
At 31st December 2007	6,686
Additions	277
At 31st December 2008	6,963
Provisions:	
At 1st January 2007	345
Additions	-
At 31st December 2007	345
Additions	-
At 31st December 2008	345
Net book value:	
At 1st January 2007	1,312
At 31st December 2007	6,341
At 31st December 2008	6,618

	Country of registration and operation	Principal activity	Proportion of shares held at 31st December 2008
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100% †
Alkormy Pty Ltd	Australia	Investments	100% †
Gordon Resources Ltd	Australia	Owner of coal royalty	100% †
Jandale Pty Ltd	Australia	Joint venture company	100% †
Shetland Tale Ltd	Scotland	Mineral exploration	100%
APGM Ltd	England	Investments	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%
Panorama Coal Corporation	Canada	Holder of coal tenures	100%
Trefi Coal Corporation	Canada	Holder of coal tenures	100%

† Denotes held by a subsidiary company.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 12. Joint ventures

The Group has a 50% equity shareholding (and voting rights) in a joint venture established in Australia between Jandale Pty Ltd (a wholly owned subsidiary of the Company) and Core Resources Pty Ltd for the purpose of exploration and development.

The following amounts are included in the Group's financial statements using proportionate consolidation:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Non-current assets	-	1
Current assets	7	15
Non-current liabilities	-	-
Current liabilities	3	6
	<hr/>	<hr/>
Income	50	8
Expenses	-	-
	<hr/>	<hr/>

The Group has no contingent liabilities or any capital commitments under this joint venture.

### 13. Coal Royalties

	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
At 1st January 2007	47,868	-
Revaluation adjustment	8,759	-
Foreign currency translation	4,247	-
	<hr/>	<hr/>
At 1st January 2008	60,874	-
Revaluation adjustment	25,943	-
Foreign currency translation	6,530	-
	<hr/>	<hr/>
At 31st December 2008	<u>93,347</u>	<u>-</u>

The Group's coal royalty entitlements comprise the Kestrel and Crinum coal royalties.

The coal royalty was valued during December 2008 at £93.3 million (A\$193 million) by Resource Management International Pty Limited, coal industry advisors, on a net present value of the pre-tax cash flow discounted at a rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation amount represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes. Were the coal royalty to be realised at the revalued amount there are £1.9 million (A\$3.9 million) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 18). The Directors do not presently have any intention to dispose of the coal royalty.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 14. Other Royalties

(a) Available for sale	Consolidated £'000	Company £'000
At 1st January 2007	-	-
Additions	-	-
Disposals	-	-
Revaluation adjustment	-	-
At 1st January 2008	-	-
Additions	5,343	5,343
Disposals	-	-
Revaluation adjustment	2,083	2,083
Fair value at 31st December 2008	<u>7,426</u>	<u>7,426</u>

On 26<sup>th</sup> November 2008 the Group acquired a 2.5% Net Smelter Royalty (NSR) on the Engenho gold project in Brazil, operated by Mundo Minerals Limited for £1.8 million (A\$4 million). Until the A\$4 million has been received in royalties the Group retains the right to convert the difference between royalties received and this sum into shares of Mundo Minerals Limited at a price of A\$0.35 per share. This agreement has been treated as having two components, the Engenho royalty stream and the option to convert to shares.

The Engenho royalty stream has been classified as available for sale, with the value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At 31<sup>st</sup> December 2008 the royalty stream has been valued on a net present value of the pre-tax cash flow discounted at a rate of 10%, resulting in a valuation of £2.6 million (A\$5.4 million). The expected life of the mine is 8 years, and the projected cash flow has been based on the latest available geological reporting, mine plans and commodity price forecasts.

The option to convert to shares has been treated as fair value through profit and loss as designated on initial recognition at the date of acquisition, and has been independently valued utilising option models at both initial recognition and at 31<sup>st</sup> December 2008. The valuation at 31<sup>st</sup> December 2008 was £334,000, and the key assumptions, in addition to those utilised in the royalty stream valuation such as mine life and expected cash flow, included the price and volatility of Mundo Minerals Limited listed equity.

On 21<sup>st</sup> October 2008 the Group acquired a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain for £3.8 million (C\$7.5 million). This deposit is currently being developed by Kinbauri Gold Corp and a scoping study has recently been completed. In the event that production from the El Valle mill does not exceed a rate of 90,000 ounces of gold per year on or before 31<sup>st</sup> December 2012, the difference between the sum advanced and the royalties received by the Group can be converted at the Group's option into common shares at a price equal to the lower of C\$0.96 or an agreed discounted market price at the time of conversion. This agreement has also been treated as having two components, the El Valle royalty stream and the option to convert to shares.

The El Valle royalty stream has been classified as available for sale, with the value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At 31<sup>st</sup> December 2008 the royalty stream has been valued on a net present value of the pre-tax cash flow discounted at a rate of 15%, resulting in a valuation of £4.8 million (C\$8.6 million). In determining the valuation, the expected mine life used is 10 years, and the projected cash flow has been based on the latest available project scoping study and commodity price forecasts.

This option to convert to shares has been treated as fair value through profit and loss as designated on initial recognition at the date of acquisition, and has been independently valued utilising option models at both initial recognition and at 31<sup>st</sup> December 2008. The valuation at 31<sup>st</sup> December 2008 was £24,000, and the key assumptions, in addition to those utilised in the royalty stream valuation such as production rates and expected cash flow, included the price and volatility of Kinbauri Gold Corp's listed equity, and an assessed probability of production achieving the necessary target rate.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

<b>(b) Fair value through profit and loss</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
At 1st January 2007	-	-
Additions	-	-
Disposals	-	-
Revaluation adjustment	-	-
At 1st January 2008	-	-
Additions	231	231
Disposals	-	-
Revaluation adjustment	126	126
Fair value at 31st December 2008	<u>357</u>	<u>357</u>

	<b>2008</b>		<b>2007</b>	
	<b>Consolidated £'000</b>	<b>Company £'000</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
<b>Total other royalties</b>	<u>7,783</u>	<u>7,783</u>	<u>-</u>	<u>-</u>

### 15. Mining and Exploration Interests

<b>(a) Available for sale</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
At 1st January 2007	67,317	57,345
Additions	38,235	32,138
Disposals	(36,577)	(32,103)
Revaluation adjustment	24,778	21,158
Foreign currency translation	937	-
At 1st January 2008	94,690	78,538
Additions	28,766	26,839
Disposals	(35,636)	(28,322)
Revaluation adjustment	(42,964)	(41,970)
Foreign currency translation	(111)	-
Fair value at 31st December 2008	<u>44,745</u>	<u>35,085</u>
Quoted investments	34,210	30,342
Unquoted investments	<u>10,535</u>	<u>4,743</u>
	<u>44,745</u>	<u>35,085</u>

These investments are acquired as part of the Group's strategy to acquire new royalties and are not held for the purpose of trading. Gains may be realised where it is deemed appropriate by the Investment Committee. The fair values of listed securities are based on quoted market prices. Unquoted investments are initially recognised using cost as the best evidence of fair value. In the absence of an active market for these securities, the Group considers each unquoted security to ensure there has been no material change in the fair value since initial recognition.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

<b>(b) Fair value through profit and loss</b>	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
At 1st January 2007	-	-
Additions	1,060	1,060
Disposals	-	-
Revaluation adjustment	-	-
At 1st January 2008	<u>1,060</u>	<u>1,060</u>
Additions	-	-
Disposals	(50)	(50)
Revaluation adjustment	-	-
Fair value at 31st December 2008	<u><u>1,010</u></u>	<u><u>1,010</u></u>

A non-repayable convertible instrument was created by the Group in 2007. This convertible instrument was created to provide finance to an unlisted mining development company and is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to 5 years. The instrument was initially recognised using cost as the best evidence of fair value. There was a payment received as consideration for a modification of the terms of convertible instrument during 2008, which has been applied to reduce the cost base of the instrument. The Group considers that there had been no material change in the fair value of the instrument at the reporting date, and this will be re-examined on a regular basis considering factors such as the presence of an active market for the equity and valuations of the potential royalty streams. The Group has no present intention of exercising the conversion of the instrument in the next 12 months.

	<b>2008</b>		<b>2007</b>	
	<b>Consolidated</b>	<b>Company</b>	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Total mining and exploration interests</b>	<u>45,755</u>	<u>36,095</u>	<u>95,750</u>	<u>79,598</u>

### 16. Trade and other receivables

	<b>2008</b>		<b>2007</b>	
	<b>Consolidated</b>	<b>Company</b>	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Income tax receivable	-	646	-	-
Trade receivables	-	-	3	3
Other receivables (including royalties receivable)	11,537	251	1,831	-
Amounts due from subsidiary companies	-	45	-	824
Prepayments and accrued income	38	25	40	27
	<u>11,575</u>	<u>967</u>	<u>1,874</u>	<u>854</u>

Trade and other receivables principally comprise amounts relating to royalties receivable for the quarter 1<sup>st</sup> October to 31<sup>st</sup> December 2008. The directors consider that the carrying amount of trade and other receivables is approximately their fair value. All amounts are considered short term and none are past due.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 17. Trade and other payables

	2008		2007	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Income tax payable	857	-	2,238	2,238
Other taxation and social security payable	20	20	300	11
Trade payables	35	33	50	32
Other payables	780	155	178	19
Accruals and deferred income	34	34	34	34
	<u>1,726</u>	<u>242</u>	<u>2,800</u>	<u>2,334</u>

Trade and other payables principally comprise amounts outstanding for taxation, investment purchases and ongoing costs. The average credit period taken for trade purchases is 15 days. The directors consider that the carrying amount of trade and other payables is approximately their fair value. All amounts are considered short term and none are past due.

### 18. Deferred tax

The movement in the year in the Group's net deferred tax position was as follows:

	2008		2007	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
At 1 January	19,252	393	14,530	-
Released to income for the year	3,062	-	(23)	-
Charge to equity for the year	4,126	(1,996)	3,582	393
Foreign currency translation	2,417	-	1,163	-
At 31 December	<u>28,857</u>	<u>(1,603)</u>	<u>19,252</u>	<u>393</u>

The following are the major deferred tax liabilities/(assets) recognised by the Group and the movements thereon during the period:

	Coal royalties		Available-for sale- investments		Accrual of royalty receivable	Total
	Revaluation of coal royalty	Effects of Tax losses	Revaluation of other royalties	Revaluation of mining interests		
	£'000	£'000	£'000	£'000		
At 1 January 2007	13,847	(1,572)	-	1,733	522	14,530
Released to income for the year (note 6)	-	-	-	-	(23)	(23)
Charge to equity for the year	2,628	635	-	319	-	3,582
Foreign currency translation	1,274	(140)	-	(15)	44	1,163
At 1 January 2008	17,749	(1,077)	-	2,037	543	19,252
Released to income for the year (note 6)	-	-	-	-	3,062	3,062
Charge to equity for the year	7,783	629	994	(5,280)	-	4,126
Foreign currency translation	1,959	(115)	-	325	248	2,417
At 31 December 2008	<u>27,491</u>	<u>(563)</u>	<u>994</u>	<u>(2,918)</u>	<u>3,853</u>	<u>28,857</u>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

This provision represents the Group's full potential liability to deferred taxation. This may be reduced by tax losses available to the Group. Australian capital losses are disclosed in note 13. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

The following are the major deferred tax liabilities recognised by the Company and the movements thereon during the period:

	<b>Available-for sale-investments</b>		
	<b>Revaluation of other royalties</b>	<b>Revaluation of mining interests</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 January 2007	-	-	-
Charge to equity for the year	-	393	393
At 1 January 2008	-	393	393
Charge to equity for the year	994	(2,990)	(1,996)
At 31 December 2008	<u>994</u>	<u>(2,597)</u>	<u>(1,603)</u>

### 19. Other financial assets

The disclosures detailed below are as required by IFRS 7 Financial Instruments: Disclosures. The Company's principal treasury objective is to provide sufficient liquidity to meet operational cash flow requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Company operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are detailed below:

#### Liquidity and funding risk

The objective of the Group in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At the year end there was no debt outstanding. The Group has a strong credit rating and has good access to capital markets, if required.

#### Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its other receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. There are no doubtful receivables this period.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The Group acquired two royalties during the year. In the event of non-payment of royalties, in both instances the Group have security against plant and equipment and the royalties are registered against mining title where possible. In addition, the Group is entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

A derivative financial instrument to provide finance to an unlisted mining development company is currently held by the Group (note 15). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to 5 years. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors in this regard. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### Foreign exchange risk

The Group's transactional foreign exchange exposure arises from income, expenditure and purchase and sale of assets denominated in foreign currencies. As each material commitment is made, the risk in relation to currency fluctuations is assessed by the Board and regularly reviewed. The Group does not have a hedging program in place at this time.

Foreign currency denominated financial assets and liabilities, translated into Sterling at the closing rate, are as follows:

	2008				2007			
	GBP £'000	AUD £'000	CAD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	Euro £'000
Financial assets	3,860	16,173	20,418	16	14,021	41,548	34,105	-
Financial liabilities	-	-	-	-	-	-	-	-
Short term exposure	3,860	16,173	20,418	16	14,021	41,548	34,105	-

The following table illustrates the sensitivity of the net result for the year and equity in regards to the Group's financial assets and financial liabilities and the Australian Dollar – Sterling and the Canadian Dollar – Sterling exchange rate.

It assumes a +/- 10% change of the Sterling / Australian Dollar exchange rate for the year ended 31<sup>st</sup> December 2008 (2007: 10%). A +/- 10% is considered for the Sterling / Canadian Dollar exchange rate (2007: 10%). Both of these percentages have been determined based on the approximate average market volatility in exchange rates in the previous 12 months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at balance sheet date.

If Sterling had weakened against the Australian Dollar and the Canadian Dollar by 10% this would have had the following impact:

	2008				2007			
	GBP £'000	AUD £'000	CAD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	Euro £'000
Net result for the year	4	918	88	3	1	1,056	1,037	-
Equity	386	1,617	2,042	2	1,402	4,155	3,411	-

If Sterling had strengthened against the Australian Dollar and the Canadian Dollar by 10% this would have had the following impact:

	2008				2007			
	GBP £'000	AUD £'000	CAD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	Euro £'000
Net result for the year	(4)	(918)	(88)	(3)	(1)	(1,056)	(1,037)	-
Equity	(386)	(1,617)	(2,042)	(2)	(1,402)	(4,155)	(3,411)	-

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

### Other price risk

The Group is exposed to other price risk in respect of its mining and exploration interests which include listed and unlisted equity securities and any convertible instruments.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

In relation to listed equity securities, determining a meaningful average volatility for the year has not proven practicable. An analysis of security prices within the Group's holdings produced a volatility of 7%. However, considering the nature of mining and exploration markets, the Group has adopted a more conservative approach and a sensitivity analysis based on a 10% increase or decrease in listed equity prices has been performed. If the quoted stock price for these securities had increased or decreased by this percentage the net result for the year would have been increased / reduced by £2,207,000 (2007: £2,561,000). Equity would have changed by £3,473,000 (2007: £8,604,000).

The royalties acquired during the year (note 14) expose the Group to other price risk through fluctuations in commodity prices, particularly the price of gold. As the price of gold has demonstrated a low relative volatility over the period between the acquisition of the royalties and 31<sup>st</sup> December 2008, no detailed analysis of the impact of fluctuations on the valuations of the royalties has been undertaken.

The Group is exposed to other price risk through its convertible instrument (note 15) that can be converted into equity or royalties. The underlying value of the equity may change resulting in an increase or decrease in the value of the instrument. As the equity is currently unlisted it is not possible to quantify this risk at this stage.

The Group's mining and exploration interests are held for the purposes of generating additional royalties and are considered long-term, strategic investments. This strategy is unaffected by recent severe fluctuations in prices for mining and exploration equities, however interests are continually monitored for indicators that may suggest problems for these companies raising capital or continuing their day-to-day business activities to ensure remedial action can be taken if necessary.

No specific hedging activities are undertaken in relation to these interest and the voting rights arising from these equity instruments are utilised in the Group's favour.

### Interest rate risk

The Group is exposed to interest rate risk in respect of the cash balances held with banks and other highly rated counterparties. If the interest rate the Group received had increased/decreased by one percent during the year, the net result for the year would have been increased / reduced by £383,000 (2007: £125,000). There would have been no impact on equity.

	<b>Weighted average effective interest rate</b>	<b>Fixed interest rate £'000</b>	<b>Non interest bearing £'000</b>	<b>Total £'000</b>
<b>2008</b>				
Financial Assets				
Cash at bank	2.65%	17,136	-	17,136
Other receivables		-	11,537	11,537
Total Financial Assets		17,136	11,537	28,673
Financial Liabilities				
Trade payables		-	35	35
Other payables		-	780	780
Total Financial Liabilities		-	815	815
Net Financial Assets		17,136	10,722	27,858

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
<b>2007</b>				
Financial assets				
Cash at bank	4.49%	18,904	-	18,904
Trade receivables		-	3	3
Other receivables		-	1,831	1,831
Total Financial Assets		18,904	1,834	20,738
Financial liabilities				
Trade payables		-	50	50
Other payables		-	178	178
Total Financial Liabilities		-	228	228
Net Financial Assets		18,904	1,606	20,510

### Financial Assets

The Group and Company held the following investments in financial assets:

	2008		2007	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Available-for-sale</i>				
Other royalties	7,426	7,426	-	-
Mining and exploration interests	44,745	35,085	94,690	78,538
<i>Fair value through profit or loss</i>				
Other royalties	357	357	-	-
Mining and exploration interests	1,010	1,010	1,060	1,060
Trade and other receivables	11,537	296	1,834	827
Cash at bank and in hand	17,136	101	18,904	2,035

Cash at bank and in hand comprise cash and short-term deposits held by the Group treasury function. The carrying amount of these assets is approximately their fair value.

## 20. Called up share capital and share premium

### Authorised share capital

At 1st January 2008 and 31st December 2008 — 500,000,000 ordinary shares of 2p each	£'000
	10,000

### Allotted, called up and fully paid share capital

At 1st January 2007 — 101,580,251 ordinary shares of 2p each	2,032
Scrip dividends	18
Issue of share capital	63
At 1st January 2008 — 105,626,626 ordinary shares of 2p each	2,113
Scrip dividends	10
Issue of share capital	-
At 31st December 2008 — 106,172,139 ordinary shares of 2p each	2,123

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### Share premium

At 1st January 2007	12,112
Scrip dividends	1,350
Issue of share capital	4,280
At 1st January 2008	17,742
Scrip dividends	862
Issue of share capital	-
At 31st December 2008	18,604

### Share option schemes

Shares under option to directors in office at 31<sup>st</sup> December 2008 within the Anglo Pacific Group PLC unapproved Executive Share Option Scheme are disclosed within the Directors' Remuneration Report. There were no shares under option within this scheme at the year end. The Group operates a further employee share option plan, the Anglo Pacific Company Share Option Plan, which is open to all Group employees. Options were first granted under this scheme during 1999. During the year 34,444 options were granted under this scheme and a total of 91,039 options remain outstanding at 31<sup>st</sup> December 2008. Further information is provided at note 25.

### 21. Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended 30<sup>th</sup> June 2002. At 31<sup>st</sup> December 2008, this reserve remains unavailable for distribution.

	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
At 1st January 2008 and 31st December 2008	632	632

### 22. Retained Earnings

	<b>Consolidated</b>	<b>Company</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1st January 2008	59,420	37,058
Dividends paid	(7,787)	(7,787)
Profit for the financial year	29,261	24,697
Balance at 31st December 2008	80,894	53,968

### 23. Financial commitments

#### Operating leases

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases. The total commitments due under these leases are shown according to the scheduled expiry dates of the leases as follows:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	50	68
In the second to fifth years inclusive	200	200
After five years	360	410
	610	678

The annual commitments for leases expiring after five years total £50,000 per annum.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### Capital commitments

At the year end the Group had capital commitments of £nil (2007: £578,000) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2007: £nil).

Subsidiary undertakings have commitments as detailed below:

#### Shetland Talc Limited

A bond was granted to Shetland Islands Council for £10,000 in respect of the installation of a Talc processing plant at Broonies Taing, Sandwick and the extraction of talc magnesite rock at Catpund, Cunningsburgh.

### 24. Retirement benefits plans

The Group operates a money purchase group personal pension scheme. Under this scheme the Group makes contributions to personal pension plans of individual employees. The pension cost charge represents contributions payable by the Group to these plans in respect of the year.

The total cost charged to income of £13,800 (2007: £5,900) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31<sup>st</sup> December 2008, contributions of £5,600 (2007: £2,700) due in respect of the current reporting period had not been paid over to the schemes.

### 25. Share based payments

The Group has an unapproved Executive Share Option Scheme and an Inland Revenue approved Company Share Option Plan. Both the option scheme and the option plan provide for a grant price equal to the quoted market price of the Group's shares on the date of grant.

The vesting period for the option plan is 3 years and, if an option remains unexercised after a period of 10 years from the date of grant, the option will lapse. The exercise condition of the option plan stipulates that the Group's Earnings per Share (EPS) must grow at a rate of 2% in excess of the UK Retail Price Index (RPI) over the vesting period.

The vesting period for the option scheme is either 3 or 5 years. In any event, if an option under the scheme remains unexercised after a period of 7 years from the date of grant, the option will lapse. The exercise condition of the option scheme stipulates that the Group's Earnings per Share (EPS) must grow at a rate of 2% in excess of the UK Retail Price Index (RPI) over the vesting period if it is 3 years or 4% in excess of the RPI over the vesting period if it is 5 years.

	2008		2007	
	Options	Weighted average exercise price (£)	Options	Weighted Average Exercise price (£)
Outstanding at 1 January	56,595	1.0602	36,923	0.8125
Granted during the year	34,444	1.7419	19,672	1.5250
Exercised during the year	-	-	-	-
Outstanding at 31 December	<u>91,039</u>	<u>1.3181</u>	<u>56,595</u>	<u>1.0602</u>
Exercisable at 31 December	<u>36,923</u>	<u>0.8125</u>	<u>36,923</u>	<u>0.8125</u>

The options outstanding at 31<sup>st</sup> December 2008 had a weighted average exercise price of £1.31 and a weighted average remaining contractual life of 7.7 years. The Group recognised total expenses of £30,300 (2007: £21,800) relating to equity-settled share-based payment transactions. For this calculation the Black-Scholes model was employed.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 26. Related party transactions

During the year, Group companies entered into the following transactions with subsidiaries:

	Subsidiaries	
	2008	2007
	£'000	£'000
Funding transactions	13,118	(93)
Management fee	(1,272)	(909)
Amounts owed by related parties at year end	45	824

All transactions were made in the course of funding the Group's continuing activities.

### Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 22 to 24.

	2008	2007
	£'000	£'000
Short-term employee benefits	1,308	1,214
Post-employment benefits	14	6
Share-based payment	30	21
	<u>1,352</u>	<u>1,241</u>

### Directors' transactions

Related party transactions in the year ended 31<sup>st</sup> December 2008 were payments of £29,750 to Allenbridge Group plc, a company in which Mr A.H. Yadgaroff, a non-executive director, is both a director and shareholder, for the provision of office accommodation (2007: £29,500). This arrangement has now ended and at 31<sup>st</sup> December 2008 a total of £nil was owing to Allenbridge Group plc (2007: £nil).

In addition, during the year payments of £4,416 were made to JW Technologies, a company in which Dr J.G. Whellock, a non-executive director, is both a director and shareholder, for the provision of technical consulting services (2007: £nil). At 31<sup>st</sup> December 2008 a total of £nil was owing to JW Technologies (2007: £nil).

# Anglo Pacific Group PLC

## Annual Report 2008

### SHAREHOLDER STATISTICS

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(a) Size of Holding (at 18<sup>th</sup> February 2009)

<b>Category</b>	<b>Number of</b>		<b>Number</b>	
<b>UK and Australia</b>	<b>Shareholders</b>	<b>%</b>	<b>of Shares</b>	<b>%</b>
1 – 1,000	671	29.40	376,547	0.35
1,001 – 5,000	902	39.53	2,210,394	2.08
5,001 – 10,000	275	12.05	2,036,991	1.92
10,001 – and over	434	19.02	101,548,207	95.65
	<u>2,282</u>	<u>100.00</u>	<u>106,172,139</u>	<u>100.00</u>

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 18<sup>th</sup> February 2009 was 49.86%.

# Anglo Pacific Group PLC

## Annual Report 2008

### NOTICE OF ANNUAL GENERAL MEETING

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*This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 immediately. If you have sold or otherwise transferred all of your shares in Anglo Pacific Group PLC, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.*

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Anglo Pacific Group PLC (the "Company") will be held at 17 Hill Street, London W1J 5NZ, United Kingdom on Thursday 23<sup>rd</sup> April, 2009 at 11.00 am to consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:-

1. To receive the Accounts for the year ended 31<sup>st</sup> December 2008 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report for the year ended 31<sup>st</sup> December 2008.
3. To declare a final dividend of 4.35p per ordinary share of the Company.
4. To re-elect as a director M.J. Tack, who retires by rotation in accordance with the Company's articles of association.
5. To re-elect as a director M.H. Atkinson, who retires by rotation in accordance with the Company's articles of association.
6. To re-appoint Messrs Grant Thornton UK LLP as auditors of the Company to hold office until the conclusion of next general meeting at which accounts are laid before the Company, and to authorise the directors of the Company to fix their remuneration.
7. THAT the Board of Directors of the Company (the "Directors") be and they are hereby authorised to offer the holders of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") (subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to treasury shares or any legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange in any territory or otherwise) the right to elect to receive new Ordinary Shares instead of cash in respect of all or part of the final dividend for the year ended 31<sup>st</sup> December 2008 and all other dividends declared up to the beginning of the next annual general meeting of the Company.
8. THAT the Board of Directors of the Company (the "Directors") be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £707,814 provided that this authority (unless previously revoked or renewed) shall expire on the earlier of 23<sup>rd</sup> April 2014 and the conclusion of the annual general meeting of the Company held in 2014, save that the Company may before such expiry (or the expiry of any renewal of this authority) make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall be in substitution for the authority conferred by a resolution dated 23<sup>rd</sup> April 2008 to the extent unused and shall supersede and revoke any other earlier authorities under section 80 of the Act.
9. THAT the Board of Directors of the Company (the "Directors") be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash (a) by selling equity securities held by the Company as treasury shares; or (b) by allotting new equity securities pursuant to any authority for the time being in force conferred on them for the purposes of section 80 of the Act, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:—

# Anglo Pacific Group PLC

## Annual Report 2008

### NOTICE OF ANNUAL GENERAL MEETING

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- (a) to the allotment of equity securities in connection with or pursuant to a rights issue or any other offer in favour of the holders of equity securities and other persons entitled to participate therein in proportion (as nearly as may be practicable) to the respective numbers of equity securities then held by them (or, as appropriate, the number of such securities which such other persons are for those purposes deemed to hold), but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with any fractional entitlements or treasury shares or legal or practical difficulties which may arise under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or otherwise;
- (b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal value of £106,172;

and this power shall (unless renewed, varied or revoked by the Company) expire on the date being fifteen months from the passing of this resolution or, if earlier, at the conclusion of the annual general meeting of the Company next held following the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

10. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make one or more market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") on such terms as the Directors of the Company (the "Directors") think fit, subject to the following restrictions and provisions:-
- (a) the aggregate maximum number of Ordinary Shares hereby authorised to be purchased is 10,617,213;
- (b) the maximum price which may be paid for an Ordinary Share is an amount being not more than the higher of:
- (i) 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, and
  - (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,
- in each case exclusive of any associated expenses;
- (c) the minimum price which may be paid for an Ordinary Share is its nominal value (exclusive of any associated expenses);
- (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2009 or eighteen months from the date of passing of this resolution, whichever shall be the earlier;
- (e) the Company may enter into a contract to purchase Ordinary Shares under this authority before the expiry of such authority, and may make a purchase of Ordinary Shares pursuant to any such contract which purchase would or might be completed wholly or partly after the expiration of this authority; and
- (f) any Ordinary Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of any applicable laws or regulations, held as treasury shares.

*Registered Office*

17 Hill Street  
London  
W1J 5NZ

By Order of the Board

M.J. Tack C.A.  
*Company Secretary*

9<sup>th</sup> March 2009

# Anglo Pacific Group PLC

## Annual Report 2008

### NOTICE OF ANNUAL GENERAL MEETING

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*Notes:*

1. A member entitled to attend and vote at the above meeting may appoint one or more persons as his proxy to attend, speak and vote instead of him at the meeting. If multiple proxies are appointed they must not be appointed in respect of the same shares. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.
2. In order to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, UK.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA 10) not later than 48 hours before the time fixed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
5. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. A person to whom this Notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Notes 1 and 3 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.
7. As at 8<sup>th</sup> March 2009 (being the last business day prior to the publication of this Notice) the Company's issued share capital amounted to 106,172,139 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 8<sup>th</sup> March 2009 were 106,172,139 votes.
8. The directors' service contracts and the letters of appointment of the non-executive directors will be available for inspection on the date of the Annual General Meeting at 17 Hill Street, London W1J 5NZ from 10.45 am until the conclusion of the meeting.
9. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company or in the Company's overseas branch register as at 11.00 am on 21<sup>st</sup> April 2009 (or in the event that the meeting is adjourned, only those shareholders registered in the register of members of the Company or in the Company's overseas branch register as at 11.00 am on the day which is two days prior to the adjourned meeting) shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
10. In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the Chairman of the meeting and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives in attendance on behalf of the corporate shareholder who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – [www.icsa.org.uk](http://www.icsa.org.uk) - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in paragraph (i) of this Note 10.



