

Investing in royalties

Annual Report & Accounts 2012



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Royalties explained

A royalty is an entitlement to an agreed percentage of a project's sales revenue, without any liability for production costs or capital expenditure. There are different reasons for the origination of a royalty ranging from land ownership to exploration rights; however, as a royalty company, our entitlement primarily comes through purchasing existing royalty agreements or as a result of direct financial investment.

In the mining industry, most royalties endure for the life of the resource and are paid on a regular basis. Historically there have been different terms for royalties including Gross Revenue Return ("GRR") or Net Smelter Return ("NSR") Royalties, which are based on the gross sale price of the actual minerals mined. Our model is based around Gross Revenue or Net Smelter Return Royalties as they provide the best and clearest return.

Creating new royalties

Our new royalty agreements tend to come from providing financing to mining operators, usually to help them progress a mine into production. We also develop royalty opportunities through equity investments.

Acquiring existing royalties

We buy existing royalty agreements, such as those owned by exploration companies who may have retained an interest in a mine they helped discover. Once acquired, royalty companies rarely sell their agreements.

Who we are

Anglo Pacific Group PLC is the only fully listed company on the London Stock Exchange focused on the provision of royalty financing derived from the mining of natural resources.

Our objective is to build a diversified and growing portfolio of royalties to generate long term cash flow growth for shareholders. Our royalty portfolio is diversified by commodity and geography and encompasses both producing mines and development projects. It is a continuing policy of the Group to pay a substantial proportion of the royalty cash flows to shareholders as dividends.

What commodities are we in?



Coking Coal
64%



Iron Ore
24%



Chromite
5%



Gold
5%



Uranium
2%

What we offer

To operators

- An alternative form of financing which is often less dilutive to shareholders
- We consider projects from early stage exploration through to production
- We consider all commodities and jurisdictions with established legal structures, as illustrated by our diversified royalty portfolio
- Flexible finance structures to suit the operators' needs; and
- Track record of investing in successful projects

To shareholders/investors

- Exposure to natural resource commodities whilst minimising exposure to cost inflation
- Exposure to a basket of commodities
- Commitment to a progressive dividend policy
- Significant growth from our pipeline of development royalties
- A logical choice for those who continue to believe in the continuing trend of global growth led by urbanisation

Our strategy

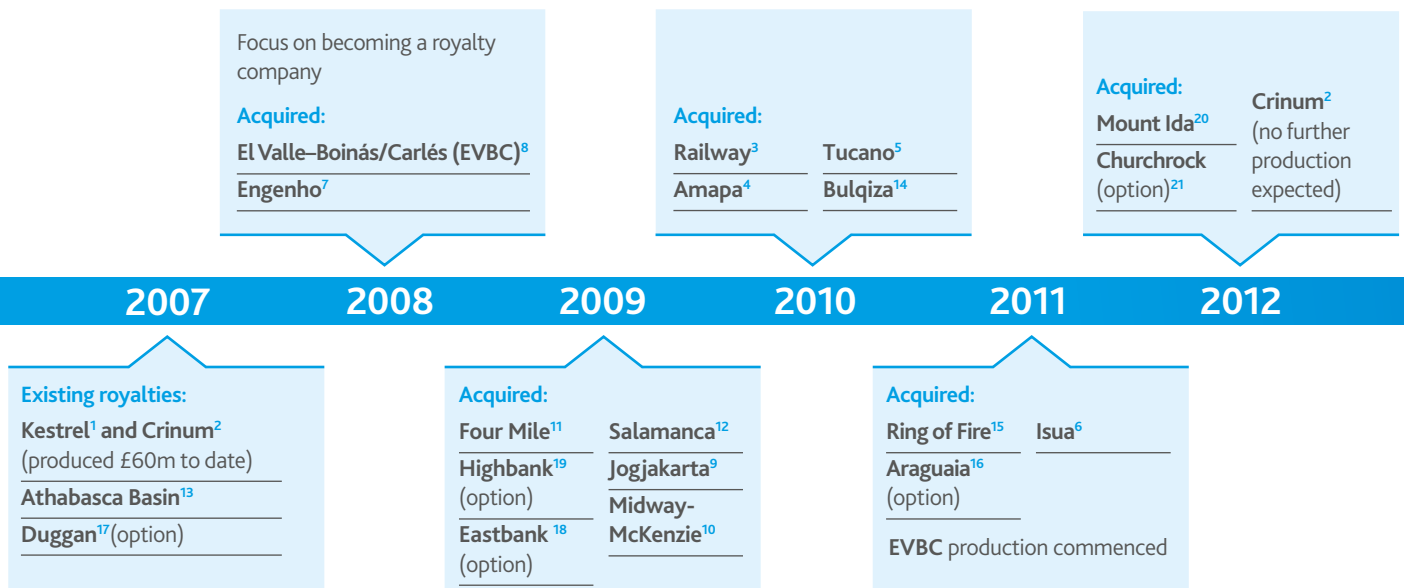
Strategic objectives

- To expand our mining royalty portfolio in long life projects.
- To pay a substantial proportion of our royalty income to shareholders as dividends.

Achieving our strategy

- We target the acquisition of 2-3 new royalties per annum, through both direct acquisition of existing royalties and the creation of new royalty agreements.
- We actively search for existing royalties which may be non-core to the owner.
- We use an extensive network of contacts built up over many years to search for new opportunities.
- We take strategic stakes in mining and exploration companies where potential royalty opportunities may exist and aim to profitably exit those companies where royalties are no longer an option. This enables us to make a better assessment of the underlying project whilst providing direct access to management.
- We create flexible deal structures to meet the needs of operators.
- We continue to grow a diversified royalty portfolio to reduce dependence on any one royalty or commodity.
- Royalty companies are not operators and as such have a low cost base.
- We maintain a progressive dividend policy.

Our progress to date



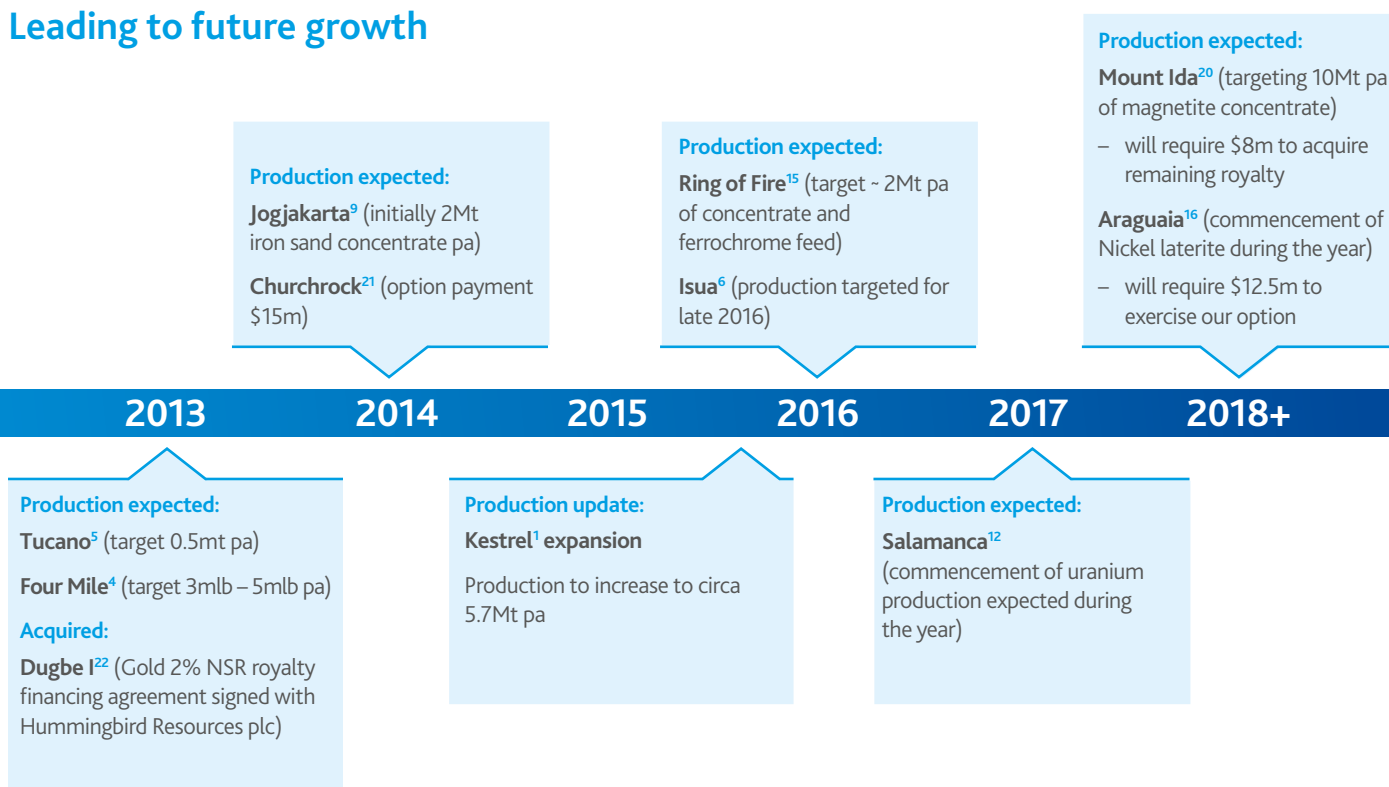
Strategic risks

- Insufficient funds to acquire royalties.
- Increased competition as alternative financing becomes more popular.
- Delays to the commencement/cessation of production at the underlying mining assets.
- Resource nationalisation.
- Significant falls in commodity prices.

Managing risk

- We are cash generative, have significant cash balances and liquidity in our mining and exploration interests.
- The Group's dual listing on both the London Stock Exchange and Toronto Stock Exchange provides flexibility in capital markets should additional funding be required for acquisitions.
- Our experienced management team, an extensive network of contacts and a track record of investing in successful projects positions the Group to grow in a more competitive environment.
- The Group provides flexible and innovative financing packages to suit the needs of the operator.
- The Group does not focus on any one commodity. We have the in-house expertise to assess opportunities across a wide spectrum of commodities and jurisdictions.
- The Group seeks to register its royalty title such that the royalty will endure both delays in production and changes in ownership.
- Newly created royalty agreements can include provisions for recourse to funds advanced where key milestones have not been achieved.
- The Group focuses its royalty investments to those countries with established legal jurisdictions, low geopolitical risk and an established mining industry.
- The Group's diversified royalty portfolio provides exposure to a mix of commodities which reduces dependence on any one commodity.
- The Group operates with a low cost base.

Leading to future growth



How we performed

KPI's: The Board has identified the following metrics to assess performance against strategy

Value of new royalties acquired

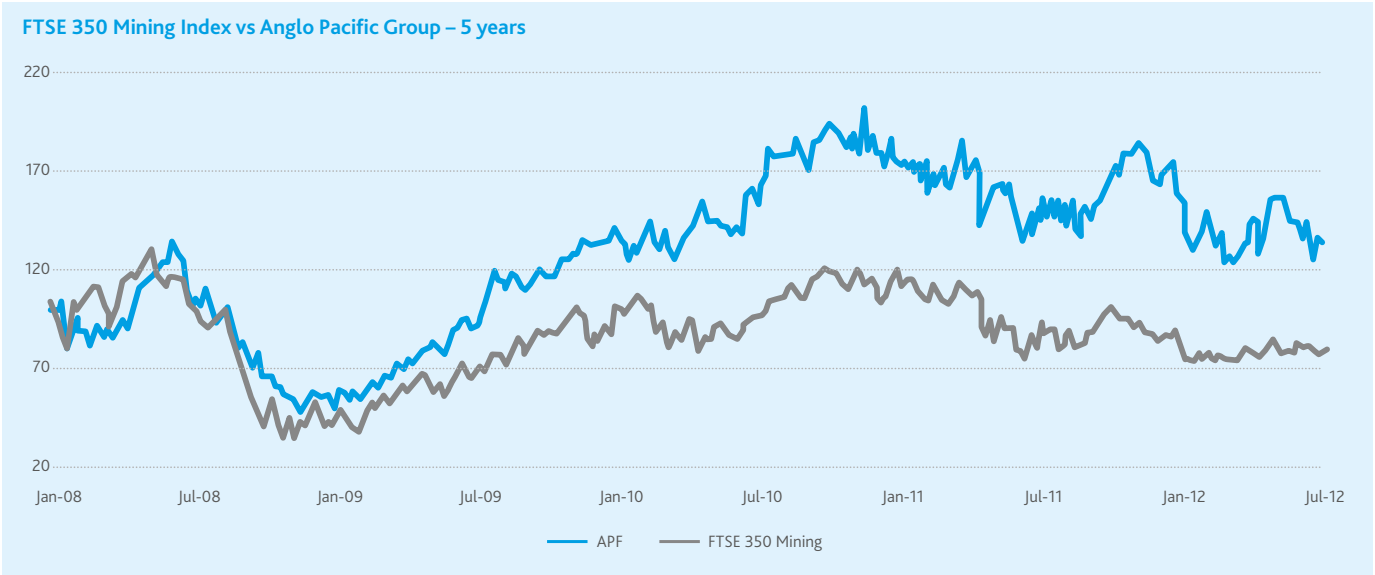
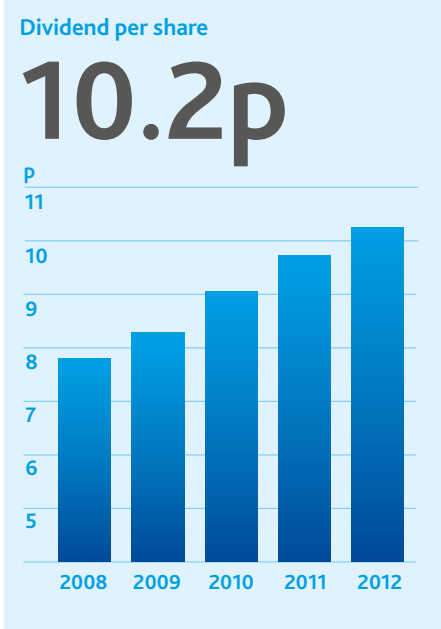
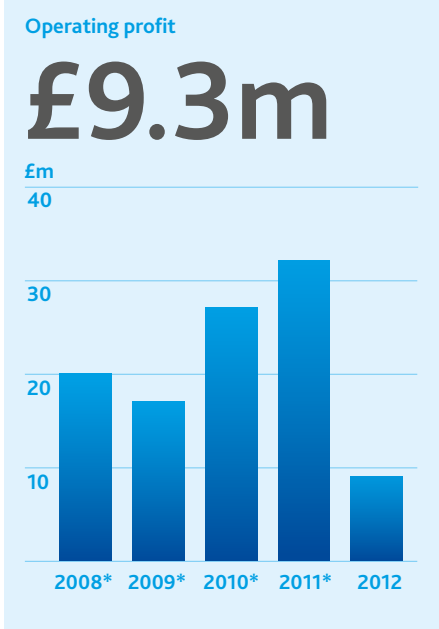
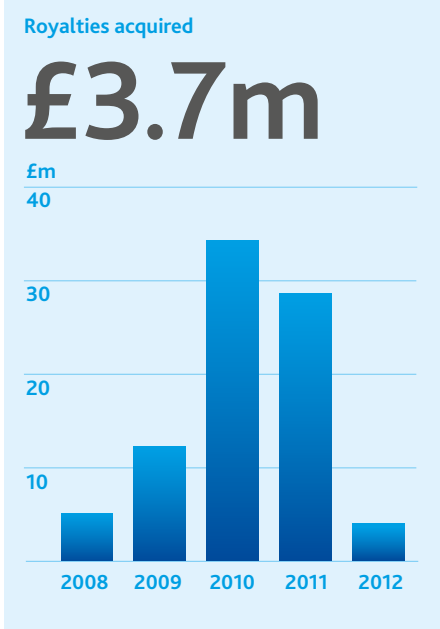
It is the strategy of the Group to expand and diversify its royalty portfolio by adding two to three new royalties per annum.

Generate significant operating profits

The Group, with a diversified income stream and a low cost base, aims to generate significant operating profits.

Deliver long term returns to shareholders

The Group is committed to offering long term returns to its shareholders with its progressive dividend policy and by outperforming the FTSE350 mining index.



*Restated (see note 21.3)

Our royalty portfolio



Australia

Royalty and Operator	Commodity
1 Kestrel Rio Tinto Ltd	Coking coal
2 Crinum BHP Billiton Ltd	Coking coal
3 Pilbara royalties BHP Billiton Ltd	Iron Ore
11 Four Mile Quasar Resources/ Alliance Resources Ltd	Uranium
20 Mount Ida Jupiter Mines	Iron Ore

Brazil

Royalty and Operator	Commodity
4 Amapá Anglo American Plc	Iron Ore
5 Tucano Beadell Resources Ltd	Non-precious metals Iron Ore
7 Engenho Minera Gold Ltd	Gold
16 Araguaia Horizonte Minerals Plc	Nickel

Canada

Royalty and Operator	Commodity
10 Malartic-Midway and McKenzie Break Northern Star Mining Corp	Gold
13 Athabasca Basin royalties Various	Uranium
15 Ring of Fire Cliffs Natural Resources Inc	Chromite
17 Duggan Creso Exploration Inc**	Gold
18 Eastbank Northern Shield	Platinum group metals
19 Highbank Lake Northern Shield	Platinum group metals

Europe

Royalty and Operator	Commodity
8 El Valle-Boinás/Carlés Orvana Minerals Corp	Gold and Copper
12 Salamanca Berkeley Resources Ltd	Uranium
14 Bulqiza Columbus Copper Corporation	Chromite

Greenland

Royalty and Operator	Commodity
6 Isua London Mining Plc	Iron ore

Liberia

Royalty and Operator	Commodity
22 Dugbe 1 Hummingbird Resources Plc*	Gold

Indonesia

Royalty and Operator	Commodity
9 Jogjakarta Indo Mines Ltd	Iron sands

USA

Royalty and Operator	Commodity
21 Churchrock Uranium Resources Inc	Uranium

*Royalty financing agreement signed December 2012 **Option conversion expected in 2013

Chairman's review

“The Group will continue to make the acquisition of new royalties its principal strategic focus, as it maintains its belief that the long term urbanisation of the developing world should still drive demand for those commodities covered by its royalties.”

Total assets

£353_m

Dividend for year

10.2_p ↑4.6%



2012 was an exceptionally difficult year for the financial world in general and the mining industry in particular. China was seen to be growing at a slower pace than anticipated and Europe's continuing debt crisis appeared overwhelming. The uncertainty over the US election and regime change in China together with the fiscal cliff stalemate in the USA further reduced international business confidence.

These factors severely impacted commodity prices throughout the year. In particular steel oversupply and destocking in China had a severe effect on iron ore and coking coal prices, the latter falling by some 50%.

Royalties from the Kestrel coking coal mine in Australia were also impacted early in the year by a number of special factors including disruption of production due to a longwall changeover as well as adverse weather conditions. In the last quarter, production was also affected by commissioning delays of the new coal processing plant.

Elsewhere, the Amapá iron ore mine in Brazil produced a steady flow of royalties albeit at lower prices whilst the Group received its first full year of royalties from the El Valle-Boinás/Carlés gold mine in Spain at buoyant gold prices.

During the year there was a further decline in the junior mining sector due to reduced commodity prices, the scarcity of financing for new mining projects and the impact of severe cost and capital expenditure inflation across the mining industry. This produced opportunities for the acquisition of new royalties, enabling the Group to further diversify its royalty portfolio with three new projects in gold, uranium and iron ore.

Despite weaker mining markets the Group continued to realise gains from its strategic mining interests. The Group's balance sheet remained ungeared with a resilient asset backing. The Group offers a stable hedge against weaker currencies as well as against inflation due to its royalty income being directly linked to the sales prices of the commodities it finances.

The Group's strategy remains focused on acquiring new royalties by providing mining finance and through its associated strategic mining investments. The Group is fully committed to generating consistent cash flows and dividends for shareholders.

Outlook

The outlook for the world economy appears to have improved since the year end with an increase in Chinese output and infrastructure spending and continuing signs of recovery in the US economy. Japan, India and South Korea appear similarly committed to a growth strategy. This confidence has produced better mining markets and a more optimistic outlook for metal prices and in particular iron ore.

As Rio Tinto continue to progress with the Kestrel expansion project, we remain confident of a recovery in production from Kestrel in 2013. This, together with the substantial increase in royalty rates announced by the Queensland Government in September last year from 10% to 12.5% above A\$100 and 10% to 15% for coal prices realised above A\$150 per tonne, should impact positively on royalty receipts from Kestrel in 2013.

The progress made during the year at a number of the Group's development royalties has been positive and should bring forward future royalty cash flows. The Group's revenue is directly linked to the top line of its royalty mining operations, whilst avoiding exposure to the current inflationary escalation in mining costs. The Group itself has no operating mines of its own.

The Group will continue to make the acquisition of new royalties its principal strategic focus, as it maintains its belief that the long term urbanisation of the developing world should still drive demand for those commodities covered by its royalties.

I would like to take this opportunity to welcome both Mr Paul Cooke and Mr Michael Blyth to the Board as Non-Executive Directors. They both bring a wealth of expertise and experience in areas which will considerably benefit our Group and we look forward to working with them.

Finally, I would like to thank my Board colleagues and staff for their application and hard work in what has been a challenging year for the Group.

B.M. Wides

Acting Chairman
March 27, 2013

Metallurgical Coal

What we own

The Group's core asset is its 50% ownership of certain sub-stratum lands which entitle it to coal royalty receipts from the Kestrel and Crinum mines, located in Queensland, Australia (other than Crown areas). These mines are operated by Rio Tinto Coal Australia Pty Ltd and BM Alliance Coal Operations Pty Ltd (a 50/50 joint venture between BHP Billiton Limited and Mitsubishi Development Pty Ltd), respectively.

The Kestrel coking coal mine has been in production since 1992 and is a world class coking coal deposit which has the capability of producing between 3 to 6 million tonnes of hard coking coal per annum. Production from the adjacent Crinum mine largely left the Group's private royalty ground in 2011.

What is metallurgical coal and what are its uses

Metallurgical coal normally trades at a premium to thermal coal and is an essential raw material in the production of iron for steel making. The highest quality coals include hard coking coal and ultra-low volatile Pulverised Coal Injection (PCI) coal.

How our coal royalties work

The Group's royalty entitlements from the Kestrel and Crinum mines arise under Queensland Government law and are to be paid on coal mined from certain private subterranean lands. The royalty rate to which the Group is presently entitled is prescribed by the Queensland Mineral Resources Regulations. These regulations currently stipulate that the basis of calculation is a three-tiered fixed percentage 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, as set out in the chart opposite.

Valuation

As the Group owns the physical right to the minerals, its royalty entitlement from the Kestrel mine is treated and accounted for as property, plant and equipment. As such, the royalty entitlement is valued at fair value based on future discounted cash flows calculated on a quarterly basis by an independent external consultant and classified as "Coal royalties".

The value of the Group's Kestrel royalty increased by £5million to £171million as at December 31, 2012, from £166million as at December 31, 2011 (restated). This increase is largely attributable to the announcement of increased royalty rates by the Queensland government, which will benefit future royalty receipts to the Group.

In addition to our royalties, the Group owns several coal exploration licences over thermal coal in British Columbia, Canada. These assets are being carried in the balance sheet at just over £2.2m, with £0.9m in deferred exploration costs. Trefi Coal Corp is a thermal and PCI coal prospect – 100% owned subsidiary – with NI 43-101 compliant measured coal resources of

14.25million tonnes, indicated resources of 24.85million tonnes of coal, and inferred resources of 51.50million tonnes. Panorama Coal Corp is an ultra-low volatile metallurgical coal prospect – 100% owned subsidiary – with NI 43-101 indicated resources of 13.70million tonnes semi-anthracite to anthracite coal, and inferred resources of 24.10million tonnes.

The Group is actively seeking partners in order to progress these projects towards the Group's objective of earning a royalty entitlement and retaining a carried interest.



Performance

Kestrel, Australia

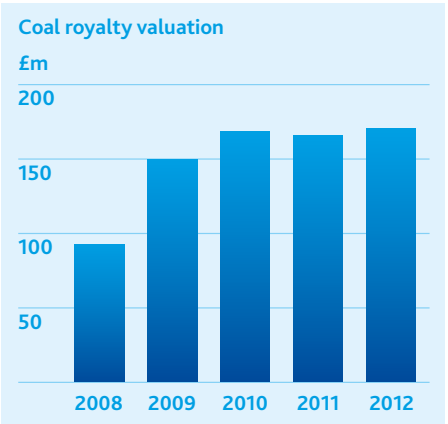
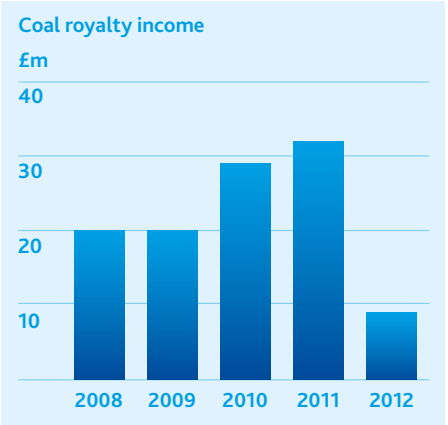
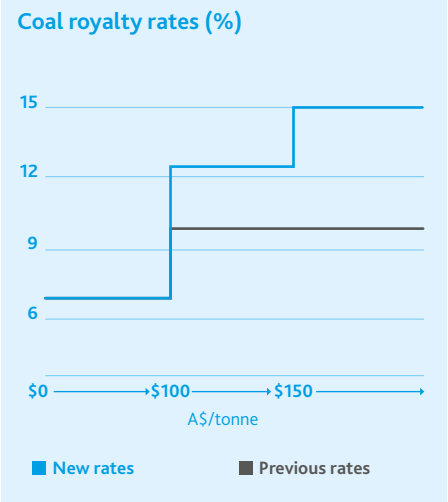
Coking coal receipts from the Kestrel mine operated by Rio Tinto Coal Australia Pty Ltd were £10.9million (2011: £26.1million (restated)) on approximately 2.7million tonnes of hard coking and thermal coal (2011: 3.8million tonnes restated). Royalty income was impacted in the first half of 2012 by a longwall changeover and lower productivity during the ramp up and in the second half of 2012 by a major coal preparation plant shutdown as part of Kestrel's mine expansion project. Benchmark hard coking coal quarterly contract prices fell from \$235 FOB in Q1 2012 to \$170 FOB in Q4 2012.

During the second quarter of 2012 the Group was informed by Rio Tinto that an audit by the Queensland Office of State Revenue had identified a misallocation of royalty revenue

relating to areas reserved by the State of Queensland for roads. This resulted in an overpayment of royalties to the Group of £4.6million (A\$7.1million) for the period September 2006 to December 2011, together with an associated interest charge of £1.4million (A\$2.2million). The misallocation of royalty revenues and associated interest charge has been reflected in the restated balance sheet at December 31, 2011, the impact of which is described in note 2.1.3.

Crinum, Australia

Production at Crinum has now moved away from our private royalty area and as such we are no longer expecting any future income, and the asset is ascribed no value on the balance sheet.



Iron Ore

What we own

Producing

Amapá: 1% GRR over Anglo American Plc's project in Brazil

Pre-Development

Pilbara royalties (inc Railway): 1.5% GRR over BHP Billiton Ltd's project in Western Australia

Mount Ida: 0.3% GRR over Jupiter Mines Ltd's project in Western Australia.

Development

Jogjakarta: Royalty over Indo Mines Ltd's project in Indonesia. (Please see below for details on rates)

Isua: 1% GRR over London Mining Plc's project in Greenland

Tucano: 1% GRR over Beadell Resources Ltd's project in Brazil

Valuation

The Group does not own the physical rights to the minerals contained within the Amapá, Tucano, Isua, Mount Ida and Pilbara Iron Ore projects. The royalties receivable from the interests held are derived from the rights attached to the underlying mineral resources. As such these interests are classified as "Intangibles" and are carried at amortised cost.

The Group's interest in the Jogjakarta project arises from a debenture instrument whereby initial royalty receipts are repayments of principal. As such this interest is classified as "Royalty Instruments" and is carried at fair value.



Performance

Amapá, Brazil

In Brazil, royalty receipts from the Anglo American Plc operated Amapá Iron Ore System ("Amapá") were £2.2million (2011: £2.7million) from circa 5.2million tonnes of pellet and sinter feed sales. On January 4, 2013 Zamin Ferrous announced they had signed a binding agreement for the purchase of Amapá from Anglo American Plc (70%) and Cliffs Natural Resources Inc (30%).

Isua, Greenland

On January 24, 2013 London Mining Plc announced that they had completed the Department of Minerals and Petroleum's permitting process requirements for its Isua iron ore project in Greenland. London Mining Plc also announced that they expected all required approvals to be completed in 2013. For further information on the project please see www.londonmining.co.uk

Jogjakarta, Indonesia

Indo Mines Ltd ("Indo") announced on October 25, 2012 that the Indonesian Ministry of Energy and Mineral Resources issued a decree confirming approval of the application for the commencement of the construction phase of the Jogjakarta Iron Project within the Contract of Works area. Indo had previously announced the AMDAL Environmental Impact Assessment approval on February 1, 2012. The project will follow a staged implementation to achieve 2million tonnes of iron concentrate production per annum before moving downstream into the manufacture of pig iron. Anglo Pacific holds a 2% NSR royalty which changes to a 1% NSR royalty once our principal is repaid and provided the pig iron price is less than \$700 per tonne. The NSR royalty remains at 2% if the pig iron price is more than \$700 per tonne. For further information see www.indomines.com.au

Tucano, Brazil

On January 24, 2013 Beadell Resources Ltd ("Beadell") announced that the magnetic separation plant is due to produce its first concentrate in April 2013. Beadell previously announced on August 24, 2012 an "Iron Ore Concentrate Off-take Agreement" with Anglo American Plc with an indicated production level of 500,000 tonnes per annum of ~65% Fe concentrate. For further information please see www.beadellresources.com.au

2012 Acquisition: Mount Ida, Australia

The Group completed the first tranche of a 50% interest in the 1.5% GRR from Red Rock Resources PLC. Tranche 1 was completed with the payment of US\$6million being settled by \$3.7million in cash with the remainder in ordinary shares of the Company.

Gold

What we own

Producing

El-Valle Bonáis/Carlés: 2.5% NSR (3% over US\$1,100/oz) over Orvana Mineral Corporation's project in Spain

Development

Engenho: 2.5% NSR over Minera Gold Ltd's project in Brazil

Pre-Development

Malartic-Midway and McKenzie: 2.5% NSR over Northern Star Mining Corporation's project in Canada

Duggan (option): 2% NSR on Creso Exploration Inc's project in Canada. The Group has notified the operator of its intention to exercise the option

Dugbe I: 2% variable NSR royalty financing agreement over Hummingbird Resources Plc's project in Liberia, announced in December 2012

Valuation

The Group's interests in the EVBC, Engenho, and Malartic Midway mines arise from debenture instruments whereby initial royalty receipts are repayments of principal. As such these interests are classified as "Royalty Instruments" and carried at fair value.

The Group does not own the physical rights to the minerals contained within the Dugbe I project. The royalties receivable from the interest held are derived from the rights attached to the underlying mineral resources. As such these interests are classified as "Intangibles" and carried at amortised cost.

The Group's option to acquire a 2% NSR over the Duggan project is classified as "Mining and exploration interests – royalty options" and carried at fair value.



Performance

El Valle-Boinás/Carlés, Spain

Receipts from the El Valle-Boinás/Carlés ("EVBC") mine operated by Orvana Minerals Corp ("Orvana") were £1.9million (2011: £0.3million). The mine continues to build up to full production with a new 420 metre deep shaft commissioned during 2012. On February 8, 2013 Orvana announced a fiscal 2013 (year-end September, 2013) projected production for EVBC of 63,000 ounces of gold, 200,000 ounces of silver and 6million pounds of copper.

2012 Acquisition: Dugbe I, Liberia

The Group announced in December 2012 the signing of a royalty financing agreement with Hummingbird Resources Plc to acquire a 2.0% to 2.5% variable NSR royalty on its Dugbe I gold project in Liberia.

Energy Minerals

What we own

Pre-Development

Salamanca: 1% NSR over Berkeley Resources Ltd's project in Spain

Athabasca: 2% to 3% variable NSR over Advance Royalty Corp's Project in Canada

Development

Four Mile: 1% NSR over Quasar Resources Pty Ltd/Alliance Resources Ltd's project in Australia

Churchrock (option): 5% GRR option over Uranium Resources Inc's project in USA

What are energy minerals

Energy is essential for modern life and the Group invests in uranium projects and has exposure to thermal coal via by-product production from Kestrel and through its own private coal holdings.



Valuation

The Group does not own the physical rights to the minerals contained within the Four Mile Uranium, Salamanca Uranium and Athabasca Uranium projects. The royalties receivable from the interests held are derived from the rights attached to the underlying mineral resources. As such these interests are classified as "Intangibles" and carried at amortised cost.

The Group's option over the Churchrock Properties is classified as "Mining and exploration interests – royalty options". No value is ascribed to this asset due to the uncertainty over the eventual exercise of the option.

Performance

Four Mile Uranium, South Australia

On October 24, 2012 Alliance Resources Ltd announced the Four Mile Project start-up with in-situ recovery ("ISR") mining operations commencing at Four Mile East in Q2 2013 and at Four Mile West in Q4 2013. Production guidance for 2013 and Q1 2014 is 2.128Mlb of uranium oxide and sales of 1.306Mlb with first sales expected in Q3 2013. For additional information please see www.allianceresources.com.au

2012 Acquisition

Churchrock Uranium option, USA

On August 13, 2012 the Group agreed to provide Laramide Resources Ltd with an interest bearing facility of CDN\$5million in return for being granted an option to acquire a 5% GRR over the Churchrock Properties. The facility is repayable in December 2015, and bears interest at a rate of 7% per annum payable quarterly in arrears. The option has an exercise price of US\$15million.

Non-Ferrous Metals

What we own

Pre-Development

Bulqiza: 3% NSR over Columbus Copper Corp's Chromite project in Albania

Eastbank and Highbank options: 1% NSR over Northern Shield Resources Inc's projects in Canada

Development

Ring of Fire: 1% NSR over Cliffs Natural Resources Inc's Chromite project in Canada

Araguaia option: 1.1% to 1.5% NSR over Horizonte Minerals Plc's Nickel project in Brazil

What are non-ferrous metals and what are their uses

Non-ferrous metals are metals other than iron, gold and platinum group elements used in all aspects of modern life eg. copper (shown here), nickel and chromite.



Valuation

The Group does not own the physical rights to the minerals contained within the Ring of Fire Chromite and Bulqiza Chromite projects. The royalties receivable from the interests held are derived from the rights attached to the underlying mineral resources. As such these interests are classified as "Intangibles" and carried at amortised cost.

The Group's options to acquire royalties over the Araguaia Nickel, East bank and Highbank Platinum Group Elements projects are classified as "Mining and exploration interests – royalty options" and carried at fair value.

Performance

Ring of Fire Chromite, Canada

On May 20, 2012 Cliffs Natural Resources Inc announced that the Ring of Fire project would be advanced to the feasibility stage.

The project is expected to produce up to 2.3million tonnes of chromite concentrate per annum and is scheduled to start production in 2016. Additional information can be found at www.cliffsnaturalresources.com

Araguaia Nickel, Brazil (Variable NSR)

Horizonte Minerals Plc ("Horizonte") announced on August 22, 2012 that its NI 43-101 compliant Preliminary Economic Assessment ("PEA") showed strong economics based on a low strip ratio, excellent infrastructure, large mineral resource with two viable alternatives for processing. The PEA recommended moving to pre-feasibility which Horizonte expected to begin in 2013. Anglo Pacific holds an option on a sliding scale 1.1% to 1.5% NSR royalty to be exercised for US\$12.5million by the earlier of 120 days from the completion of a pre-feasibility study or January 10, 2017. Further information can be found at www.horizonteminerals.com and www.sedar.com

Financial review

Income statement

Royalty entitlements	Restated	
	2012 £'000	2011 £'000
Kestrel	10,921	26,083
Crinum	117	5,902
Amapá	2,229	2,694
Royalty income	13,267	34,679
El Valle-Boinás/Carlés*	1,890	275
Royalty entitlements	15,157	34,954

* El Valle-Boinás/Carlés is a debenture instrument whereby initial royalty receipts are repayments of principal and therefore do not appear as royalty income in the income statement.

Royalty income was £13.3million for the year ended December 31, 2012, down from £34.7million in 2011. The 2011 numbers have been restated as a result of the previously announced misallocation of royalty revenue at the Group's Kestrel royalty which came to light after an audit by the Queensland Office of State Revenue. This restatement is discussed further in note 2.1.3, but resulted in a reduction in the reported Kestrel income in 2011 of £0.4million.

As discussed in the Metallurgical Coal review, there were several adverse production occurrences at Kestrel in the year, resulting in unusually low levels of income. Overall income has also been adversely impacted by continued downward pressure on the coking coal price throughout 2012. Production at Crinum had largely left the Group's private royalty ground in the first half of 2011, and no future royalty receipts are now expected. El Valle-Boinás/Carlés continued its ramp up to full production in the year, though as this royalty was structured as a debenture originally, royalty receipts are treated as repayments of principal, until such time as the outstanding balance has been repaid. From 2013 onwards, these royalty receipts will be included in the income statement.

Operating expenses increased by £0.2million in the year, largely as a result of an increase in professional fees associated with managing our existing royalty portfolio and exploring new royalty opportunities. This increase in professional fees was offset somewhat by the decision not to award the Executive Directors an annual bonus this year.

A reduction in finance income of £0.8million in the year, largely as a result of the cessation of interest bearing royalty instruments, along with no change in the amortisation of the Amapá royalty, resulted in an operating profit of £9.3million in the year, compared to £31.8million in 2011 (restated).

In spite of very difficult equity markets, the Group realised gains of £7.3million (2011: £20.3million) from its mining and exploration interests in the year. The Group continued its strategy of taking equity stakes in strategic opportunities with the prospect of potential royalties. Where royalties cease to be a financing option, the Group will seek to dispose of the particular equity investment in a manner that is profitable to the Group, while minimising disruption to the investee company. The reduction in gains compared to those achieved in 2011 largely reflects the difficulties in the junior mining equity markets over the last year.

Other losses of £4.2million reflect write downs in the mining and exploration interests of £3.7million which the Directors consider to be impaired. Further information can be found in note 18. The losses of £4.3million in 2011 largely represented provisions in respect of

amounts receivable from royalty instruments, though £0.8million of this was recovered in 2012. Other income represents returns from the Group's mining and exploration interests.

Overall this resulted in profit before tax for the year of £14.2million compared to £48.5million (restated) reported in 2011. Allowing for a tax charge of £4.2million (2011: £12.2million (restated)), profit after tax was £10.1million (2011: £36.3million (restated)) which translates to an earnings per share of 9.27p (2011: 33.51p (restated)).

Balance sheet

Asset summary	Restated	
	2012 £'000	2011 £'000
Coal royalties (Kestrel and Crinum)*	170,995	165,967
Royalty instruments**	24,032	24,736
Intangibles - royalties***	70,477	68,334
Total royalty assets	265,504	259,037
Mining and exploration interests	55,793	64,551
Cash	24,036	32,197
Other intangibles (deferred exploration costs)	931	804
Other	7,204	14,450
Total assets	353,468	371,039

* Coal royalties relate to the Group's entitlement to royalties from the Kestrel and Crinum mines. As the Group owns the physical right to the minerals in its coal royalties, its royalty entitlement is treated as property, plant and equipment, as such it is carried at fair value as calculated by an independent consultant.

** Royalty instruments represent the Group's royalties which are structured as debentures. As these are financial assets they are carried at their fair value on the balance sheet.

*** Intangibles - royalties are carried at amortised cost. Though the expected future cash flows from these royalties may enhance significantly post investment, accounting rules prevent the Group from reflecting this on the balance sheet.

The Group's royalty assets maintained their value in spite of a difficult year for the mining and commodity sector. The Kestrel royalty increased in value by £5.0million. This was largely as a result of the increase to the Queensland royalty rate announced in September. The decrease in production has also had a positive impact, as resource depletion was lower in 2012, which should result in future sales at both higher prices and higher royalty rates.

The Directors, as part of the annual impairment review, conducted a discounted cash flow valuation of the Group's other royalties. As royalty investments are usually made at an early stage of a project, changes in the project's development between the point of investing and the commencement of production can significantly impact on the expected cash flows the Group could receive. If forecast commodity prices and production schedules used by the Directors transpire, the Group could achieve additional cash flows of £60.6million (2011: £52.2million), on a discounted basis, above the initial investment. This amount is not reflected on the balance sheet.

The Group ended the year in a strong position, with £24.0million (2011: £32.2million) in cash along with further potential liquidity in its mining and exploration portfolio.

Allowing for the provision for deferred tax of £48.5million, mainly relating to the valuation of royalties and debentures, the Group had net assets for the year ended December 31, 2012 of £301.0million. This is down slightly on £306.2million at the end of 2011 (restated).

Directors' report

The Group continues to expand and diversify its royalty portfolio

The Directors submit their report and the audited financial statements for the year ended December 31, 2012.

Anglo Pacific Group PLC is a public limited company, incorporated in England, and listed on the London Stock Exchange under the symbol APF and the Toronto Stock Exchange under the symbol APY.

Strategy

Anglo Pacific Group PLC's strategy, conducted through the holding company (the "Company") and its subsidiary undertakings (together, the "Group"), is set out in the Our Strategy section on [pages 4 to 5](#).

Principal activities

The Group's principal royalty activities and coal interests are set out in the Commodities Review on [pages 10 to 15](#). The location of the Group's principal activities is set out in the Our Royalty Portfolio section on [page 7](#).

In addition to the Group's principal royalty activities and coal interests, the Group owns a number of strategic mining and exploration interests held for the purpose of generating additional royalty opportunities including a number of quoted and unquoted coal, uranium, gold, base metals and platinum mining projects.

Results and dividends

The consolidated income statement is set out on [page 35](#) of the financial statements.

The Group's profit after tax decreased by 72% to £10.1million (2011: £36.3million (restated)).

The Directors recommend a final dividend of 5.75p per share for the year ended December 31, 2012 which, with the interim dividend of 4.45p per share paid on February 5, 2013, will make total dividends for 2012 of 10.2p per share (2011: 9.75p per share). The final dividend is subject to shareholder approval at the 2013 Annual General Meeting. The Board proposes to pay the final dividend on August 7, 2013 to shareholders on the Company's share register at the close of business on June 7, 2013. The shares will be quoted ex-dividend on the London Stock Exchange and the Toronto Stock Exchange on June 5, 2013. As with previous dividends, depending on the share price at the time the Board will consider whether shareholders will be given the opportunity to elect to receive new shares instead of cash. The Board is seeking to renew its authority to offer this alternative at the Annual General Meeting. Should this alternative be offered, the price will be calculated on the basis of the average mid-market closing price of the ordinary shares for the five business days commencing June 5, 2013. The last date for elections under such an alternative, if offered, will be July 19, 2013.

Review of the business

This business review comprises the Chairman's Review on [page 9](#), the Key Performance Indicators included in the How We Performed section on [page 6](#) and those laid out on [page 17](#), the Commodities Review on [pages 10 to 15](#), together with the Financial Review set out on [page 16](#). The Principal Risks and Uncertainties laid out on [page 17](#) together with the strategic risks identified under the Our Strategy section on [page 5](#) also form part of this review.

Operational review

The Group's operational review of its royalty and coal interests is set out in the Commodities Review on [pages 10 to 15](#).

Mining and exploration interests

The Group's equity investments in both listed and unlisted mineral exploration and development companies continued to generate opportunities for royalty acquisitions during the year. The Group's equity investments remained focused on copper, precious metals, iron ore and uranium at December 31, 2012. Where royalty opportunities appeared no longer identifiable within an equity investment, the Group disposed of the interest. Difficult equity market conditions during the year resulted in the Group realising decreased profits on these disposals.

In addition to the difficult equity market conditions, the filing for protection under a corporate reconstruction by one of the Group's mining and exploration interests subsequent to the year end, resulted in the Group recognising an impairment loss of £3.7million for the year ending December 31, 2012.

Key performance indicators

Consistent with the Group's strategy of expanding our mineral royalty portfolio and continuing to pay a substantial proportion of our royalty income to shareholders as dividends, the Board has identified three main key performance indicators, as a measure of our success in delivering on our strategy, all of which are financial:

- (i) Value of new royalties acquired
- (ii) Operating profit
- (iii) 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.

Principal risks and uncertainties

In addition to normal business risks and the strategic risks set out in the Our Strategy section on [page 5](#), the Board has identified, inter alia, four main macro-economic risks that could affect the Group's performance:-

- (i) A prolonged, world-wide economic recession
- (ii) Sustained low commodity prices
- (iii) A fall in precious metal prices
- (iv) Currency volatility

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

- Regular mining project management meetings and discussions
- Regular documented project review meetings
- Substantial cash holdings
- A diversified portfolio of projects covering a number of commodities and geographical areas
- Substantial exposure to gold and other precious metals
- Regular review of sovereign risk

Directors' report

- Cash being held at a number of banks and stockbrokers in a variety of currencies and short term financial instruments

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

Financial instruments

The Group'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 Group operates controlled treasury policies which are monitored by management to ensure that the needs of the Group 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 3 to these accounts.

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 and the Company, with its strong balance sheet, had good access to capital markets, if required.

Credit risk

The Group's principal financial assets are bank balances, royalty instruments held as financial assets, 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. Where possible the Group has registered its interests against the relevant mining titles for the royalties it has acquired. In addition, the Group is generally entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

The Group's credit risk on royalty instruments held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in note 16 where the future contractual right to cash flow from these instruments is reflected in their fair value.

The credit risk on bank deposits is limited because the counterparties have 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 currencies and counterparties.

In 2007, the Group created a derivative financial instrument to provide finance to an unlisted mining development company, which has subsequently listed (note 18). 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 five 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 regular 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 consider it necessary to 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					Total
	AUD	CAD	USD	NOK	EUR	
Functional currency of operation	£'000	£'000	£'000	£'000	£'000	£'000
2012						
Sterling	20,385	21,996	4,180	16,371	6	62,938
2011						
Sterling	37,928	30,514	3,117	3,191	6	74,756

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.

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 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 royalty portfolio exposes the Group to other price risk through fluctuations in commodity prices, particularly the price of hard coking coal and iron ore, which may affect the future cash flows received from the Group's royalties.

Management

Directors

The Group's directors have extensive experience in the mining industry, with backgrounds in corporate finance, equity markets and mining operations. This combination of skills continues to deliver new royalties from long-life mining assets to grow returns for shareholders.

The following individuals have held office as directors of the Company since January 1, 2012, unless stated otherwise:

Executive:

P.M. Boycott	(Executive Director)
A.C. Orchard	(Chief Investment Officer)
J. Theobald	(Chief Executive Officer)
B.M. Wides	(Acting Chairman)

Non Executive:

M.H. Atkinson	(Senior Independent Director, Nomination Committee and Remuneration Committee Chairman)
W.M. Blyth	(appointed March 20, 2013)
P.N.R. Cooke	(appointed December 10, 2012)
J.G. Whellock	(Audit Committee Chairman)
A.H. Yadgaroff	(Non-Executive Director)

Directors' report

Peter M. Boycott was appointed to the Board in May 1997 and as Chairman in June 1997. He has an MA in Mechanical Sciences from the University of Cambridge and is a Chartered Accountant. During his career he has been involved as Finance Director and substantial shareholder in a number of private investment and property groups including engineering and manufacturing companies supplying thermal processing systems to major mining groups. He has been a director of several public companies quoted in Australia and Canada. He is currently taking a leave of absence from his role as Chairman for health reasons.

A. Chris Orchard joined the Group as Chief Investment Officer in December 2007 and was appointed to the Board in June 2009. He has a BSc Honours in Mining from the University of Leeds and is a Member of the Chartered Institute for Securities and Investment. After graduating he worked in the South African mining industry and on returning to the UK spent twenty years as an investment banker in the City specialising in the resources sector. He was Managing Director of Hambros Equity UK, a Director of RBC Dominion Securities and prior to joining the Group managed the investment operations of a private wealth management firm. He has been a director of several public companies quoted in Canada and Australia.

John Theobald joined the Group as Chief Operating Officer in April 2008, joined the Board in June 2009 and was appointed Chief Executive Officer on October 6, 2010. He is a Chartered Engineer with a BSc Honours in Geology from the University of Nottingham. He is a Fellow of the Geological Society, Fellow of the Institute of Materials, Minerals and Mining and Member of the Institute of Directors. Prior to joining the Group he held senior positions with the major industrial minerals group SCR-Sibelco; he has also worked in the junior resource sector and for major companies such as Anglo American, Phelps Dodge and Iscor covering a wide range of metals, coal and industrial minerals. He has been a director of several public companies quoted in Canada.

Brian M. Wides joined the Board in June 1997 and was appointed Finance Director in September 1997. In July 2006 he was appointed Chief Executive Officer and on October 6, 2010 was appointed Director of International Business Development after standing down as Chief Executive Officer. He has a Bachelor of Commerce degree from the University of Witwatersrand and is a Chartered Accountant (South Africa). His specialist experience includes corporate finance, management consultancy and creating shareholder value for a large spectrum of private and public companies in the UK, Australia and Canada.

Mike H. Atkinson was appointed director in February 2006 and is currently the Group's Senior Independent Director. He also chairs the Nomination Committee and the Remuneration Committee. He has an MA in History from the University of Cambridge and is a qualified management accountant. He worked for the National Coal Board as a capital investment analyst before joining the UK Department of Energy (later the Department of Trade and Industry). He was a senior civil servant for nearly twenty years until his retirement in 2004, and held a range of financial, management and policy posts including Director of Coal and Chairman of British Coal.

W. Mike Blyth was appointed director in March 2013. He has a BSc from St Andrews University and is a Chartered Accountant. He was, until his retirement in 2011, a partner for 30 years in Baker Tilly, specialising in providing audit and related services to AIM and full list clients. During his career he held a number of senior management positions with the firm, including a period on its National Executive Committee.

Paul N. R. Cooke was appointed director in December 2012. He has an MA in History from the University of Cambridge and is a qualified Chartered Surveyor. He is a substantial shareholder in a number of property companies specialising in property development, investment and financing. He is also involved in farming and forestry interests in the UK and abroad. He serves on the boards of several charities.

Dr. John G. Whellock was appointed director in March 2003 and currently chairs the Audit Committee. He has a BSc and PhD in Chemical Engineering from the University of Birmingham and is a member of the Minerals, Metals and Materials Society of the American Institute of Mining, Metallurgy and Petroleum. He has over thirty years of experience in the development and implementation of extractive metallurgy, mineral and chemical plants. He is the founder of JW Technologies providing innovative technology and thermal processing equipment for the metals, minerals and chemical industries. Prior to this he worked for Minproc Technology Inc and was founder and Vice-President of Tolltrek International Ltd.

Anthony H. Yadgaroff was appointed director in March 2003 and previously chaired the Group's Remuneration Committee. He is a Member of the Chartered Institute for Securities and Investment, and has specialised in investment research and management consultancy during a forty year City career. Allenbridge Group, which he founded in 1984 to provide advisory services to private and institutional investors, was acquired by Close Brothers in February 2011. He is Chairman of Allenbridge Investment Solutions LLP ("AIS"), and is a member of the partnership alongside Moody's, the global rating agency. AIS is a leading UK investment advisory business, consulting to pension funds and charity clients which control some £30 billion of assets.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act 2006 and related legislation. At the next Annual General Meeting, all of the Company's Directors will be offering themselves for re-election.

The Directors may exercise all the powers of the Company subject to applicable legislation and regulation and the Articles of Association of the Company. The Company's Articles of Association may be amended by special resolution of the shareholders. At the 2012 Annual General Meeting, held on April 19, 2012, the Directors were given the power to issue new shares up to an aggregate nominal amount of £727,928. This power will expire at the earlier of the conclusion of the 2017 Annual General Meeting or April 19, 2017. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 10,918,921. This power will expire at the earlier of the conclusion of the 2013 Annual General Meeting or October 19, 2013.

At a General Meeting, held on May 29, 2012, the Directors were given the power to allot equity shares or sell treasury shares for cash other than pro-rata to existing shareholders. This power was limited to 5% of the Company's issued ordinary share capital (other than in connection with a rights or other similar issue) and will expire at the earlier of the conclusion of the 2013 Annual General Meeting or August 29, 2013.

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

Directors' report

Directors' interests

The beneficial interests of the Directors and their connected persons in the issued share capital of the Company were:

	Ordinary shares of £0.02 each		
	March 26, 2013	December 31, 2012	December 31, 2011
P.M. Boycott (Executive Director)	2,691,947	2,691,947	2,706,947
A.C. Orchard (Executive Director)	402,049	402,049	357,245
J. Theobald (Executive Director)	337,625	337,625	287,550
B.M. Wides (Executive Director)	2,926,153	2,926,153	2,926,153
M.H. Atkinson (Non-Executive Director)	7,422	7,422	7,422
W.M. Blyth (Non-Executive Director)	1,400	*	*
P.N.R. Cooke (Non-Executive Director)	8,949,904	8,949,904	**
J.G. Whellock (Non-Executive Director)	13,084	13,084	13,084
A.H. Yadgaroff (Non-Executive Director)	175,460	175,460	169,932

* W.M. Blyth was appointed to the board on March 20, 2013.

** P.N.R. Cooke was appointed to the board on December 10, 2012.

Remuneration of directors

The Remuneration Report on [pages 28 to 31](#) forms part of the Directors' Report and includes details of the nature and amount of each element of the remuneration (including share options) of each of the Directors.

The 2012 Remuneration Report will be proposed for approval at the 2013 Annual General Meeting. In accordance with the Companies Act 2006 (United Kingdom) no entitlement of a person to remuneration is conditional upon the passing of the resolution.

The 2011 Remuneration Report was approved by shareholders at the 2012 Annual General Meeting.

Corporate governance

A full report on corporate governance can be found on [pages 24 to 27](#) and forms part of this Directors' Report.

Corporate responsibility

The Group is committed to maintaining the highest standards in all areas of its business and, in so doing, considers the wider ethical, environmental and social impacts of its business. Following on from its publishing of a statement of integrity in 2011, the Group published a broader corporate responsibility statement in 2012, a copy of which is available on the Group's website.

Business conduct

In addition to its published statement of integrity, the Group has policies and procedures in place to ensure that all of its directors, officers, employees, consultants, advisers, business partners, or anyone else, who may be acting on its behalf, are aware of their responsibilities in this area. The Group actively promotes a transparent approach to all of its business dealings and expects its employees and representatives to adopt a zero tolerance approach to corruption.

The Group has a whistle blowing policy in place and its employees are encouraged to report any potential or apparent misconduct. Any employee that raises any issues honestly and in good faith will be supported by the Group.

Environment

The Group remains committed to an environmental policy of collaborating fully with statutory authorities, local communities and other interested parties in order to limit any potential adverse impacts

of its activities on the natural and human environments associated with its operations. The nature of the Group's royalty investments is such that it does not operate any of the properties underlying its royalty portfolio and consequently, it does not always have the ability to influence the manner in which the operations are carried out. Nevertheless, a responsible approach to a project's environmental impact and its sustainability management is essential to the success of the project over its life, and, as part of its investment decision process, the Group has access to consultants with the requisite expertise to ensure that it can consider and, if necessary, mitigate any risks in this regard to a properly maintainable level.

The Group complies with all relevant environmental legislation on its private coal interests in British Columbia, Canada and is assisted in this regard by a team of experienced Canadian consultants. We expect our employees and consultants to address environmental and sustainability responsibilities within the framework of normal operating procedures and to look to minimise waste as much as economically practicable. The Audit Committee is responsible for periodically reviewing the Group's environmental practices and for monitoring their effectiveness.

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 mining activities, and the Group endeavours to ensure that the companies it works with have appropriate procedures in place to facilitate this. Where we believe that our own operational activities may have an impact on local community groups, the Group consults with these groups and provides them with the opportunity to engage at the planning stage. With respect to its private coal interests in British Columbia, Canada, the Group has engaged with First Nations and will continue to engage and consult as the projects advance. The Audit Committee is responsible for periodically reviewing the Group's social and community practices and for monitoring their effectiveness.

Health and safety

The health and safety of the Group's employees is a fundamental responsibility. The small size of the Group's organisation allows the day-to-day responsibility to remain at the Board level, being monitored by the Chief Executive Officer. Furthermore, a commitment to health and safety is a fundamental component of a successful mining project, and, as part of its investment decision process, the Group has access to consultants with the requisite expertise to ensure that it can consider and, if necessary, mitigate any such risks.

Donations

It is a continuing policy of the Group not to make either political or charitable donations. The Group's Directors and employees support philanthropic efforts using their own personal resources. The Group's philosophy is that charity is a decision best made by shareholders with their own resources, rather than management using the Group's resources to make this decision on their behalf. The Group aims to increase the value of a shareholder's investment in the Group, thus indirectly enabling the shareholder to make its own donation decisions. No political or charitable donations were made by the Group during the year (2011: nil).

Employees

The Group has 11 employees, 4 of whom are Executive Directors. More information regarding the Group's employees can be found on [pages 19 to 21 and 56](#).

Policy on payment of creditors

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

Directors' report

- 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; and
- encourage a prompt and open dialogue with suppliers where there is any complaint about the supply or dispute about the invoice.

The Company acknowledges the importance of paying invoices promptly, especially those of small businesses, and of encouraging best practice with suppliers so that stronger relationships can be built and confidence from certainty of payment increase. During the year to December 31, 2012 the Company took an average of 22 days to settle its bills with suppliers (2011: 33 days).

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.

Capital structure

The structure of the Company's ordinary share capital at March 27, 2013 was as follows:

	Issued No.	Nominal value per share £	Total £	% of total capital
Ordinary shares	109,605,376	0.02	2,192,108	100%

Rights and obligations

Dividends

The £0.02 ordinary shares carry the right to dividends determined at the discretion of the Board.

Voting rights

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

Restrictions on transfer of holdings

There are no specific restrictions on the size of a holding nor on the transfer of the Company's shares, which are both governed by the general provisions of the Articles of Association of the Company and prevailing legislation. 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, including any agreements between the Company and its Directors or employees.

Employee share schemes

Details of employee share schemes are set out on [pages 28 to 30](#) below and in note 2.11 to the financial statements.

Treasury

No shares are currently held in treasury by the Company.

Substantial shareholdings

The Company has been notified of the following interests of 3% or more in the share capital of the Company at March 20, 2013.

	Ordinary Shares of 2p each	Representing
Liontrust Investment Partners LLP	7,195,364	6.56%
Schroders PLC	5,871,201	5.36%
AXA Investment Managers UK	5,494,332	5.01%
Legal and General Group PLC	4,359,058	3.98%

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 auditors.

Auditors

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 (United Kingdom) a resolution to reappoint Grant Thornton UK LLP will be proposed at the 2013 Annual General Meeting.

Designated Foreign Issuer status

The Company continues to be listed on the TSX and to be a "reporting issuer" in the Province of Ontario, Canada. The Company also continues to be a "designated foreign issuer", as defined in National Instrument 71-102 – *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* of the Canadian Securities Administrators. As such, the Company is not subject to the same ongoing reporting requirements as most other reporting issuers in Canada. Generally, the Company will be in compliance with Canadian ongoing reporting requirements if it complies with the UK Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (United Kingdom), as amended from time to time, and the applicable laws of England and Wales (the "UK Rules") and files on its SEDAR profile at www.sedar.com any documents required to be filed or furnished pursuant to the UK Rules.

Technical reports

The scientific and technical information in this Annual Report relating to the Panorama coal project and the Trefi coal project was derived, respectively, from the technical report entitled "Resource Estimate for the Discovery and Panorama Coal Properties" dated July 12, 2010 (the "Panorama and Discovery Report") and the technical report entitled "Resource Estimate for the Trefi Coal Property" dated March 18, 2010 (the "Trefi Report"), each of which was prepared by Mr Robert J. Morris, Principal Geologist, and Mr Robert F. Engler, Principal, Moose Mountain Technical Services. Each of Messrs Morris and Engler is a "qualified person" for the purposes of NI 43-101 and is independent of the Company. Each of the Panorama and Discovery Report and the Trefi Report is available on the Company's SEDAR profile at www.sedar.com.

Directors' report

Standards of disclosure for mineral projects

National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* ("NI 43-101") contains certain requirements relating to the use of mineral resource and mineral reserve categories of an "acceptable foreign code" (as defined in NI 43-101) in "disclosure" (as defined in NI 43-101) made by Anglo Pacific Group Plc with respect to a "mineral project" (as defined in NI 43-101), including the requirement to include a reconciliation of any material differences between the mineral resource and mineral reserve categories used under an acceptable foreign code and the standards developed by the Canadian Institute of Mining, Metallurgy and Petroleum, as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by CIM Council, as amended (the "CIM Standards") in respect of a mineral project. Pursuant to an exemption order granted to Anglo Pacific Group Plc by the Ontario Securities Commission (the "Exemption Order"), the information contained herein with respect to the Four Mile Uranium Project, the Ring of Fire Project, the Jogjakarta Iron Sands and Pig Iron Project, the Tucano Project, the Kestrel Coking Coal Mine and the Mount Ida Iron Ore Project has been extracted from information publicly disclosed, disseminated, filed, furnished or similarly communicated to the public by an issuer whose securities trade on a "specified exchange" (as defined under NI 43-101) that discloses mineral reserves and mineral resources under one of the JORC Code, the PERC Code, the SAMREC Code, SEC Industry Guide 7 or the Certification Code (each as defined in NI 43-101). As the definitions and standards of the JORC Code, the PERC Code, the SAMREC Code, SEC Industry Guide 7 and the Certification Code are substantially similar to the CIM Standards, a reconciliation of any material differences between the mineral resource and mineral reserve categories reported under the JORC Code, the PERC Code, the SAMREC Code, SEC Industry Guide 7 and the Certification Code, as applicable, to categories under the CIM Standards is not included and no Form 43-101F1 technical report will be filed to support the disclosure based upon such exemption. Alliance Resources Limited, Indo Mines Limited, Beadell Resources Limited, Rio Tinto Limited and Jupiter Mines Limited are all listed on the Australian Securities Exchange and report in accordance with the JORC Code. Cliffs Natural Resources Inc. is listed on the New York Stock Exchange and reports in accordance with SEC Industry Guide 7.

Cautionary note to U.S. investors concerning estimates of measured, indicated and inferred resources: Certain technical disclosure in this Annual Report has been prepared in accordance with the requirements of Canadian securities laws, including NI 43-101, in certain cases as modified by the Exemption Order referred to above, which differ from the requirements of U.S. securities laws. This Annual Report uses the terms "measured resources", "indicated resources" and "inferred resources". U.S. investors are advised that while such terms are recognised and required by Canadian Securities laws, the Securities and Exchange Commission does not recognise them. "Inferred resources" have a great amount of uncertainty as to their existence and as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred resource will be upgraded to a higher category. Under Canadian Securities laws, estimates of inferred resources may not form the basis of feasibility or other economic studies. U.S. investors are cautioned not to assume that all or any part of measured resources or indicated resources will ever be converted into reserves. U.S. investors are also cautioned not to assume that all or any part of an inferred mineral resource exists, or is economically or legally mineable.

References in this Annual Report to websites are made as inactive textual references and for informational purposes only. Information found at the relevant websites is not incorporated by reference into this Annual Report. The Group makes no representation as to the accuracy of any such information.

Cautionary statement on forward-looking statements and related information

Certain statements in this Annual Report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Group's expectations and views of future events. Forward-looking statements (which include the phrase "forward-looking information") are provided for the purposes of assisting readers in understanding the Group's financial position and results of operations as at and for the periods ended on certain dates, and of presenting information about management's current expectations and plans relating to the future. Readers are cautioned that such forward-looking statements may not be appropriate other than for purposes outlined in this Annual Report. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, cash flow, requirement for and terms of additional financing, performance, prospects, opportunities, priorities, targets, goals, objectives, strategies, growth and outlook of the Group including the outlook for the markets and economies in which the Group operates, costs and timing of acquiring new royalties, mineral reserve and resources estimates, estimates of future production, production costs and revenue, future demand for and prices of precious and base metals and other commodities, for the current fiscal year and subsequent periods. In addition, statements relating to "reserves" or "resources" are forward-looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based upon certain material factors that were applied in drawing a conclusion or making a forecast or projection, including assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. The material factors and assumptions upon which such forward-looking statements are based include: the stability of the global economy; the stability of local governments and legislative background; the relative stability of interest rates; the equity and debt markets continuing to provide access to capital; the continuing of ongoing operations of the properties underlying the Group's portfolio of royalties by the owners or operators of such properties in a manner consistent with past practice; the accuracy of public statements and disclosures (including feasibility studies, estimates of reserve, resource, production, grades, mine life and cash cost) made by the owners or operators of such underlying properties; no material adverse change in the price of the commodities underlying the Group's portfolio of royalties and investments; no material adverse change in foreign exchange exposure; no adverse development in respect of any significant

Directors' report

property in which the Group holds a royalty or other interest, including but not limited to unusual or unexpected geological formations and natural disasters; successful completion of new development projects; planned expansions or additional projects being within the timelines anticipated and at anticipated production levels; and maintenance of mining title. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which could cause actual results to differ materially from those anticipated, estimated or intended in the forward-looking statements.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate; that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond the Group's control, affect the operations, performance and results of the Group, its businesses and investments, and could cause actual results to differ materially from those suggested by any forward-looking information. Such risks and uncertainties include, but are not limited to current global financial conditions, royalty portfolio and associated risk, adverse development risk, financial viability and operational effectiveness of owners and operators of the relevant properties underlying the Group's portfolio of royalties, royalties subject to other rights, and contractual terms not being honoured, together with those risks identified in the "Risks and uncertainties" and "Financial instruments" sections herein and the other risks identified in the "Risk Factors" section of the Group's most recent Annual Information Form available on www.sedar.com and the Group's website www.anglo-pacificgroup.com. If any such risks actually occur, they could materially adversely affect the Group's business, financial condition or results of operations. Readers are cautioned that the list of factors noted in the section herein entitled "Risks and uncertainties" is not exhaustive of the factors that may affect the Group's forward-looking statements. Readers are also cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

This Annual Report also contains forward-looking information contained and derived from publicly available information regarding properties and mining operations owned by third parties. The Group's management relies upon this forward-looking information in its estimates, projections, plans, and analysis. Although the forward-looking statements contained in this Annual Report are based upon what the Group believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. The forward-looking statements made in this Annual Report relate only to events or information as of the date on which the statements are made and, except as specifically required by applicable laws, listing rules and other regulations, the Group undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Registered Office
17 Hill Street
London
W1J 5LJ

By Order of the Board
P.T.J. Mason
Company Secretary
March 27, 2013

Corporate governance report

As a premium listed company on the London Stock Exchange, the Company is subject to The UK Corporate Governance Code (the "Code"). Although the Company will need to measure itself against the revised version of the Code, published in September 2012, the focus in this report is on the 2010 version of the Code. Copies of both versions of the Code are available from the Financial Reporting Council's website.

The Company believes that it complies with the Main Principles of the Code, except in respect of a formal annual process to evaluate the performance of the Board and of its Committees and individual directors. The Board believes that corporate governance involves the application of good corporate governance principles in a sensible and pragmatic fashion, which has proper regard to the Group's particular business profile and size. The key objective is to enhance and protect shareholder value. In this report, the Company explains its degree of compliance with the Code.

Leadership

The Board is collectively responsible for the long-term success of the Company and meets regularly to provide leadership on the Group's long-term objectives and strategy and to monitor the Group's performance. The day to day management of the Group is delegated to the executive team, which includes the Acting Chairman, save for certain matters reserved for consideration by the Board. Other responsibilities are given to the Committees of the Board, as set out in the Committee sections below and in their terms of reference, which are available on the Group's website.

The Acting Chairman, Mr. B.M. Wides, is responsible for the leadership and effectiveness of the Board. As announced on September 17, 2012, Mr. P.M. Boycott has taken a leave of absence from the role of Executive Chairman. At that time, the Board appointed the Company's Senior Independent Director, Mr. M.H. Atkinson, as Acting Chairman. Mr. Boycott continues in his role as an Executive Director of the Company. On December 20, 2012, the Board announced that Mr. Wides had become Acting Chairman with immediate effect. Mr. Wides is Executive Director of International Business Development and was appointed to the Board as an Executive Director in June 1997. Although Mr. Wides has previously acted as Chief Executive Officer of the Company, the Board felt that the role of Chairman should continue to be an executive one at this time. Both Mr. Boycott and Mr. Wides are employed on a three days a week basis. Furthermore, the anticipated transition to the Chairman role being a non-executive one continues to target completion within the next two years. The Chairman and the Chief Executive Officer continue to have distinct roles, which have been defined in writing and agreed by the Board.

Mr. M.H. Atkinson is the Group's Senior Independent Director ("SID"). The role of the SID is to provide a sounding board for the Chairman and to serve as an intermediary for the other directors where necessary. He also takes the lead on meetings of the Non-Executive Directors outside the formal committee structure and works with the Chairman to encourage constructive relations between the Executive and Non-Executive Directors and to ensure that the Non-Executive Directors are fully able to use their external experiences to constructively challenge and develop proposals on strategy and to scrutinise the performance of management. The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels, or where such channels would be inappropriate.

Effectiveness

Excluding the Chairman, and following the appointment of Mr. P.N.R. Cooke as a Non-Executive Director in December 2012 and the appointment of Mr. W.M. Blyth also as a Non-Executive Director in March 2013, the Board is currently comprised of eight directors, five of whom are Non-Executive Directors. Dr. J.G. Whellock and Mr. A.H. Yadgaroff were appointed to the Board on March 3, 2003 and as such, have now served as Non-Executive Directors for ten years. The Board, however, continues to value the contributions made by both Dr. Whellock and Mr. Yadgaroff and feels that their personal attributes, judgment and experience still have much to offer the Group. Although Mr. Cooke represents a significant shareholder, he brings to the Board a wealth of experience in a number of businesses, including property and finance, all of which will be useful to the Group. With Mr. M.H. Atkinson (appointed in February 2006) and Mr. Blyth (appointed in March 2013), the Board considers that it now fully complies with the Code's requirements for at least two independent Non-Executive Directors on the Board and in relation to the composition of the Board Committees. Moreover, the Board recognises the value of refreshing the Board's composition in a progressive and orderly way taking into account the skills and experience that the Group's business requires.

Although no longer a constituent of the FTSE 350, the Company continues to support Lord Davies' published strategy and hopes to make progress in increasing the number of females on the Board. However, the Board also continues to be wary of the potential superficiality of quotas and believes that the best approach is to continue to ensure that the appointments process takes account of the benefits of diversity (including gender), that all appointments are made on merit and that the Board represents the best interests of shareholders.

The Board, through its Nomination Committee, keeps under review the need for new director appointments, so as to maintain an appropriate balance of skills and independence within the Group and to ensure that the Board is refreshed, as appropriate. The size of the organisation allows the Directors to closely observe the skills, knowledge and behaviour of those employees who have the potential to become future leaders of the Group.

New director appointments are made by the Board, having regard to the recommendations of 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 Articles of Association, all directors are required to retire and seek re-appointment by shareholders at an annual general meeting on the third anniversary of their appointment. The current Non-Executive Directors, other than Mr. Cooke and Mr Blyth, were not appointed to specified terms. Mr. Cooke and Mr Blyth were appointed on rolling three-year contracts and the Board intends that all future Non-Executive Director appointments will be on similar terms. Notwithstanding this, as in 2012, the Board intends that all of the Directors (including the Non-Executive Directors) will offer themselves for re-election at each Annual General Meeting.

Each director is required to disclose to the Board their other significant commitments prior to appointment and when there is any significant change. There is a procedure in place whereby actual and potential conflicts of interest are regularly reviewed. As permitted under the Companies Act 2006, the Company's Articles of Association contain provisions that enable the Board to authorise conflicts or potential conflicts that individual directors may have and to impose such limits or conditions as the Board thinks fit. The Board considers that all of the Directors allocate sufficient time to the Company to discharge their responsibilities effectively.

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The Company's Directors have a wide range of skills as well as experience in financial, commercial and mining activities. Each director takes responsibility for undertaking the appropriate training required for developing and updating their knowledge and capabilities. Where appropriate, the Group provides the resources to meet the Directors' requirements. During the year, Directors attended, inter alia, seminars and conferences on mining industry developments and recent economic and financing trends. The nature of the Group's business and the number of its employees allow the Directors to have a strong understanding of both the Group's operations and staff.

The executive team and the Board Committees report and refer to the full Board at regular intervals on all matters relating to the running of the Group. The Chairman, in conjunction with the Company Secretary, is responsible for setting the Board's agenda and for ensuring that the Board receives accurate, timely and clear information. The Chairman is also responsible for ensuring that adequate time is available for discussion of all agenda items and, in particular, strategic issues which are further discussed at annual strategy meetings attended by all of the Directors and all of the Company's employees. The Company Secretary, Mr. P.T.J. Mason, is responsible for advising the Board, through the Chairman, on all governance matters. All of the Directors have access to his services and advice. Further, all of the Directors may seek independent professional advice in the performance of their duties, at the Group's expense.

The Code recommends that the Board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The Board does not currently have such formal standalone systems. The performance of individual Executive Directors is reviewed by the Chairman and is discussed in a structured way by the Non-Executive Directors in the context of determining annual incentive awards. The Board believes that its approach is appropriate and effective given the current structure of the Board, the compactness of the organisation and the extent of collective decision-making by the Executive Directors. Each Committee and the Board is satisfied overall with its own effectiveness and the contribution and commitment of each of the directors. The Board will annually review the case for a more formal evaluation process.

Attendance

Directors' attendance at Board and Committee meetings during 2012 was as follows:

	Full Board	Executive	Audit	Remuneration	Nomination
Total meetings held:	16	6	4	2	2
Attendance:					
P.M. Boycott	16	4	–	–	–
A.C. Orchard	15	6	–	–	–
J. Theobald	16	6	–	–	–
B.M. Wides	14	5	–	–	–
M.H. Atkinson	16	–	4	2	2
W.M. Blyth ¹	–	–	–	–	–
P.N.R. Cooke ²	1	–	–	–	–
J.G. Whellock	16	–	4	2	2
A.H. Yadgaroff	15	–	4	2	2

¹ W.M. Blyth was appointed to the board on March 20, 2013

² P.N.R. Cooke was appointed to the board on December 10, 2012

Committees of the Board

Most of the Board's work is conducted in Committees comprising mainly of either Executive Directors or Non-Executive Directors. Each Committee deals with specific aspects of the Group's affairs and has written terms of reference, which are available on the Group's website. The Committees report to the full Board at regular intervals.

Executive Committee

The Executive Committee, comprising the Executive Directors of the Company, the Company Secretary and the Chief Financial Officer, is responsible for reaching and implementing decisions on matters not reserved for the full Board. The Committee is chaired by the Chief Executive Officer and held six meetings during the year.

Remuneration Committee

During the whole of 2012 the Remuneration Committee comprised Mr. Atkinson, Dr. Whellock and Mr. Yadgaroff, who was also the chairman of the Committee. Following Mr. Blyth's appointment to the Board on March 20, 2013, the Remuneration Committee is currently comprised of Mr. Blyth and Mr. Atkinson, who is now the Chairman of the Committee.

The Remuneration Committee is responsible for making recommendations to the Board on the Group's framework of executive director remuneration. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors (including the Chairman), including performance-related incentive awards, pension rights and compensation payments. It has access to the advice of independent remuneration consultants when required. The Committee held two meetings during the year. The Board itself determines the remuneration of the Non-Executive Directors. The Directors' Remuneration Report is set out on [pages 28 to 31](#).

Nomination Committee

During the whole of 2012 the Nomination Committee comprised Dr. Whellock, Mr. Yadgaroff and Mr. Atkinson, who was also the Chairman of the Committee. Following Mr. Blyth's appointment to the Board on March 20, 2013, the Nomination Committee is currently comprised of Mr. Blyth, Mr. Yadgaroff and Mr. Atkinson, who remains the Chairman of the Committee.

The Nomination Committee meets as required in order to review the structure, size and composition of the Board (including its balance of skills, experience, independence and knowledge) in light of developments in the leadership needs of the Group and in accepted best corporate governance practice. The Committee is responsible for identifying and nominating candidates for the approval of the Board. It may commission external advice or services as required. The Committee is also responsible for making recommendations to the Board concerning timely succession plans for both Executive and Non-Executive Directors.

The Committee met twice during the year to consider interim leadership arrangements following the illness of the Executive Chairman, Mr. P.M. Boycott, and to discuss potential appointments of new directors to the Board as well as to review the timetable and progress of succession plans.

At the relevant Board meeting, the appointment of Mr. P.N.R. Cooke to the Board in December 2012 was unanimously supported by the Non-Executive Directors. After the year end the appointment of Mr. Blyth in March 2013 was supported by a majority of the Non-Executive Directors at the relevant Board meeting. Whilst the Committee may commission external advice or services as required, neither an external search consultancy, nor open advertising was used for either of these appointments. These were not considered necessary

Corporate governance report

due to Mr. Cooke's long involvement with the Group as representing a significant shareholder and his successful business experience in property and finance and due to Mr. Blyth's extensive audit experience and knowledge of corporate governance.

Audit Committee

During the whole of 2012 the Audit Committee comprised Mr. Yadgaroff, Mr. Atkinson and Dr. Whellock, who was also the Chairman of the Committee. Following Mr. Blyth's appointment to the Board on March 20, 2013, the Audit Committee is currently comprised of Mr. Blyth, Mr. Atkinson and Dr. Whellock, who remains the Chairman of the Committee.

The Committee meets at least three times a year at appropriate times in the reporting and audit cycle and may be attended, by invitation, by the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. The external auditors are invited to attend meetings on a regular basis. 2012 saw a broad review of the role of the Committee and its new terms of reference were published on the Group's website in January 2013. Its primary duty is to monitor the integrity of the Group's financial statements and the related reports and announcements. In doing so, the Committee reviews and, where necessary, challenges the consistency of the Group's accounting policies, methods and standards, the clarity and context of disclosures and the material information presented with the financial statements. The Committee is also responsible for monitoring and reviewing the adequacy and effectiveness of the Group's internal controls, including the Group's anti-corruption and whistle blowing policies and procedures and in relation to the environmental and social impact of the Group's activities.

The Committee also considers the adequacy of arrangements for the statutory audit and supporting the independence and objectivity of the external auditor. In particular, the Committee advises the Board in respect of the external auditor's appointment, performance and remuneration and meets regularly with the external auditor to discuss its remit, any issues arising from the audit and its effectiveness. The Committee is responsible for reviewing the extent of non-audit services provided by the external auditor. The Committee accepts that some non-audit work is most appropriately undertaken by the firm responsible for the statutory audit, but requires any such engagement to be approved in advance by the Committee's Chairman. The Group also uses other accounting firms for non-audit work, with the decision on each engagement being taken with the objective of maintaining an appropriate balance between experience, objectivity, independence and value for money.

The Committee also considers, on an annual basis, whether an internal audit function is required. Its present view is that one is not yet justified given the compact size of the Group and the Directors' involvement with individual transactions.

In 2012, the Committee met four times. In addition to its duties related to the reporting and audit cycle, the Committee placed a particular focus on the Group's risk management systems. In connection with the annual assessment conducted by the Chief Financial Officer and the Company Secretary of the risks that face the Group and the adequacy of the prevention, monitoring and mitigation practices in place for those risks, the Committee oversaw a full review of the associated control and monitoring procedures. This resulted in a revision of the Group's risk register. In addition, whilst the review did not highlight any significant issues with the effectiveness of the Group's internal controls and procedures, it did highlight a few areas where improvement could be made and the Group has subsequently implemented the Committee's recommendations. Additional information on the Group's

internal controls can be found below. 2012 also saw the Committee take the lead on the publishing of the Group's Corporate Responsibility Statement. Additional information on this can be found on [pages 20 to 21](#).

Internal Control

The Board retains overall responsibility for the Group's system of internal control and risk management and determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. A statement of directors' responsibilities in respect of the financial statements is set out on [page 32](#).

The Group's system of internal control is designed to provide the Directors with reasonable, but not absolute, assurance that the Group will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances that may reasonably be foreseen. However, no system of internal control can eliminate the possibility of poor judgment in decision-making, human error, fraud or other unlawful behaviour, management overriding controls, or the occurrence of unforeseeable circumstances and the resulting potential for 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 and appropriate delegation of authority.
- There are established procedures for planning and approving investments and information systems for monitoring the Group's financial performance against budgets and forecasts.
- The Chief Financial Officer is required to undertake an annual assessment process, in conjunction with the Company Secretary, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls. The Audit Committee is responsible for reviewing the risk assessment process for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives regular reports about significant risks and associated control and monitoring procedures. The Group's risk register and internal controls and procedures documentation are regular agenda items for the Committee. The Committee also receives regular reports from the external auditors.
- The Audit Committee reports regularly to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives regular reports from its other Committees and directly from management.
- The system accords with the Financial Reporting Council's *Internal Control: Revised Guidance for Directors on the Combined Code*.

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2012 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 and concluded that the controls and procedures are adequate.

Relations with shareholders

The Group is the only major mining royalty company in the UK and recognises the importance of developing a fuller understanding of its

Corporate governance report

business model amongst investors. To this end, increased attention was paid to investor relations during the period, and to improving the effectiveness of two-way communication with fund managers, institutional investors and analysts, particularly those focusing on FTSE 350 companies. During the year, the Directors had several meetings with institutional investors whose combined shareholdings represented over 50% of the total issued share capital of the Company. The Company is assisted in this initiative by its external public relations advisers.

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2012 Annual General Meeting where investors were able to ask about current business activity. At this year's Annual General Meeting it is anticipated that the Chairmen of the Audit, Remuneration and Nomination Committees, as well as the Executive Directors, will be available to answer any shareholder questions.

Other statutory and regulatory information

Additional information on substantial shareholdings, voting rights and the appointment and powers of the Company's Directors, amongst other things, can be found on [pages 17 to 23](#) of the Directors' Report.

Directors' remuneration report

During the whole of 2012, the Remuneration Committee comprised Mr. Atkinson, Dr. Whellock and Mr. Yadgaroff, who was also the Chairman of the Committee. Following Mr. Blyth's appointment to the Board on March 20, 2013, the Committee is currently comprised of Mr. Blyth and Mr. Atkinson who is now the Chairman of the Committee. The Remuneration Committee held two meetings during the year.

The Committee is responsible for making recommendations to the Board on the Company's framework for executive remuneration and its cost. The Committee determines the contract terms, remuneration and other benefits for each of the Executive Directors (including the Chairman), including performance related bonus schemes, pension rights and compensation payments. It has access to the advice of independent remuneration consultants when required. The Board itself determines the remuneration of the Non-Executive Directors. No director is involved in deciding his own remuneration.

Policy

There are three important elements that impact on the Committee's policy. The Group has:

- a high market capitalisation (£296m at December 2012) relative to the size of its management team (staff total: eleven, four of whom are Executive Directors);
- long investment horizons (typically there can be an interval of between two and ten years before a royalty comes on stream and the royalty may continue to flow for twenty years or more);
- no comparable peer group, certainly in the UK, for the purposes of benchmarking director performance.

As with any 'people' business the loss of key executives could be seriously disruptive. The Committee has accordingly taken the retention of Executive Directors as a key objective of its remuneration policy, alongside incentivising their performance in acquiring new royalties. Other objectives include a strong alignment of directors' interests with those of shareholders, and a remuneration level and structure that relates sensibly to the pay and bonuses of non-Board employees.

Over the last two to three years, the Committee has pursued a consistent and coherent policy for delivering these objectives. As discussed more fully below, the main elements of the remuneration package are:

- a fixed monthly basic salary;
- an annual performance-related bonus; and
- longer-term share schemes, particularly a Joint Share Ownership Plan (JSOP).

Basic Salary

Given the relative simplicity of the Group's business model, the Committee has taken as its benchmark the lower quartile of basic salaries paid by FTSE companies of similar market capitalisation and nature. The basic salaries paid by the Group have been well below this level. Over the last three years, the Committee's policy has been to increase the basic salaries of full-time Executive Directors by £20,000-25,000 per annum in order to narrow this gap, which nevertheless remains significant (it would require an additional increase in the Chief Investment Officer's salary of approximately 23% to match the lower quartile of operational heads and of 78% in the Chief Executive Officer's salary to match that of the top full time executive).

Mr. B.M. Wides receives fees in lieu of salary.

The Committee's policy in 2013 – and, most likely, 2014 – is to continue to steadily raise the basic salaries towards the lower quartile of FTSE companies of comparable size and nature, with further increases of £20,000-25,000 in each year for full-time Executive Directors and pro rata for part-time Executive Directors. This is considered to be important for both retention and for attracting new Executive Directors and senior managers in the future.

Annual Bonus

The Committee views the annual bonus as the primary means for incentivising the performance of the Executive Directors. Annual bonus is capped at 150% of basic salary. Awards over the last three years have been assessed principally by reference to the performance achieved against the Key Performance Indicators set out on [page 17](#), i.e.:

- value of new royalties achieved;
- operating profit; and
- dividends per share.

Other factors including adjusted net asset value are also taken into account. Where a new royalty that has been recognised in a bonus award subsequently fails to come into production, the bonus paid in the year the royalty fails will be reduced. Significant and successful corporate activity may also be recognised through a bonus award. A significant increase in the company's share price during the year, while it will not on its own trigger a bonus, may nevertheless amplify the level of bonus awarded; conversely, a significant decrease in the share price may constrain the level of bonus awarded. The Group's policy is that at least 25% of any annual bonus award will normally be in the form of shares.

It is proposed to retain the annual bonus offer for 2013 on the same basis. The threshold for bonus in respect of the aggregate value of royalty acquisitions remains at \$40m.

Longer-Term Share Schemes

The Group operates two share schemes for Executive Directors and certain employees: a Company Share Option Scheme ("CSOP") and a Joint Share Ownership Plan ("JSOP"). Both schemes were introduced in 2010, with three purposes.

Their primary purpose was to incentivise retention of key personnel: awards under both schemes are dependent on the employee completing three years' service following the grant of the options (the vesting period). Secondly, the Committee believes that a substantial shareholding in the Group helps provide assurance that the interests of directors and key employees will be firmly aligned with shareholders. Thirdly, the schemes incentivise longer-term performance. Under both schemes, awards are conditional upon the Group's absolute total shareholder return growing at an annual rate (not compounded) of 3% in excess of the UK Retail Price Index over the three year vesting period, and, in the case of the JSOP, also upon the Group's share price reaching a hurdle level during the vesting period, as determined by the Committee at the time the option is granted.

The Committee believes that the current shareholdings of Executive Directors, together with the share options available under the JSOP, are now sufficient to assure the alignment of their interests with those of shareholders. No further awards to existing Directors under the JSOP are accordingly envisaged during 2013, although awards may still be made to any new Executive Directors appointed during the year. Previous initial awards of JSOP have been substantial (up to 350% of basic salary), falling steadily in subsequent years, and this pattern is expected to be followed in the future. Aside from the usual restrictions on share dealings, the shares awarded to Directors are not subject to

Directors' remuneration report

any additional specific restrictions on sale. However, the Committee has indicated that disposals would make further awards to that Director unlikely.

Company Share Option Plan

Share options are granted at the prevailing market price on the date of grant. The vesting period for the option plan is three 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 absolute total shareholder return must grow at a rate of 3% per annum (not compounded) in excess of the UK Retail Price Index over the vesting period.

Joint Share Ownership

Under the JSOP, the Remuneration Committee invites selected employees and Directors to enter into an agreement with the Anglo Pacific Group Employee Benefit Trust (the "Co-owner") to acquire a number of ordinary shares in the capital of the Company. The shares are held in the name of the Co-owner; however, the selected employees maintain a beneficial interest in these shares. The JSOP was approved by shareholders at the Annual General Meeting held on April 21, 2010.

Awards under the JSOP are conditional on the employee completing three years' service (the vesting period) and the Group's absolute total shareholder return growing at an annual rate (not compounded) of 3% in excess of the UK Retail Price Index over the three year vesting period. In addition, the Company's share price must reach a hurdle price during the three year vesting period as determined by the Remuneration Committee at the time of making the award.

Upon satisfying the performance targets and service requirements, the beneficial interest conferred will entitle the employee to receive a proportion of the proceeds of sale of the ordinary shares. Their entitlement will be to receive the equivalent of all sales proceeds in excess of the threshold amount, settled in ordinary shares of the Company. The threshold amount is fixed by the Remuneration Committee and will not be set less than the market value of the ordinary shares of the Company at the time the JSOP award is made.

The JSOP awards are limited in value such that the initial value of shares acquired jointly with the Co-owner under the award will not exceed 400% of the employee's gross annual salary.

During the vesting period, the Co-owner and the employee have agreed to limit the exercise of their voting rights to matters concerning alterations to the Articles of Association of the Company that could adversely affect the employee's rights under the JSOP, and to waive their rights to dividends.

The Committee continues to review the scope for an alternative long-term incentive plan designed to offer graduated rewards for increasing levels of long-term performance; but, as noted in last year's Report, the long investment horizons and the absence of comparable royalty companies in the UK make this difficult.

Pension rights

The Company makes contributions to employees' pensions and has designated AEGON Scottish Equitable PLC as its stakeholder pension provider. The Committee is prepared to pay additional basic salary (or fees) in lieu of part or all of a director's pension contribution.

Executive Directors' service contracts

Although all of the Executive Directors' service contracts are for an indefinite term, it is the Group's policy that the service contracts do not have a notice period of more than one year. In the event of termination, the service contracts allow the Company to make a payment in lieu of notice. The service contracts of Mr J. Theobald and

Mr A.C. Orchard also provide for an additional termination payment equivalent to six months' basic salary, whereas the service contracts of Mr P.M. Boycott and Mr B.M. Wides simply limit payment for loss of office to twelve months' basic salary. The service contracts provide that any such payments will be without prejudice to the director's duty to mitigate his loss. No executive director has provisions in his service contract that relate to a change of control of the Company. The details of the service contracts of the Executive Directors in office at December 31, 2012 are as follows:

	Contract date	Notice period
Executive Directors		
P.M. Boycott	November 1, 2010	6 months
A.C. Orchard	March 26, 2010	6 months
J. Theobald	March 26, 2010	6 months
B.M. Wides	October 1, 2010	6 months

Non-Executive Directors

Other than Mr. W.M. Blyth and Mr. P.N.R. Cooke, the Group's Non-Executive Directors have letters of appointment for an indefinite term, although they may be terminated by either party subject to 30 days' notice. Mr. Blyth and Mr. Cooke were appointed on rolling three-year contracts with a one month notice period and the Board intends that all future Non-Executive Director appointments will be on similar terms. None of the letters have provisions that relate to a change of control of the Company. The fees of Non-Executive Directors are determined by the Board and reviewed bi-annually having regard to the commitment of time required and the level of fees in similar companies. Additional amounts are awarded to reflect the increased commitment required for members and chairpersons of the various Board committees and associated with the role of Senior Independent Director. Non-Executive Directors are not eligible to participate in the Company's annual performance-related incentive award, share option schemes or pension scheme. The details of the Non-Executive Directors' letters of appointment in office at December 31, 2012 are as follows:

	Contract date	Notice period
Non-Executive Directors		
M.H. Atkinson	February 9, 2006	30 days
W.M. Blyth	March 20, 2013	One month
P.N.R. Cooke	December 17, 2012	One month
J.G. Whellock	May 19, 2003	30 days
A.H. Yadgaroff	May 19, 2003	30 days

External Appointments

It remains the Group's policy that all earnings from Non-Executive Directorships held by the Group's Executive Directors be retained by the Group.

Implementation

(i) Basic Salary

The basic salaries of the Executive Directors were last increased in December 2011. Despite a recommendation from the Committee that the salary increases continue in line with its policy, the Board concluded that no further increase should be made until at least Spring 2013. This would allow the Group additional time to canvass shareholder views on the Group's broader remuneration policy.

Directors' remuneration report

(ii) Annual Bonus

In 2010, bonus awards were around 100% of basic salaries, and in 2011 around 55%. For 2012, the Committee agreed that the award of bonus would be primarily dependent on the acquisition of \$40m of new royalties. The value of new royalties acquired during the year fell short of this. As regards the other key performance indicators, although dividends per share rose, operating profit – and to a lesser extent net asset value – fell. The Committee accordingly concluded that no bonus should be paid in respect of 2012.

(iii) Longer-Term Share Schemes

The market price of the shares at December 31, 2012 was 269.75p and the range during the year was 220p to 345p.

Company Share Option Plan

In 2010, share options were granted under the CSOP to Mr. A.C. Orchard and Mr. J. Theobald up to the cumulative limit allowable under HMRC rules, and no Executive Director has received further CSOP options since then.

The table below shows, for the Directors who served during the year, the options outstanding at December 31, 2012 for which nil has been paid.

	No. of Options	Exercisable between	Exercise price
A.C. Orchard			
As at December 31, 2011 and December 31, 2012	12,024	20/05/13 – 20/05/20	249.50p
J. Theobald			
As at December 31, 2011 and December 31, 2012	12,024	20/05/13 – 20/05/20	249.50p

Joint Share Ownership Plan

In the first year of the JSOP (2010), the Board (on the recommendation of the Remuneration Committee), awarded share equivalent to 350% of basic salary to Mr A.C. Orchard and Mr J. Theobald; an award of 175% of basic salary was made in 2011 to each of these individuals and in 2012, a further award of 87.50% of basic salary was made to each of these individuals.

The beneficial interests, under the JSOP, as at December 31, 2012 of the Directors who served during the year were as undernoted for which nil as been paid.

	No. of Shares	Exercisable between	Grant price	Hurdle price
A.C. Orchard				
As at January 1, 2012	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at January 1, 2012	77,837	28/03/14 – 28/03/15	326.00p	422.50p
– Granted	44,804	28/03/15 – 28/03/16	332.00p	450.00p
As at December 31, 2012	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at December 31, 2012	77,837	28/03/14 – 28/03/15	326.00p	422.50p
As at December 31, 2012	44,804	28/03/15 – 28/03/16	332.00p	450.00p

J. Theobald

As at January 1, 2012	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at January 1, 2012	77,837	28/03/14 – 28/03/15	326.00p	422.50p
– Granted	50,075	28/03/15 – 28/03/16	332.00p	450.00p
As at December 31, 2012	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at December 31, 2012	77,837	28/03/14 – 28/03/15	326.00p	422.50p
As at December 31, 2012	50,075	28/03/15 – 28/03/16	332.00p	450.00p

(iv) Pension Rights

During the year the Group paid pension contributions in respect of Directors as follows:

	2012	2011
	£	£
A.C. Orchard	2,833	14,500
M.J. Tack ¹	–	10,875
J. Theobald	19,000	15,333

¹ M.J. Tack resigned from the board on September 23, 2011

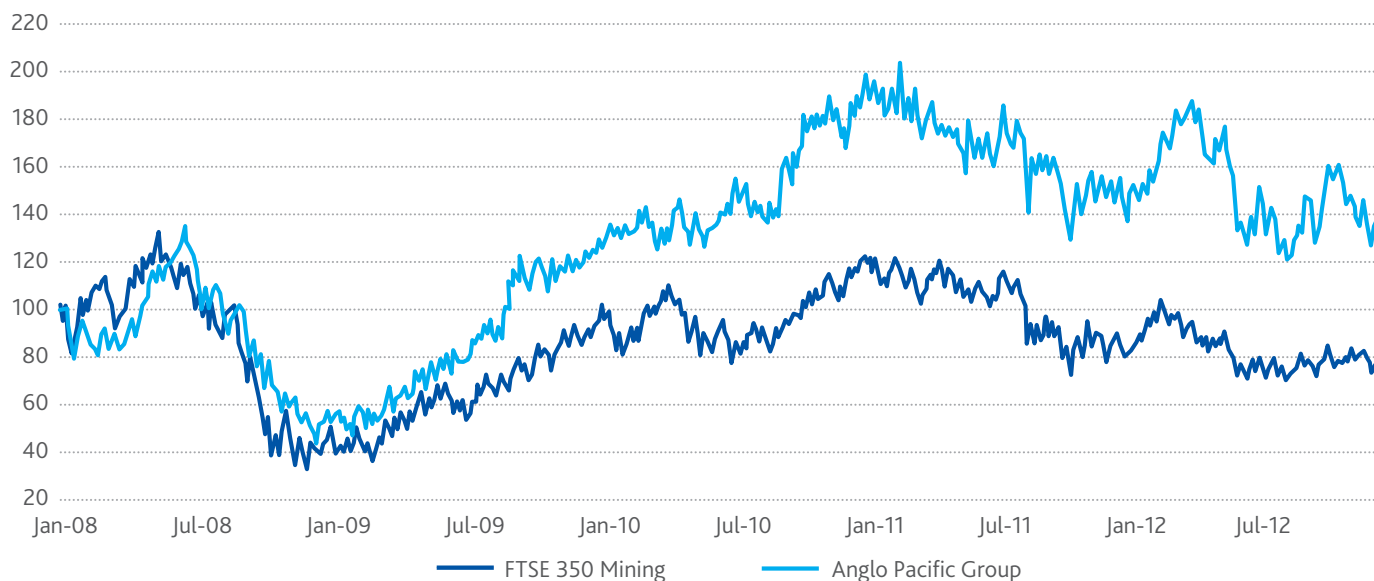
Mr. P.M. Boycott, Mr. B.M. Wides, and Mr. A.C. Orchard currently receive additional basic salary (or fees) in lieu of their pension contribution.

Non-Executive Directors

During the year, the Board conducted its bi-annual review of the Non-Executive Directors' fees and agreed to increase them to £38,000 a year commencing January 1, 2013. It was further agreed to pay Mr. M. Atkinson an additional £4,000 a year, in order to reflect his additional duties as Senior Independent Director. Mr. W.M. Blyth receives £38,000 a year, whereas Mr. P.N.R. Cooke receives £36,000 a year – a lesser amount to reflect that he is neither a member, nor a chair person of any of the Board committees.

Directors' remuneration report

Total shareholder return



The above graph shows the Company's total shareholder return performance over the last five years against the FTSE 350 Mining Index, both of which have been rebased at the start of the period in order to provide a graphical measure of comparative performance. The Board considers this index to be the nearest relevant index appropriate to the Group.

Directors' emoluments and compensation

	2012 £	2011 £
Salaries and benefits	514,234	515,983
Annual bonus award	–	432,000
Fees	250,553	216,000
	764,787	1,163,983

The remuneration of the Directors was as follows:–

	Salary £	Annual bonus award £	Fees £	2012 Total £	2011 Total £
P.M. Boycott	140,067	–	–	140,067	218,900
A.C. Orchard	184,167	–	–	184,167	225,000
M.J. Tack ¹	–	–	–	–	156,750
J. Theobald	190,000	–	–	190,000	237,333
B.M. Wides	–	–	141,400	141,400	218,000
M.H. Atkinson	–	–	37,153	37,153	36,000
W.M. Blyth ²	–	–	–	–	–
P.N.R. Cooke ³	–	–	–	–	–
J.G. Whellock	–	–	36,000	36,000	36,000
A.H. Yadgaroff	–	–	36,000	36,000	36,000
	514,234	–	250,553	764,787	1,163,983

¹ M.J. Tack resigned from the board on September 23, 2011

² W.M. Blyth was appointed to the board on March 20, 2013

³ P.N.R. Cooke was appointed to the board on December 10, 2012

Audit

Under section 421 of the Companies Act 2006 (United Kingdom) the Directors' emoluments and compensation section, and items (iii) and (iv) of the Directors' Remuneration Report have been audited.

Approval

This report was approved by the Board and authorised for issue on March 27, 2013 and signed on its behalf by:

P.T.J. Mason
Company Secretary
March 27, 2013

Directors' responsibilities in the preparation of financial statements

The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 (United Kingdom) and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors who were in office at the date of this statement confirm that:

- so far as they are each 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.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the Directors, whose names and functions are listed in the management section of the Directors' Report confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, www.anglo-pacificgroup.com. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

B.M. Wides
Acting Chairman
March 27, 2013

Report of the independent auditor to the members of Anglo Pacific Group PLC

We have audited the financial statements of Anglo Pacific Group PLC for the year ended December 31, 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on [page 32](#), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at December 31, 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on [pages 24 to 27](#) with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the company.

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on [page 42](#), in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Christopher Smith

Senior Statutory Auditor
for and on behalf of

Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants

Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
LONDON NW1 2EP

March 27, 2013

Report of the independent auditor to the directors of Anglo Pacific Group PLC in respect of compatibility with Canadian GAAS

In accordance with the requirement contained in National Instrument 52-107 we report below on the compatibility of Canadian Generally Accepted Auditing Standards ("Canadian GAAS") and International Standard on Auditing (UK and Ireland) (ISAs).

We conducted our audits of the Group's financial statements for each of the two years ended December 31, 2012 in accordance with ISAs. If we had been required to conduct the audits of the Group's financial statements for each of the two years ended December 31, 2012 in accordance with Canadian GAAS there would have been no material differences in the form or content of our audit reports.

Furthermore an auditors' report prepared in accordance with reporting standards under Canadian GAAS on the aforementioned consolidated financial statements would not contain a qualification.

Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants

Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
LONDON NW1 2EP

March 27, 2013

Consolidated income statement

for the year ended December 31, 2012

	Notes	2012 £'000	Restated 2011 £'000
Royalty income	5	13,267	34,679
Finance income	6	676	1,507
Amortisation of royalties	17	(1,018)	(1,018)
Operating expenses	7(a)	(3,633)	(3,393)
Operating profit		9,292	31,775
Gain on sale of mining and exploration interests	5	7,347	20,303
Other income	9	1,746	634
Other losses	10	(4,165)	(4,261)
Profit before tax		14,220	48,451
Income tax expense	11	(4,163)	(12,171)
Profit attributable to equity holders		10,057	36,280
Total and continuing earnings per share			
Basic earnings per share	12	9.27p	33.51p
Diluted earnings per share	12	9.27p	33.51p

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

The company has elected to take the exemption under section 408 of the Companies Act 2006 (United Kingdom) not to present the parent company profit and loss account.

The profit for the parent company for the year was £3,135,000 (2011: £37,005,000).

Consolidated statement of comprehensive income

for the year ended December 31, 2012

	Notes	2012 £'000	Restated 2011 £'000
Profit for the year		10,057	36,280
Other comprehensive income:			
Net gain/(loss) on revaluation of coal royalties	15	9,339	(4,139)
Net loss on revaluation of available for sale investments		(10,308)	(51,669)
Net exchange (loss)/gain on translation of foreign operations		(4,482)	2,150
Deferred tax	22	3,927	5,933
Net income/(expense) recognised directly in equity		8,533	(11,445)
Transferred from income statement: disposal of available for sale investments		(4,666)	(10,090)
Total transferred from equity		(4,666)	(10,090)
Total comprehensive income/(expense) for the year		3,867	(21,535)

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

Consolidated balance sheet and company balance sheet as at December 31, 2012

	Notes	Group			Company	
		2012 £'000	Restated 2011 £'000	Restated 2010 £'000	2012 £'000	2011 £'000
Non-current assets						
Property, plant and equipment	14	2,105	2,152	2,144	854	875
Coal royalties	15	170,995	165,967	169,304	–	–
Royalty instruments	16	24,032	24,736	28,061	24,032	24,736
Intangibles	17	71,408	69,138	42,741	3,997	3,997
Mining and exploration interests	18	55,793	64,551	128,479	37,001	56,369
Other receivables	20	3,141	–	–	13,581	9,038
Investments in subsidiaries	19(a)	–	–	–	33,545	33,545
Deferred tax	22	–	–	–	1,800	–
		327,474	326,544	370,729	114,810	128,560
Current assets						
Trade and other receivables	20	1,958	12,298	8,813	292	1,922
Cash and cash equivalents	21	24,036	32,197	28,258	41,157	43,672
		25,994	44,495	37,071	41,449	45,594
Total assets		353,468	371,039	407,800	156,259	174,154
Non-current liabilities						
Deferred tax	22	48,532	54,240	59,824	–	4,401
		48,532	54,240	59,824	–	4,401
Current liabilities						
Income tax liabilities		1,801	3,731	4,987	1,596	413
Trade and other payables	23	2,171	6,896	6,470	721	694
		3,972	10,627	11,457	2,317	1,107
Total liabilities		52,504	64,867	71,281	2,317	5,508
Capital and reserves attributable to shareholders						
Share capital	24	2,192	2,184	2,175	2,192	2,184
Share premium	24	26,853	25,539	24,207	26,853	25,539
Coal royalty revaluation reserve		86,721	80,285	83,405	–	–
Investment revaluation reserve		(14,204)	(4,843)	51,780	(14,032)	(5,268)
Share based payment reserve		354	177	65	354	177
Foreign currency translation reserve		38,349	41,614	39,686	82	82
Special reserve	26	632	632	632	632	632
Investment in own shares		(2,601)	(2,601)	(1,295)	–	–
Retained Earnings	27	162,668	163,185	135,864	137,861	145,300
Total equity		300,964	306,172	336,519	153,942	168,646
Total equity and liabilities		353,468	371,039	407,800	156,259	174,154

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

The financial statements of Anglo Pacific Group Plc (registered number: 897608) on pages 35 to 71 were approved by the Board and authorised for issue on March 27, 2013 and are signed on its behalf by:

Brian Wides Acting Chairman

John Theobald Chief Executive Officer

Consolidated statement of changes in equity

for the two years ended December 31, 2012

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2011 (as previously reported – note 2.1.3)	2,175	24,207	88,883	51,780	65	39,686	632	(1,295)	139,755	345,888
Impact of restatement	–	–	(5,478)	–	–	–	–	–	(3,891)	(9,369)
Balance at January 1, 2011 (as restated – note 2.1.3)	2,175	24,207	83,405	51,780	65	39,686	632	(1,295)	135,864	336,519
Profit for the year (restated)	–	–	–	–	–	–	–	–	36,280	36,280
Other comprehensive income:										
Coal Royalties:										
Royalties valuation movement taken to equity (restated)	–	–	(4,139)	–	–	802	–	–	–	(3,337)
Deferred tax on valuation (restated)	–	–	1,019	–	–	(235)	–	–	–	784
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	(51,669)	–	(237)	–	–	–	(51,906)
Deferred tax on valuation	–	–	–	5,136	–	13	–	–	–	5,149
Transferred to income statement on disposal	–	–	–	(10,090)	–	–	–	–	–	(10,090)
Foreign currency translation	–	–	–	–	–	1,585	–	–	–	1,585
Total comprehensive expense	–	–	(3,120)	(56,623)	–	1,928	–	–	36,280	(21,535)
Dividends	–	–	–	–	–	–	–	–	(8,978)	(8,978)
Issue of share capital under share-based payment	9	1,332	–	–	112	–	–	(1,306)	19	166
Total transactions with owners of the company	9	1,332	–	–	112	–	–	(1,306)	(8,959)	(8,812)
Balance at December 31, 2011 (restated)	2,184	25,539	80,285	(4,843)	177	41,614	632	(2,601)	163,185	306,172

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the two years ended December 31, 2012 (continued)

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2012 (restated)	2,184	25,539	80,285	(4,843)	177	41,614	632	(2,601)	163,185	306,172
Profit for the year	-	-	-	-	-	-	-	-	10,057	10,057
Other comprehensive income:										
Coal Royalties:										
Royalties valuation movement taken to equity	-	-	9,339	-	-	(4,311)	-	-	-	5,028
Deferred tax on valuation	-	-	(2,903)	-	-	1,274	-	-	-	(1,629)
Available-for-sale investments:										
Valuation movement taken to equity	-	-	-	(10,308)	-	(375)	-	-	-	(10,683)
Deferred tax on valuation	-	-	-	5,613	-	(57)	-	-	-	5,556
Transferred to income statement on disposal	-	-	-	(4,666)	-	-	-	-	-	(4,666)
Foreign currency translation	-	-	-	-	-	204	-	-	-	204
Total comprehensive income for the year	-	-	6,436	(9,361)	-	(3,265)	-	-	10,057	3,867
Dividends	-	-	-	-	-	-	-	-	(10,579)	(10,579)
Issue of ordinary shares	8	1,314	-	-	-	-	-	-	-	1,322
Value of employee services	-	-	-	-	177	-	-	-	5	182
Total transactions with owners of the company	8	1,314	-	-	177	-	-	-	(10,574)	(9,075)
Balance at December 31, 2012	2,192	26,853	86,721	(14,204)	354	38,349	632	(2,601)	162,668	300,964

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

Company statement of changes in equity

for the two years ended December 31, 2012

	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
Balance at January 1, 2011	2,175	24,207	50,403	65	82	632	117,254	194,818
<i>Changes in equity for 2011</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	(50,203)	-	-	-	-	(50,203)
Deferred tax on valuation	-	-	5,078	-	-	-	-	5,078
Transferred to income statement on disposal	-	-	(10,546)	-	-	-	-	(10,546)
Net expense recognised direct into equity	-	-	(55,671)	-	-	-	-	(55,671)
Profit for the year	-	-	-	-	-	-	37,005	37,005
Total recognised income and expenses	-	-	(55,671)	-	-	-	37,005	(18,666)
Dividends paid	-	-	-	-	-	-	(8,978)	(8,978)
Issue of share capital under share based payment	9	1,332	-	112	-	-	19	1,472
Balance at December 31, 2011	2,184	25,539	(5,268)	177	82	632	145,300	168,646
Balance at January 1, 2012	2,184	25,539	(5,268)	177	82	632	145,300	168,646
<i>Changes in equity for 2012</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	(9,449)	-	-	-	-	(9,449)
Deferred tax on valuation	-	-	5,307	-	-	-	-	5,307
Transferred to income statement on disposal	-	-	(4,622)	-	-	-	-	(4,622)
Net expense recognised direct into equity	-	-	(8,764)	-	-	-	-	(8,764)
Profit for the period	-	-	-	-	-	-	3,135	3,135
Total recognised income and expenses	-	-	(8,764)	-	-	-	3,135	(5,629)
Dividends	-	-	-	-	-	-	(10,579)	(10,579)
Issue of ordinary shares	8	1,314	-	-	-	-	-	1,322
Value of employee services	-	-	-	177	-	-	5	182
Balance at December 31, 2012	2,192	26,853	(14,032)	354	82	632	137,861	153,942

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

Consolidated cash flow statement and company cash flow statement

for the year ended December 31, 2012

	Notes	Group		Company	
		2012 £'000	Restated 2011 £'000	2012 £'000	2011 £'000
Cash flows from operating activities					
Profit before taxation		14,220	48,451	4,414	40,110
Adjustments for:					
Interest received	6,9	(1,723)	(1,507)	(2,265)	(2,786)
Unrealised foreign currency (gain)/loss		(431)	1,712	-	-
Depreciation of property, plant and equipment	14	21	21	21	21
Amortisation of intangibles – royalties	17	1,018	1,018	-	-
Gain on disposal of mining and exploration interests		(7,347)	(20,303)	(6,974)	(20,744)
Provision for non-recovery of interest receivable	10	-	709	-	709
Royalty instrument (recovery)/provision	10	(806)	1,563	(806)	1,563
Loss on impairment of royalty intangible	10	-	1,088	-	-
Loss on write down of mining and exploration interests	10	4,013	42	3,722	-
Intercompany dividends		-	-	-	(19,200)
Share based payment	8(a)	183	130	183	130
		9,148	32,924	(1,705)	(197)
Decrease/(Increase) in trade and other receivables excluding amounts due from subsidiary companies		7,199	(3,483)	(56)	(2,110)
(Decrease)/Increase in trade and other payables		(4,725)	423	27	(165)
Receipts from royalty instruments		2,898	742	2,898	742
Cash generated from operations		14,520	30,606	1,164	(1,730)
Income taxes paid		(6,186)	(13,083)	697	(2,692)
Net cash generated from/(used in) operating activities		8,334	17,523	1,861	(4,422)
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests		19,280	51,491	18,543	40,604
Purchases of mining and exploration interests		(23,781)	(28,101)	(11,182)	(27,488)
Purchases of royalty interests		(2,398)	(28,395)	-	-
Purchases of property, plant and equipment		-	(29)	-	(14)
Exploration and evaluation expenditure		(127)	(108)	-	-
Interest received		1,110	536	41	2,524
Investment in subsidiaries		-	-	-	(15,233)
Net cash (used in)/generated from investing activities		(5,916)	(4,606)	7,402	393
Cash flows from financing activities					
Dividends paid		(10,579)	(8,978)	(10,579)	(8,978)
Financing of related entities		-	-	(1,199)	52,693
Net cash (used in)/generated from financing activities		(10,579)	(8,978)	(11,778)	43,715
Net (decrease)/increase in cash and cash equivalents		(8,161)	3,939	(2,515)	39,686
Cash and cash equivalents at beginning of period		32,197	28,258	43,672	3,986
Cash and cash equivalents at end of period	21	24,036	32,197	41,157	43,672

The notes on pages 51 to 86 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2012

1 General information

Anglo Pacific Group Plc (the "Company") and its subsidiaries (together, the "Group") secure natural resources royalties by acquisition and through investment in mining and exploration interests. The Group has royalties and investments in mining and exploration interests primarily in Australia, North and South America and Africa, with a diversified exposure to commodities that is strongly represented by coal, iron ore, gold and uranium.

The Company is a public limited company, which is listed on the London Stock Exchange and Toronto Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 17 Hill Street, London, W1J 5LJ, United Kingdom (registered number: 897608).

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements of Anglo Pacific Group Plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 2006 (United Kingdom) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of coal royalties, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Going concern

After making enquiries and reviewing the Group's forecasts and projections, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

2.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IAS 1 (Amendments) 'Presentation of Financial Statements'

IAS 1 (Amendments) requires an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after July 1, 2012. The Group's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

- IFRS 9 'Financial Instruments' – effective January 1, 2015
- IFRS 10 'Consolidated Financial Statements' – effective January 1, 2014
- IFRS 12 'Disclosure of Interests in Other Entities' – effective January 1, 2013
- IFRS 13 'Fair Value Measurement' – effective January 1, 2013
- IAS 19 'Employee Benefits' (Revised June 2011) – effective January 1, 2013
- IAS 27 (Revised 2011), 'Separate Financial Statements' – effective January 1, 2013

The Group's management has yet to assess the impact of IFRS 13 and IAS 19. In respect of the other Standards, the Directors anticipate that their adoption 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.

2.1.3 Prior period adjustment

As mentioned in the royalty review, an audit conducted by the Queensland Office of State Revenue identified a misallocation of royalty revenue attributable to the Group. As a result, the Group received £4.6million (A\$7.1 million) more than it was entitled to over a six year period ended December 31, 2011. An associated interest charge of £1.4million (A\$2.2million) was also incurred on the overpayments. In accordance with IAS 8, the prior periods financial statements are restated to reflect what the position would have been, taking into account this information. The following tables reconcile the restated position to that previously reported:

Notes to the consolidated financial statements

for the year ended December 31, 2012

Consolidated Income Statement	Year ended December 31, 2011		
	Restated £'000	As previously reported £'000	Adjustment £'000
Royalty income	34,679	35,103	(424)
Operating expenses	(3,393)	(3,262)	(131)
Operating profit	31,775	32,330	(555)
Profit before tax	48,451	49,006	(555)
Income tax expense	(12,171)	(12,337)	166
Profit attributable to equity holders	36,280	36,669	(389)
Total and continuing earnings per share			
Basic earnings per share	33.51p	33.87p	(0.36p)
Diluted earnings per share	33.51p	33.87p	(0.36p)

Consolidated Statement of Comprehensive Income	Year ended December 31, 2011		
	Restated £'000	As previously reported £'000	Adjustment £'000
Profit for the financial period	36,280	36,669	(389)
Other comprehensive income			
Net loss on revaluation of coal royalties	(4,139)	(2,844)	(1,295)
Net exchange gain on translation of foreign operations	2,150	2,188	(38)
Deferred tax	5,933	5,532	401
Net expense recognised directly in equity	(11,445)	(10,124)	(1,321)
Total comprehensive expense for the financial period	(21,535)	(20,214)	(1,321)

Consolidated Balance Sheet	December 31, 2011			December 31, 2010		
	Restated £'000	As previously reported £'000	Adjustment £'000	Restated £'000	As previously reported £'000	Adjustment £'000
Coal royalties	165,967	175,124	(9,157)	169,304	177,130	(7,826)
Total assets	371,039	380,196	(9,157)	407,800	415,626	(7,826)
Deferred tax	54,240	58,822	(4,582)	59,824	63,838	(4,014)
Trade and other payables	6,896	781	6,115	6,470	913	5,557
Total liabilities	64,867	63,334	1,533	71,281	69,738	1,543
Total equity and liabilities	371,039	380,196	(9,157)	407,800	415,626	(7,826)

Consolidated Statement of Cash Flows	Year ended December 31, 2011		
	Restated £'000	As previously reported £'000	Adjustment £'000
Cash flows from operating activities			
Profit before taxation	48,451	49,006	(555)
Decrease in trade and other payables	423	(132)	555

Overall, the net assets of the Group at December 31, 2011 were overstated by £10.7million as a result of this overpayment and the corresponding impact on the coal royalty valuation. The value of the coal royalty was £9.2million less when taking into account road areas over the remaining portion of the private royalty ground which are payable to the State. Trade and other payables now reflect an amount owing to the mine operator as a result of these overpayments and the associated interest charge. The deferred tax balance has been recalculated based on the new coal royalty valuation and also reflects a credit to the group arising on the payment of tax on the previously overstated revenue.

Notes to the consolidated financial statements

for the year ended December 31, 2012

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Investments in subsidiaries are accounted for in the parent company at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) 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.

Where necessary, adjustments are made to the results of joint ventures to bring their accounting policies into line with those used by the Group.

(d) Transactions and loss of control or significant influence

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the Group's operating segments, has been identified as the Executive Committee which makes the strategic decisions for the Group.

2.4 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

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

Notes to the consolidated financial statements

for the year ended December 31, 2012

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.

(c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates; and
- (c) all resulting exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to the currency translation reserve in equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are reclassified in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment (excluding coal royalties)

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Once a mining project has been established as commercially viable, expenditure other than that on land, buildings, plant and equipment is capitalised under 'Producing assets' together with any amount transferred from 'Exploration and evaluation costs' (note 2.7(a)).

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the mine if shorter. The major categories of property, plant and equipment are depreciated on a units of production and/or straight line basis as follows:

Producing assets	Units of production
Coal tenures	Units 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 profit or loss.

2.6 Coal royalties

The Group owns a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland, Australia, excluding the output from Crown areas. As the Group owns the physical right to the minerals 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, which are recognised in the foreign currency translation reserve and net of deferred taxation in accordance with IAS 12 'Income taxes'.

2.7 Intangibles

(a) Exploration and evaluation costs

Exploration and evaluation expenditure comprises costs that are directly attributable to:

- researching and analysing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and/or
- compiling prefeasibility and feasibility studies.

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Expenditure on exploration and evaluation activities is capitalised when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Group.

The carrying values of capitalised amounts are reviewed twice per annum by management and the results of these reviews are reported to the Audit Committee. In the case of undeveloped projects there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Group's intentions for development of the undeveloped project.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off to the income statement. For developments that are considered viable and move to commercial production, these are transferred to producing assets.

Notes to the consolidated financial statements

for the year ended December 31, 2012

(b) Royalty interests

Royalty interests represent the net smelter royalties acquired on the Four Mile project in South Australia, the Salamanca uranium project in Spain, the Black Thor, Black Label and Big Daddy chromite projects in Northern Ontario, Canada and a number of tenements in the Athabasca Basin region of Canada, together with the gross revenue royalties covering the Amapá iron ore system in Brazil, the Isua iron ore project in Greenland, the Mt Ida magnetite iron ore project in Western Australia and three exploration licences, including the Railway iron ore deposit, in the central Pilbara region of Western Australia.

The Group does not own the physical rights to the minerals contained within these deposits. The royalties receivable from the interests held are derived from the rights attached to the underlying mineral resources. In line with IAS 38 'Intangible assets' these royalties are recognised at cost.

The useful life of the royalty interests will be determined by reference to planned mine life on commencement of mining and the cost of the royalty contract will be amortised on a systematic basis over the life of the mine. Amortisation rates are adjusted on a prospective basis for all changes to estimates of the life of mine. Amortisation will stop when the royalty is classified as held for sale or derecognised.

2.8 Impairment of non-financial assets

Intangible assets are reviewed for impairment at least at each reporting date and the assessment includes variables such as the production profiles, commodity prices and management representations. Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest forecasts. Discount factors are determined individually for each asset and reflect their respective risk profiles as assessed by management. Impairment losses for business combinations reduce the carrying amount of any goodwill allocated to that business combination first. Any remaining impairment loss is charged to the investment in the subsidiary or associate. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the asset's recoverable amount exceeds its carrying amount.

2.9 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 losses'.

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 measured at cost where fair value cannot be reliably determined. When a market price can be established these investments are revalued to fair value accordingly.

For those mining and exploration interests which contain a convertible embedded derivative, these derivatives are separated and recognised at fair value through profit or loss with gains and losses arising from changes in fair value being 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

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for the year ended December 31, 2012

transaction price as the best evidence of fair value at acquisition (see note 18). Options can be carried at cost if they are linked to unquoted equities where fair value cannot be reliably measured.

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. The Company has determined that impairment exists when the outcome of this assessment indicates a significant or prolonged fall in value of the interest.

Royalty instruments

Royalty instruments 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.

Royalty instruments 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. 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.

Royalty instruments 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 reclassified in the profit or loss for the period.

For royalty instruments which contain an embedded derivative, these derivatives are separated and measured 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 transaction price as the best evidence of fair value at acquisition; however, embedded derivatives are valued at acquisition and are recognised separately from the host royalty instrument (see note 16).

All royalty instruments, except those held at fair value through profit and loss, 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 or 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 on initial recognition. 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.

2.10 Current and deferred income tax

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

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.

2.11 Share based payments

The Group operates a number of equity-settled, share based compensation plans, under which the entity receives services from employees as

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for the year ended December 31, 2012

consideration for equity instruments (options and jointly-owned shares) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options and jointly-owned shares that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options and jointly-owned shares that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

The grant by the company of options over its equity instruments to employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2.12 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, including 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 June 30, 2002 which was created as part of a capital reduction performed in 2002.
- "Investment in own shares" represents the shares held by the Anglo Pacific Group Employee Benefit Trust for awards made under the Joint Share Ownership Plan (note 25).
- "Retained earnings" represents retained profits.

2.13 Revenue recognition

The revenue 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, at which point the revenue is recognised.

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.

2.14 Leases

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.

2.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

The Group'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 Group's activities expose it to a variety of financial risks including liquidity risk, credit risk, foreign exchange risk, interest rate risk and price risk. The Group operates controlled treasury policies which are monitored by management to ensure that the needs of the Group are met while minimising potential adverse effects of unpredictability of financial markets on the Group's financial performance.

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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 and the Company, with its strong balance sheet, had good access to capital markets, if required.

Credit risk

The Group's principal financial assets are bank balances, royalty instruments held as financial assets, 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. Where possible the Group has registered its interests against the relevant mining titles for the royalties it has acquired. In addition, the Group is generally entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

The Group's credit risk on royalty instruments held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in note 16 where the future contractual right to cash flow from these instruments is reflected in their fair value.

The credit risk on bank deposits is limited because the counterparties have 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 currencies and counterparties.

In 2007, the Group created a derivative financial instrument to provide finance to an unlisted mining development company, which has subsequently listed (note 18). 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 five 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 regular 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 Executive Committee and regularly reviewed. The Group does not consider it necessary to have a hedging programme in place at this time.

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

	2012						2011					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets	1	20,385	21,996	4,180	16,371	6	1	37,928	30,514	3,117	3,191	6
Financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Short term exposure	1	20,385	21,996	4,180	16,371	6	1	37,928	30,514	3,117	3,191	6

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 / Pound Sterling and the Canadian Dollar / Pound Sterling exchange rate.

It assumes a +/- 10% change of the Pound Sterling / Australian Dollar exchange rate for the year ended December 31, 2012 (2011: 10%). A +/- 10% is considered for the Pound Sterling / Canadian Dollar exchange rate (2011: 10%). The sensitivity analysis is based on the Group's foreign currency financial instruments held at balance sheet date.

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

	2012						2011					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	-	720	47	20	(1)	-	-	765	1,267	-	-	-
Equity	-	2,039	2,200	418	1,637	1	-	3,793	3,051	312	319	1

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

	2012						2011					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	-	(720)	(47)	(20)	1	-	-	(765)	(1,267)	-	-	-
Equity	-	(2,039)	(2,200)	(418)	(1,637)	(1)	-	(3,793)	(3,051)	(312)	(319)	(1)

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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.

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 rates the Group received had increased by one percent during the year, the net result for the year would have been increased by £537,000 (2011: £268,000). If the interest rates the Group received had decreased by one percent during the year, the net result for the year would have been reduced by £387,000 (2011: £268,000). There would have been no impact on equity.

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2012				
Assets				
Cash	0.72%	21,463	2,573	24,036
Trade receivables		–	–	–
Other receivables (note 20)	7.0%	3,141	1,219	4,360
Total Financial Assets		24,604	3,792	28,396
Financial Liabilities				
Trade payables		–	106	106
Other payables		–	1,724	1,724
Total Financial Liabilities		–	1,830	1,830
Net Financial Assets		24,604	1,962	26,566

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2011				
Assets				
Cash	2.00%	22,463	9,734	32,197
Trade receivables		–	–	–
Other receivables		–	10,111	10,111
Total Financial Assets		22,463	19,845	42,308
Financial Liabilities				
Trade payables		–	100	100
Other payables		–	6,427	6,427
Total Financial Liabilities		–	6,527	6,527
Net Financial Assets		22,463	13,318	35,781

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.

A sensitivity analysis based on a 30% increase or decrease in listed equity prices has been performed (2011: 26%). 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 £5.8 million (2011: £13.4 million). Equity would have changed by £15.4 million (2011: £16.2 million).

The royalty portfolio exposes the Group to other price risk through fluctuations in commodity prices, particularly the prices of iron ore, gold and uranium. As the Directors obtain independent commodity price forecasts, the generation of which takes into account fluctuations in prices, 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 instruments (note 18(b)) 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.

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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 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 interests and the voting rights arising from these equity instruments are utilised in the Group's favour.

Capital management and procedures

The Group's capital management objectives are:

- to ensure the Group's ability to continue as a going concern;
- to increase the value of the assets of the Group; and
- to enhance shareholder value in the Company and returns to shareholders.

The achievement of these objectives is undertaken by developing existing assets and identifying new royalty opportunities. The Group will also undertake other transactions where these are deemed financially beneficial to the Group.

The Directors continue to monitor the capital requirements of the Group by reference to expected future cash flows. Capital for the reporting periods under review is summarised in the consolidated statement of changes in equity. The Group does not presently need or have any long term funding requirements.

Financial Assets

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

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Available-for-sale</i>				
Royalty instruments	24,032	24,032	24,736	24,736
Mining and exploration interests	55,545	36,753	64,303	56,121
<i>Fair value through profit or loss</i>				
Royalty instruments	–	–	–	–
Mining and exploration interests	248	248	248	248
Trade and other receivables	4,360	13,581	10,111	9,038
Cash and cash equivalents	24,036	41,157	32,197	43,672

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

Fair value hierarchy

The following table presents financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2012 and December 31, 2011:

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for the year ended December 31, 2012

Group Assets	Note	2012			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	24,032	24,032
Mining and exploration interests – quoted	(b)	51,547	–	–	51,547
Mining and exploration interests – unquoted	(c)	–	3,518	–	3,518
Mining and exploration interests – royalty options	(d)	–	728	–	728
Total		51,547	4,246	24,032	79,825
Net fair value		51,547	4,246	24,032	79,825

Group Assets	Note	2011			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	24,736	24,736
Mining and exploration interests – quoted	(b)	62,389	–	–	62,389
Mining and exploration interests – unquoted	(c)	–	1,434	–	1,434
Mining and exploration interests – royalty options	(d)	–	728	–	728
Total		62,389	2,162	24,736	89,287
Net fair value		62,389	2,162	24,736	89,287

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2012 and December 31, 2011:

Company Assets	Note	2012			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	24,032	24,032
Mining and exploration interests – quoted	(b)	35,102	–	–	35,102
Mining and exploration interests – unquoted	(c)	–	1,171	–	1,171
Mining and exploration interests – royalty options	(d)	–	728	–	728
Total		35,102	1,899	24,032	61,033
Net fair value		35,102	1,899	24,032	61,033

Company Assets	Note	2011			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	24,736	24,736
Mining and exploration interests – quoted	(b)	54,656	–	–	54,656
Mining and exploration interests – unquoted	(c)	–	985	–	985
Mining and exploration interests – royalty options	(d)	–	728	–	728
Total		54,656	1,713	24,736	81,105
Net fair value		54,656	1,713	24,736	81,105

There have been no significant transfers between levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purposes of measuring fair value are unchanged compared to the previous reporting period.

(a) Royalty instruments

The Group's royalty streams arising from its four royalty instruments have been classified as available for sale, with value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At the reporting date the royalty streams have been valued on the net present value of the pre-tax cash flows discounted at a rate management considers reflects the risk associated with each of the projects. Note 16 details the discount rates used.

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The option to convert to shares has been treated as fair value through profit or loss as designated on initial recognition at the date of acquisition and has been valued at December 31, 2012 utilising an option model. The key assumptions, in addition to those utilised in the royalty stream valuations such as mine life and expected cash flows, include the price, volatility of the projects listed equity and where applicable the conversion price and redemption value of redeemable shares.

(b) Mining and exploration interests – quoted

All the quoted mining and exploration interests have been issued by publicly traded companies in Australia, Canada, the United Kingdom and Norway. Fair values for these securities have been determined by reference to their quoted bid prices at the reporting date.

(c) Mining and exploration interests – unquoted

All the unquoted mining and exploration interests are initially recognised using cost where fair value cannot be reliably determined.

(d) Mining and exploration interests – royalty options

All the royalty options are initially recognised using cost where fair value cannot be reliably determined. The Group considers the progress of the projects related to each of the royalty options to ensure there has been no material change in the fair value since initial recognition.

Fair value measurements in Level 3

The Group's financial assets classified in Level 3 uses valuation techniques based on significant inputs that are not based on observable market data.

The following table presents the changes in Level 3 instruments for the year ended December 31, 2012.

	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
	Net smelter return royalty	Optionality to convert debenture	
	£'000	£'000	£'000
At January 1, 2012	24,736	–	24,736
Revaluation gains or losses recognised in:			
Other comprehensive income	1,185	–	1,185
Receipts from royalty instruments	(1,889)	–	(1,889)
At December 31, 2012	24,032	–	24,032

The following table presents the changes in Level 3 instruments for the year ended December 31, 2011.

	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
	Net smelter return royalty	Optionality to convert debenture	
	£'000	£'000	£'000
At January 1, 2011	28,061	–	28,061
Revaluation gains or losses recognised in:			
Other comprehensive income	(1,377)	–	(1,377)
Royalty instrument provision	(1,563)	–	(1,563)
Receipts from royalty instruments	(385)	–	(385)
At December 31, 2011	24,736	–	24,736

There have been no transfers into or out of Level 3 in either year.

The Group measures its entitlement to the royalty streams and any optionality embedded within the royalty instruments using discounted cash flow models. In determining the discount rate to be applied, management consider the country and sovereign risk associated with the projects, together with the time horizon to the commencement of production and the success or failure of projects of a similar nature.

Management have not undertaken detailed analysis of the impact of using alternative discount rates on the fair value of the royalty streams or the optionality embedded in the royalty instruments, as the rates used reflect the risks inherent in the four projects and the use of alternative rates would be unjustified.

Notes to the consolidated financial statements

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4 Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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 estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- (a) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 15, note 16, note 17 and note 18.
- (b) Recoverability of deferred tax assets – note 2.10 and note 22.

4.2 Critical judgements in applying the Group's accounting policies

Areas of judgement that have the most significant effect on the amounts recognised in the financial statements are:

- (a) Classification of mining and exploration interests – note 2.9 and note 18.
- (b) Classification of royalty instruments and royalty interests.

The Directors review each royalty acquired to determine whether there is a contractual right to receive cash which would meet the definition of a financial asset, or if the royalty receivable for the interest acquired is derived from the rights attached to the underlying asset/mineral resource. In the latter case these are treated as an intangible asset – note 2.7(b) and note 17.

Where a royalty agreement contains a convertible option within it, the contracts are reviewed to determine whether the assets should be classified as a derivative at fair value through profit or loss or can be classified as an available for sale financial asset with an embedded derivative – note 2.9 and note 16.

- (c) Review of assumptions underlying the independent coal industry advisors' valuation of the Kestrel and Crinum coal royalty – note 15.
- (d) Review of assumptions underlying the valuation of royalty instruments and their associated embedded derivatives – note 17.

The Directors review the latest available mine plans and obtain independent foreign exchange and commodity price forecasts to determine each of the royalty instruments carrying value at reporting date.

- (e) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 15, note 16, note 17 and note 18.
- (f) Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 2.10, note 11 and note 22.
- (g) Treatment of unrealised losses on mining and exploration interests – note 18.

The Directors review the fair value of all quoted mining and exploration interests in light of market conditions and assess unrealised losses for indications or impairment. As at December 31, 2012 the Group's unrealised losses totalled £39.5 million. In light of events occurring after year end, the Directors considered £3.7 million of the unrealised losses to be impaired and recognised these losses through "other losses" in the income statement (note 30). The Directors do not consider the remaining losses to be impaired and therefore, the movement in fair value has been recognised directly in equity, resulting in a negative investment revaluation reserve of £35.8 million.

5 Segment information

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions.

The Committee considers the Group's undertakings from a business perspective. This has resulted in the Group being organised into two operating segments – royalties and mining and exploration interests.

The royalties 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, disposal and continued monitoring of the Group's investments in listed and unlisted entities operating in mining and mineral exploration. The segment information provided to the Executive Committee for the reportable segments for the year ended December 31, 2012 is as follows:

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for the year ended December 31, 2012

	Australia		Americas		Europe		All other segments £'000	Total £'000
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000		
Royalty income	11,038	-	2,229	-	-	-	-	13,267
Finance income	-	-	-	-	-	-	676	676
Gain on sale of mining and exploration interests	-	7,021	-	337	-	(11)	-	7,347
Other income	-	678	-	-	-	1,047	21	1,746
Total segment income	11,038	7,699	2,229	337	-	1,036	697	23,036
Profit before tax	11,038	7,699	2,017	337	-	(2,975)	(3,896)	14,220
Amortisation	-	-	(1,018)	-	-	-	-	(1,018)
Income tax expense	(1,686)	-	(310)	(28)	-	-	(2,139)	(4,163)
Total assets	191,410	24,550	33,241	10,804	35,993	20,641	36,829	353,468
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,720	-	-	-	-	-	-	3,720
Total liabilities	50,395	-	-	-	2,745	-	(636)	52,504

The segment information for the year ended December 31, 2011 is as follows:

	Australia		Americas		Europe		All other segments £'000	Total £'000
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000		
Royalty income (restated)	31,985	-	2,694	-	-	-	-	34,679
Finance income	-	-	-	-	-	-	1,507	1,507
Gain on sale of mining and exploration interests	-	6,714	-	12,663	-	926	-	20,303
Other income	-	615	-	-	-	-	19	634
Total segment income	31,985	7,329	2,694	12,663	-	926	1,526	57,123
Profit before tax (restated)	31,985	7,329	(1,684)	12,621	-	926	(2,726)	48,451
Amortisation	-	-	(1,018)	-	-	-	-	(1,018)
Impairment of royalty intangibles	-	-	(1,088)	-	-	-	-	(1,088)
Income tax expense	(8,533)	-	(384)	115	-	-	(3,369)	(12,171)
Total assets (restated)	191,705	35,672	31,049	19,877	36,708	9,076	46,952	371,039
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	-	-	10,714	-	18,391	-	-	29,105
Total liabilities (restated)	52,912	-	-	-	2,652	-	9,303	64,867

The amounts provided to the Executive Committee with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Investments in mining and exploration interests (classified as available-for-sale financial assets or financial assets at fair value through profit or loss) held by the Group are classified by geographic segment by reference to the country of the investee's primary listing for quoted investments or the country of operations for unquoted investments.

The amounts provided to the Executive Committee with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The royalty income in Australia of £11,038,000 (2011: £31,985,000) is derived from a single coal royalty.

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6 Finance income

	2012 £'000	2011 £'000
Group		
Interest on bank deposits	387	536
Interest on royalty instruments	202	971
Interest on long term receivables	87	–
	676	1,507

7a Expense by nature

	2012 £'000	2011 £'000
Group		
Employee benefit expense (note 8a)	1,783	2,008
Listing fees	178	243
Operating lease payments	164	168
Other expenses	1,508	974
	3,633	3,393

7b Auditors' remuneration

	2012 £'000	2011 £'000
Group		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	73	48
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	6	22
– Other services pursuant to legislations	18	13
– Tax and other services	–	8
	97	91

8a Employee benefits expense

	Group		Company	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Wages and salaries	1,404	1,639	1,312	1,495
Share-based awards to directors and employees	183	130	183	130
Social security costs	155	181	153	176
Other pension costs	41	58	41	58
	1,783	2,008	1,689	1,859

8b 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 directors and 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 £41,000 (2011: £58,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2012, contributions of £5,000 (2011: £12,000) due in respect of the current reporting period had not been paid over to the schemes.

Notes to the consolidated financial statements

for the year ended December 31, 2012

8c Average number of people employed

	2012	2011
Group		
Number of employees	11	11
Group		
Average number of people (including executive directors) employed:		
Executive directors	4	5
Administration	7	6
	11	11

Company

The average number of administration staff employed by the Company during the year, including executive directors was 10 (2011: 10). Directors' salaries are shown in the Directors' Remuneration Report on [pages 28 to 31](#), including the highest paid director.

9 Other income

	2012 £'000	2011 £'000
Group		
Dividends received from mining and exploration interests	678	615
Fixed income from mining and exploration interests	1,047	–
Other income	21	19
	1,746	634

10 Other (losses)/gains – net

	2012 £'000	2011 £'000
Group		
Net foreign exchange loss	(958)	(859)
Provision for non-recovery of interest receivable (note 20)	–	(709)
Recovery/(Loss) on permanent write down of royalty instrument (note 16)	806	(1,563)
Loss on impairment of royalty intangible (note 17)	–	(1,088)
Loss on impairment of mining and exploration interests (note 18)	(4,013)	(42)
	(4,165)	(4,261)

11 Income tax expense

	2012 £'000	Restated 2011 £'000
Group		
Current tax expense	5,917	11,850
Deferred tax charged to income – current year (note 22)	(1,754)	321
Total income tax expense	4,163	12,171

Notes to the consolidated financial statements

for the year ended December 31, 2012

	2012 £'000	Restated 2011 £'000
Group		
Factors affecting the tax charge for the year:		
Profit on activities before tax	14,220	48,451
Prima facie tax payable at UK rate of 24.5% (2011: 26.5%) and Australian rate of 30% (2011: 30%)	3,215	19,117
Adjustment for tax exempt income	(713)	(7,460)
Utilisation of losses brought forward	78	54
Non-deductible expenses	55	460
Reassessment of 2010 income tax return	1,060	-
Foreign controlled profits	468	-
Total income tax expense	4,163	12,171

Refer to note 22 for information regarding the Group's deferred tax assets and liabilities.

12 Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £10,057,000 (2011: £36,280,000 (restated)) and the weighted average number of shares in issue during the year of 108,540,723 (2011: 108,263,282).

The diluted earnings per ordinary share is calculated on the Group's profit after tax of £10,057,000 (2011: £36,280,000 (restated)) and 108,544,883 shares (2011: 108,274,402). The dilutive effect is due to options outstanding under the Company Share Option Plan at the year end.

	2012 £'000	Restated 2011 £'000
Net profit attributable to shareholders		
Earnings – basic	10,057	36,280
Earnings – diluted	10,057	36,280
	2012	2011
Weighted average number of shares in issue		
Ordinary shares in issue	108,540,723	108,263,282
Employee Share Option Scheme	4,160	11,120
	108,544,883	108,274,402

13 Dividends

On January 11, 2012 an interim dividend of 4.25 pence per share was paid to shareholders in respect of the year ended December 31, 2011. On July 4, 2012 a final dividend of 5.50 pence per share was paid to shareholders to make a total dividend for the year of 9.75 pence per share. Total dividends paid during the year were £10.58 million (2011: £8.98 million).

On February 5, 2013 an interim dividend of 4.45 pence per share was paid to shareholders in respect of the year ended December 31, 2012. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 5.75 pence per share be paid to shareholders on August 7, 2013, to make a total dividend for the year of 10.20 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 2012 is payable to all shareholders on the Register of Members on June 7, 2013. The total estimated dividend to be paid is £6.2 million. This will be reduced to the extent that shareholders elect to receive scrip instead of cash under any scrip dividend alternative. The Board will consider whether shareholders will be given the opportunity to elect to receive a scrip dividend instead of cash depending on the share price at the time.

Notes to the consolidated financial statements

for the year ended December 31, 2012

14 Property, plant and equipment

Group	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount				
At January 1, 2012	821	1,277	175	2,273
Foreign currency translation	–	(26)	–	(26)
At December 31, 2012	821	1,251	175	2,247
Depreciation and impairment				
At January 1, 2012	(2)	–	(119)	(121)
Depreciation	–	–	(21)	(21)
At December 31, 2012	(2)	–	(140)	(142)
Carrying amount December 31, 2012	819	1,251	35	2,105

Group	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount				
At January 1, 2011	821	1,262	161	2,244
Additions	–	15	14	29
At December 31, 2011	821	1,277	175	2,273
Depreciation and impairment				
At January 1, 2011	(2)	–	(98)	(100)
Depreciation	–	–	(21)	(21)
At December 31, 2011	(2)	–	(119)	(121)
Carrying amount December 31, 2011	819	1,277	56	2,152

Coal tenures relate to the Trefi and Panorama coal projects in British Columbia, Canada. As both projects are not yet in production there was no depreciation during the period.

Company	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount				
At January 1, 2012	821	–	175	996
At December 31, 2012	821	–	175	996
Depreciation and impairment				
At January 1, 2012	(2)	–	(119)	(121)
Depreciation	–	–	(21)	(21)
At December 31, 2012	(2)	–	(140)	(142)
Carrying amount December 31, 2012	819	–	35	854

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for the year ended December 31, 2012

Company	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount				
At January 1, 2011	821	–	161	982
Additions	–	–	14	14
At December 31, 2011	821	–	175	996
Depreciation and impairment				
At January 1, 2011	(2)	–	(98)	(100)
Depreciation	–	–	(21)	(21)
At December 31, 2011	(2)	–	(119)	(121)
Carrying amount December 31, 2011	819	–	56	875

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, Scotland held by the parent company. The producing asset on Shetland is included at a directors' valuation of £0.8 million (2011: £0.8 million) plus additions which are carried at cost. An external valuation was carried out on March 26, 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

15 Coal royalties

	Group £'000	Company £'000
At January 1, 2010 (as previously reported - note 2.1.3)	149,896	–
Foreign currency translation	26,879	–
Revaluation adjustment	(7,471)	–
At December 31, 2010 (restated - note 2.1.3)	169,304	–
Foreign currency translation	802	–
Revaluation adjustment	(4,139)	–
At December 31, 2011 (restated - note 2.1.3)	165,967	–
Foreign currency translation	(4,311)	–
Revaluation adjustment	9,339	–
At December 31, 2012	170,995	–

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

During the second quarter of 2012 the Group was informed by Rio Tinto that an audit by the Queensland Office of State Revenue had identified a misallocation of royalty revenue relating to areas reserved by the State of Queensland for roads. This resulted in an overpayment of royalties to the Group of £4.6million (A\$7.1million) for the period September 2006 to December 2011, together with an associated interest charge of £1.4million (A\$2.2million). The misallocation of royalty revenues and associated interest charge has been reflected in the restated balance sheet at December 31, 2011, the impact of which is described in note 2.1.3.

The coal royalty was valued during December 2012 at £171.0 million (A\$266.6 million) by Resource Management International Pty Ltd, independent 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 adjustment 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 £2.0 million (A\$3.1 million) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 22). Were the coal royalty to be carried at cost the carrying value would be £0.2 million (2011: £0.2 million). The Directors do not presently have any intention to dispose of the coal royalty.

16 Royalty instruments

The Group's royalty instruments are represented by four convertible debentures which entitle the Group to the repayment of principal and a net smelter return ("NSR") royalty for the life of the mine. Until such time as the principal is repaid the Group retains the option to convert the outstanding balance into the common shares of the grantor. Details of the Group's royalty instruments are summarised opposite:

Notes to the consolidated financial statements

for the year ended December 31, 2012

Project	Commodity	Cost '000	Royalty Rate	Escalation	Option Price	Discount Rate	Royalty Valuation £'000	Option Valuation £'000
Engenho ¹	Gold	A\$4,000	2.50%	–	A\$0.35	–	–	–
El Valle-Boinás/ Carlés mines	Gold	C\$7,500	2.50%	3% >US\$1,100/oz	C\$0.958	8%	14,083	–
Malartic-Midway and McKenzie Break ²	Gold	C\$8,000	2.50%	2.75% >US\$1,250/oz	C\$0.70	–	–	–
Jogjakarta Iron Sands	Iron Sands	A\$5,000	2.00% ³	–	A\$0.10 - A\$0.50	15%	9,949	–
							24,032	–

¹ Engenho royalty instrument was fully provided for as at December 31, 2011.

² Malartic-Midway and McKenzie Break royalty instrument was fully provided for as at December 31, 2010.

³ Jogjakarta Iron Sands royalty rate decreases to 1% following repayment of principal, unless liquid iron prices exceed US\$700/t.

(a) Available for sale

The Group's entitlement to the repayment of the principal and the NSR royalty have been classified as available for sale and are carried at fair value. Any gains and losses arising from changes in fair value are recognised directly in equity with the investment revaluation reserve as detailed below:

	Group £'000	Company £'000
Fair value		
At January 1, 2011	28,061	28,061
Receipts from royalty instruments	(385)	(385)
Revaluation adjustment	(1,377)	(1,377)
	26,299	26,299
Royalty instrument provision	(1,563)	(1,563)
At December 31, 2011	24,736	24,736
Receipts from royalty instruments	(1,889)	(1,889)
Revaluation adjustment	1,185	1,185
At December 31, 2012	24,032	24,032

(b) Fair value through profit and loss

The Group's option to convert the outstanding balance of the debentures into common shares of the grantors is an embedded derivative requiring a separate valuation to the NSR royalty. As at December 31, 2011 and December 31, 2012 the Directors considered the likelihood of the options being exercised to be remote and therefore, assessed the fair value of the options to be nil. The options are classified as fair value through profit and loss, with gains and losses arising from changes in fair value directly recognised in the income statement as detailed below:

	Group £'000	Company £'000
Fair Value		
At December 31, 2011 and December 31, 2012	–	–

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Royalty instruments	28,983	28,983	30,493	30,493
Royalty instrument provision	(4,951)	(4,951)	(5,757)	(5,757)
Total royalty instruments	24,032	24,032	24,736	24,736

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for the year ended December 31, 2012

The total royalty instrument provision of £4.95 million (2011: £5.76 million) relates to the Group's convertible debentures with Northern Star Mining Corp. and Minera Gold Limited (formerly Mundo Minerals Limited) which give rise to the royalties over the Malartic-Midway and McKenzie Break and the Engenho projects respectively (note 10).

During the year the Group received £0.8 million in principal repayments from Minera Gold Limited, which were previously provided for in full. The Group continues to pursue its rights under the terms of the convertible debentures with Northern Star Mining Corp. and Minera Gold Limited however, the outstanding debenture balances remain fully provided for.

17 Intangibles

The Group's intangibles comprise capitalised exploration and evaluation costs and royalty interests.

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
Gross carrying amount			
At January 1, 2012	804	70,525	71,329
Additions	127	3,720	3,847
Foreign currency translation	–	(559)	(559)
At December 31, 2012	931	73,686	74,617
Amortisation and impairment			
At January 1, 2012	–	(2,191)	(2,191)
Amortisation charge	–	(1,018)	(1,018)
At December 31, 2012	–	(3,209)	(3,209)
Carrying amount December 31, 2012	931	70,477	71,408

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
Gross carrying amount			
At January 1, 2011	696	42,130	42,826
Additions	108	29,105	29,213
Acquisition costs returned	–	(710)	(710)
At December 31, 2011	804	70,525	71,329
Amortisation and impairment			
At January 1, 2011	–	(85)	(85)
Impairment charge	–	(1,088)	(1,088)
Amortisation charge	–	(1,018)	(1,018)
At December 31, 2011	–	(2,191)	(2,191)
Carrying amount December 31, 2011	823	68,334	69,138

Company	Royalty interests £'000	Total £'000
Carrying amount December 31, 2011 and December 31, 2012	3,997	3,997

The exploration and evaluation costs comprise expenditure that is directly attributable to the Trefi and Panorama coal projects in British Columbia, Canada.

Royalty interests represent the net smelter return royalties acquired on the Four Mile project in South Australia, the Salamanca uranium project in Spain, the Black Thor, Black Label and Big Daddy chromite projects in Northern Ontario, Canada and a number of tenements in the Athabasca Basin region of Canada, together with the gross revenue royalties covering the Amapá iron ore system in Brazil, the Isua iron ore project in Greenland, the Mt Ida magnetite iron ore project in Western Australia and three exploration licences, including the Railway iron ore deposit, in the central Pilbara region of Western Australia.

Notes to the consolidated financial statements

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The net smelter royalties on the exploration licences in the Athabasca Basin region of Canada remain impaired as a result of the inherent uncertainty of these licences entering commercial production and have a carrying value of nil (2011: nil). The Group will continue to review the development of these licences on an annual basis.

The Amapá royalty interest is the only producing interest and therefore, subject to amortisation. Amortisation of the remaining interests will commence once they begin commercial production. No intangible assets have been pledged as security for liabilities.

18 Mining and exploration interests

	Group £'000	Company £'000
(a) Available for sale		
Fair value		
At January 1, 2011	128,231	107,865
Additions	28,101	27,488
Disposals	(41,458)	(30,406)
Impairment	(42)	–
Revaluation adjustment	(50,292)	(48,826)
Foreign currency translation	(237)	–
At December 31, 2011	64,303	56,121
Additions	23,781	11,182
Disposals	(16,660)	(16,195)
Impairment	(4,011)	(3,721)
Revaluation adjustment	(11,493)	(10,634)
Foreign currency translation	(375)	–
At December 31, 2012	55,545	36,753

The Group's 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. The fair values of listed securities are based on quoted market prices. Unquoted investments and royalty options are initially recognised using cost where fair value cannot be reliably determined. 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. Further guidance on fair value measurement is provided in note 3.

The impairment represents £3.7 million in unrealised losses the Directors consider to be impaired at December 31, 2012, following the underlying investee company filing for protection under a corporate reconstruction.

	Group £'000	Company £'000
(b) Fair value through profit and loss		
At January 1, 2012 and December 31, 2012	248	248

A non-repayable convertible instrument was acquired by the Group in 2007. The convertible instrument was designated as fair value through profit or loss. This convertible instrument was created to provide finance to a listed 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 five years. The instrument was initially recognised using cost as fair value could not be reliably determined. 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. Prior to the instrument's expiration in November 2012, the Group notified the underlying company of its intention to convert the instrument to royalties. The conversion is expected to be completed in 2013.

Total mining and exploration interests at 31 December are represented by:

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	51,547	35,102	62,389	54,656
Unquoted investments	3,518	1,171	1,434	985
Royalty Options	728	728	728	728
	55,793	37,001	64,551	56,369
Number of investments	37	31	42	33

Notes to the consolidated financial statements

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19a Investments in subsidiaries

Company	Investments in subsidiaries £'000
Cost:	
At January 1, 2011	18,657
Capital injection into existing subsidiary	15,233
At December 31, 2011 and December 31, 2012	33,890
Provisions:	
At January 1, 2011	345
At December 31, 2011 and December 31, 2012	345
Net book value:	
At January 1, 2011	18,312
At December 31, 2011 and December 31, 2012	33,545

The Group's full listing of subsidiaries is provided in note 31.

19b Joint ventures

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

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

	2012 £'000	2011 £'000
Current assets	–	7
Current liabilities	–	1
Expenses	13	12

Following the disposal of its interest in Jandale Holdings Pty Ltd in 2012, the Group has no contingent liabilities or any capital commitments under this joint venture (2011: nil).

20 Trade and other receivables

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Current				
Prepayments and accrued income	136	123	158	146
Royalty receivables	1,219	–	10,111	–
Other receivables	603	169	2,738	2,485
Provision for non-recovery of interest receivable	–	–	(709)	(709)
	1,958	292	12,298	1,922

Trade and other receivables principally comprise amounts relating to royalties receivable for the final quarter in each year. The Directors consider that the carrying amount of trade and other receivables is approximately their fair value.

Notes to the consolidated financial statements

for the year ended December 31, 2012

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Non-current				
Other receivables	3,141	–	–	–
Amounts due from subsidiaries	–	13,581	–	9,038
	3,141	13,581	–	9,038

On August 13, 2013, the Group provided Laramide Resources Ltd with an interest bearing facility of C\$5 million, which is repayable in December 2015. In return Laramide Resources Ltd granted Anglo Pacific an option to acquire a 5% gross revenue royalty for an exercise price of US\$15 million. The facility bears interest at a rate of 7% per annum payable quarterly in arrears.

Amounts due from subsidiaries, are considered long term loans. The Directors consider that the carrying amount of amounts due from subsidiaries is approximately their fair value.

21 Cash and cash equivalents

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	23,083	40,206	31,116	42,595
Trading deposits with brokers	953	951	1,081	1,077
Cash and cash equivalents	24,036	41,157	32,197	43,672

22 Deferred tax

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

	2012		2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January (restated – note 2.1.3)	54,240	4,401	59,824	9,479	46,459	3,189
Released to income for the year	(1,754)	(894)	321	–	760	–
(Credit)/Charge to equity for the year	(2,710)	(5,307)	(6,155)	(5,078)	4,353	6,290
Foreign currency translation	(1,244)	–	250	–	8,252	–
At 31 December	48,532	(1,800)	54,240	4,401	59,824	9,479

Notes to the consolidated financial statements

for the year ended December 31, 2012

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

Group	Coal royalties		Available-for-sale investments			Total £'000
	Revaluation of coal royalty £'000	Effects of tax losses £'000	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	Accrual of royalty receivable £'000	
At January 1, 2010 (restated - note 2.1.3)	44,456	(757)	2,665	410	(315)	46,459
Released to income for the year (note 11)	-	-	-	-	760	760
(Credit)/Charge to equity for the year	(2,241)	(52)	2,230	4,416	-	4,353
Foreign currency translation	8,062	(136)	-	23	303	8,252
At December 31, 2010 (restated - note 2.1.3)	50,277	(945)	4,895	4,849	748	59,824
Released to income for the year (note 11)	-	-	-	-	321	321
(Credit)/Charge to equity for the year	(1,244)	225	2	(5,138)	-	(6,155)
Foreign currency translation	239	(4)	-	(13)	28	250
At December 31, 2011 (restated - note 2.1.3)	49,272	(724)	4,897	(302)	1,097	54,240
Released to income for the year (note 11)	-	-	-	(893)	(861)	(1,754)
Charge/(Credit) to equity for the year	2,802	101	(939)	(4,674)	-	(2,710)
Foreign currency translation	(1,293)	19	-	57	(27)	(1,244)
At December 31, 2012	50,781	(604)	3,958	(5,812)	209	48,532

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 15. 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:

Company	Available-for-sale investments		Total £'000
	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	
At January 1, 2011	4,895	4,584	9,479
Charge to equity for the year	2	(5,080)	(5,078)
At December 31, 2011	4,897	(496)	4,401
Released to income for the year	-	(894)	(894)
Charge to equity for the year	(939)	(4,368)	(5,307)
At December 31, 2012	3,958	(5,758)	(1,800)

23 Trade and other payables

	2012		2011		2010
	Group £'000	Company £'000	Group £'000	Company £'000	Group £'000
Other taxation and social security payable	121	117	302	301	364
Trade payables	106	103	100	90	131
Other payables	1,724	291	6,427	245	5,801
Accruals and deferred income	220	210	67	58	174
	2,171	721	6,896	694	6,470

Trade and other payables principally comprise amounts outstanding for other taxation, investment purchases and ongoing costs. The liability arising from the overpayment of royalties identified by the Queensland Office of State Revenue as discussed in note 2.1.3 has been included in other payables.

The average credit period taken for trade purchases is 22 days (2011: 33 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.

Notes to the consolidated financial statements

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24 Share capital and share premium

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
Group and Company				
At January 1, 2011	108,771,332	2,175	24,207	26,382
Issue of share capital under share-based payment	417,883	9	1,332	1,341
At December 31, 2011	109,189,215	2,184	25,539	27,723
Issue of share capital under share-based payment	416,161	8	1,314	1,322
At December 31, 2012	109,605,376	2,192	26,853	29,045

25 Share based payments

Following the approval at the 2010 Annual General Meeting, the Group operates two equity-settled share based compensation plans as follows:

- The HMRC approved Company Share Ownership Plan (the "CSOP"); and
- The Joint Share Ownership Plan (the "JSOP") operated through the Anglo Pacific Group Employee Benefit Trust.

(a) Company Share Ownership Plan

Under the CSOP, share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the average mid market closing price of an ordinary share for the three days before the grant. The options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date, subject to the Group achieving its target growth in absolute total shareholder return over the period of 3% per annum (not compounded) in excess of the UK Retail Price Index; the options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2012		2011	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	67,463	2.6681	60,120	2.4950
Granted during the year	20,375	2.9446	19,367	3.0981
Exercised during the year	–	–	–	–
Surrendered during the year	–	–	–	–
Forfeited during the year	(10,157)	2.9535	(12,024)	2.4950
Outstanding at 31 December	77,681	2.7406	67,463	2.6681

Out of the 77,681 outstanding options (2011: 67,463), nil options (2011: nil) were exercisable.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date	Exercise price in £ per share	Shares	
		2012	2011
2019	2.4950	48,096	48,096
2021	3.2570	9,210	9,210
2021	2.9535	–	10,157
2022	3.2860	9,129	–
2022	2.6675	11,246	–
		77,681	67,463

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The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was £1.649 per option granted in March 2012 and £1.318 per option granted in September 2012 (March 2011: £1.741 and September 2011: £1.482). The significant inputs into the model were weighted average share price of £3.286 and £2.668 (March 2011: £3.257 and September 2011: £2.953) at the grant date in March and September 2012 respectively, exercise price shown above, volatility of 40% (2011: 40%), expected option life of three years (2011: three years) and an annual risk-free interest rate of 1.1% and 0.8% for the options granted in March and September 2012 respectively (March 2011: 2.3% and September 2011: 1.1%). See note 8a for the total expense recognised in the income statement for share options granted to directors and employees.

(b) Joint Share Ownership Plan

Under the JSOP, the Remuneration Committee invites selected directors and employees to enter into an agreement with the Anglo Pacific Group Employee Benefit Trust (the 'Co-owner') to acquire a number of ordinary shares in the capital of the Company. The shares are held in the name of the Co-owner, however, the selected directors and employees maintain a beneficial interest in these shares.

Awards under the JSOP are conditional on the employee completing three years' service (the vesting period) and the Group's absolute total shareholder return growing at an annual rate (not compounded) of 3% in excess of the UK Retail Price Index over the three year vesting period. In addition the Company's share price must reach a hurdle price during the three year vesting period as determined by the Remuneration Committee at the time of making the award.

Upon satisfying the performance targets and service requirements, the beneficial interest conferred will entitle the director or employee to receive a proportion of the proceeds of sale of the ordinary shares. Their entitlement will be to receive the equivalent of all sales proceeds in excess of the threshold amount, settled in ordinary shares of the Company. The threshold amount is fixed by the Remuneration Committee and will not be set less than the market value of the ordinary shares of the Company at the time the JSOP award is made.

JSOP awards made during the year were as follows:

	Grant price in £ per share	Hurdle price in £ per share	Shares		Expiry Date
			2012	2010	
Outstanding at 1 January	2.480	3.150	678,746	508,050	2014
Awarded in March 2011	3.260	4.225	–	356,208	2015
Awarded in September 2011	2.919	4.625	–	61,675	2015
Awarded in March 2012	3.320	4.500	205,420	–	2016
Awarded in September 2012	2.668	3.692	71,227	–	2016
Surrendered during the year			(88,783)	(247,187)	
Outstanding at 31 December			866,610	678,746	

The weighted average fair value of shares awarded during the period determined using the Monte Carlo valuation model was £0.75 per share granted in March 2012 and £0.57 per share granted in September 2012 (March 2011: £0.79 and September 2011: £0.55). The significant inputs into the model were weighted average share price of £3.32 and £2.67 (March 2011: £3.26 and September 2011: £2.87) at the grant date in March and September 2012 respectively, share price hurdle shown above, volatility of 40% (2011: 40%), expected option life of four years and an annual risk-free interest rate of 1.1% and 0.8% for the shares granted in March and September 2012 (March 2011: 2.3% and September 2011: 1.1%). See note 8a for the total expense recognised in the income statement for share options granted to directors and employees.

26 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 June 30, 2002. At December 31, 2011, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At January 1, 2012 and December 31, 2012	632	632

Notes to the consolidated financial statements

for the year ended December 31, 2012

27 Retained earnings

	Group £'000	Company £'000
Balance at January 1, 2011 (restated)	135,864	117,254
Surrender of options from share-based payment	19	19
Dividends paid	(8,978)	(8,978)
Profit for the financial year (restated)	36,280	37,005
Balance at December 31, 2011 (restated)	163,185	145,300
Surrender of options from share-based payment	5	5
Dividends paid	(10,579)	(10,579)
Profit for the financial year	10,057	3,135
Balance at December 31, 2012	162,668	137,861

28 Financial commitments

Operating leases

The Group's most significant operating lease commitments relate to premises maintained in both London, England and Shetland, Scotland.

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:

	2012 £'000	2011 £'000
Group		
Within one year	168	168
In the second to fifth years inclusive	218	436
After five years	171	125
	557	729

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

Capital commitments

At the year end the Group had capital commitments of £nil (2011: £nil) 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 (2011: £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.

29 Related party transactions

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

	Subsidiaries	
	2012 £'000	2011 £'000
Funding transactions	(1,199)	51,984
Management fee	2,176	2,384
Amounts owed by related parties at year end	13,581	9,039

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

Notes to the consolidated financial statements

for the year ended December 31, 2012

Remuneration of key management personnel

The remuneration of the key management personnel including directors 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 28 to 31](#).

	2012 £'000	2011 £'000
Short-term employee benefits	841	1,384
Post-employment benefits	22	44
Share based payment	120	104
	983	1,532

Directors' transactions

During the year, the Group entered into the following related party transactions:

	2012	2011
Allenbridge Group Plc	–	2,489
JW Technologies	–	1,130
	–	3,619

The payments to Allenbridge Group Plc, a company in which Mr A.H. Yadgaroff, a non-executive director, is both a director and shareholder, were for the provision of office support services.

The payments to JW Technologies, a company in which Dr J.G. Whellock, a non-executive director, is both a director and shareholder, were for the provision of consulting services.

As at December 31, 2012 a total of £nil was owing to both Allenbridge Group Plc and JW Technologies (2011: £nil).

During the year the Directors received dividends as ordinary shareholders of the Company in cash or scrip totalling:

	2012	2011
P.M. Boycott	263,102	246,164
A.C. Orchard	10,731	9,105
M.J. Tack ¹	–	10,520
J. Theobald	3,935	3,378
B.M. Wides	285,300	264,817
M.H. Atkinson	724	355
W.M. Blyth ²	–	–
P.N.R. Cooke ³	–	–
J.G. Whellock ⁴	1,276	1,184
A.H. Yadgaroff	16,788	14,875
	581,856	550,398

¹ Mr M.J. Tack resigned as a director on September 23, 2011.

² Mr W.M. Blyth was appointed as a director on March 20, 2013.

³ Mr P.N.R. Cooke was appointed as a director on December 10, 2012.

⁴ Dr J.G. Whellock, being a resident of the United States of America, is unable to receive scrip, as such all dividends were received in cash.

30 Events occurring after year end

On February 8, 2013, an investee company in which the Group holds both secured and unsecured mining and exploration interests filed for protection under a corporate reconstruction based on a shortage of liquidity.

As at December 31, 2012, the Group's mark to market losses on the unsecured interest was £3.7million. In light of the investee company's filing on February 8, 2013, management consider the fall in the market value of the investee company at December 31, 2012 to be impaired and have recognised these losses through "other losses" in the income statement.

The Group considered that there was sufficient recourse attached to the secured interest and as such, no impairment was considered necessary as at December 31, 2012.

Notes to the consolidated financial statements

for the year ended December 31, 2012

On March 15, 2013, the Group made its first advance of US\$5million in relation to royalty financing agreement, entered into with Hummingbird Resources Plc in December 2012.

31 Principal subsidiaries

	Country of registration and operation	Principal activity	Proportion of shares held at December 31, 2012
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100%†
Alkormy Pty Ltd	Australia	Investments	100%†
Argo Royalties Pty Ltd	Australia	Investments	100%†
Starmont Ventures Pty Ltd	Australia	Investments	100%†
Gordon Resources Ltd	Australia	Owner of coal royalty	100%†
APG Aus No 1 Pty Ltd	Australia	Investments	100%
APG Aus No 2 Pty Ltd	Australia	Investments	100%
APG Aus No 3 Pty Ltd	Australia	Investments	100%
APG Aus No 4 Pty Ltd	Australia	Investments	100%
APG Aus No 5 Pty Ltd	Australia	Investments	100%
APG Aus No 6 Pty Ltd	Australia	Investments	100%
Anglo Pacific Finance Ltd	Ireland	Treasury	100%
Anglo Pacific Group Employee Benefit Trust	Guernsey	Administering Group incentive plans	100%
Centaurus Royalties Ltd	England	Owner of iron ore royalties	100%
Southern Cross Royalties Ltd	England	Owner of iron ore and uranium royalties	100%
Shetland Talc Ltd	Scotland	Mineral exploration	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%†
Panorama Coal Corporation	Canada	Owner of coal tenures	100%
Trefi Coal Corporation	Canada	Owner of coal tenures	100%
Polaris Royalty Corporation	Canada	Intermediate holding company	100%†
Albany River Royalty Corporation	Canada	Owner of chromite royalty	100%†

†Denotes held by a subsidiary company

Shareholder statistics

(a) Size of Holding (at March 20, 2013)

Category UK and Canada	Number of Shareholders	%	Number of Shares	%
1 – 1,000	752	31.31	411,998	0.38
1,001 – 5,000	1,019	42.42	2,502,369	2.28
5,001 – 10,000	219	9.12	1,627,252	1.48
10,001 – and over	412	17.15	105,063,757	95.86
	2,402	100.00	109,605,376	100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at March 20, 2013 was 53.00%.

Directors

Executive

P.M. Boycott (Executive Director)
A.C. Orchard (Chief Investment Officer)
J. Theobald (Chief Executive Officer)
B.M. Wides (Acting Chairman)

Non-Executive

M.H. Atkinson (Senior Independent Director)
W.M. Blyth
P.N.R. Cooke
J.G. Whellock
A.H. Yadgaroff

Secretary

P.T.J. Mason

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Listings

London Stock Exchange
Full Listing
Symbol APF

Toronto Stock Exchange
Secondary Listing
Symbol APY

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