ANGLO PACIFIC

THE GLOBAL NATURAL RESOURCES ROYALTY COMPANY

2016
ANNUAL REPORT & ACCOUNTS

Anglo Pacific Group PLC

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Governance
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Performance measures

Throughout this report a number of financial measures are used to assess the Group's performance. The measures are defined as follows:

Operating profit/(loss)
Operating profit/(loss) represents the Group's underlying operating performance from its royalty interests. Operating profit/(loss) is royalty income, less amortisation of royalties and operating expenses, and excludes impairments, revaluations and gain/(loss) on disposals. Operating profit/(loss) reconciles to 'operating profit/(loss) before impairments, revaluations and gain/(losses) on disposals' on the income statement.

Adjusted earnings per share
Adjusted earnings represents the Group's underlying operating performance from core activities. Adjusted earnings is the profit/(loss) attributable to equity holders less all valuation movements, and non-cash impairments (which are non-cash items that arise primarily due to changes in commodity prices), amortisation charges, share based payments, finance costs, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing. Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share. Refer to ➡ *note 11* to the financial statements for adjusted earnings/(loss) per share.

Dividend cover
Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share. Refer to ➡ *note 12* to the financial statements for dividend cover.

Free cash flow per share
Free cash flow per share is calculated by dividing net cash generated from operating activities, plus proceeds from the disposal of non-core assets, less finance costs, by the weighted average number of shares in issue. Refer to ➡ *note 33* to the financial statements for free cash flow per share.

GROUP OVERVIEW

Our aim

To develop as the leading international diversified royalty company with a portfolio centred on base metals and bulk materials.

Anglo Pacific Group PLC ('Anglo Pacific', the 'Company' or the 'Group') is the only listed company on the London Stock Exchange focused on royalties connected with the mining of natural resources. Our strategy is to build a diversified portfolio of royalties and metal streams, focusing on accelerating income growth through acquiring royalties in cash or near-term cash producing assets.

It is an objective of the Company to pay a substantial portion of these royalties and metal streams to shareholders as dividends.

More on how we are achieving our strategy ➡ pages 10 and 11

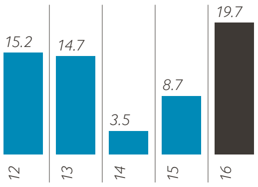
GROUP OVERVIEW

Anglo Pacific at a glance

KPIs

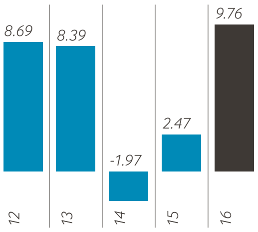
Royalty income *(£m)*

£19.7m



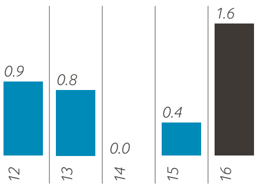
Adjusted earnings per share *(p)*

9.76p



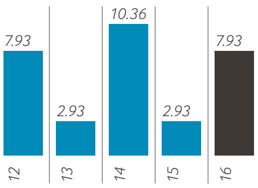
Dividend cover *(x)*

1.6x



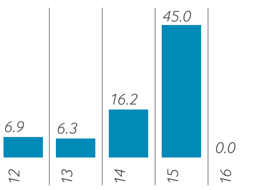
Free cash flow per share *(p)*

7.93p



Royalty assets acquired *(£m)*

Nil



See more ➡ page 24

Key facts 2016

Primary listing

London Stock Exchange

Secondary listing

Toronto Stock Exchange

Royalty income increased in the year

+127%

Net assets
at December 31, 2016

£210.1m

Assets in production
by value

Over 86% of our portfolio by value, across 5 commodities is in production

Global royalty assets

11 principal royalty and streaming related assets across 5 continents

Production potential

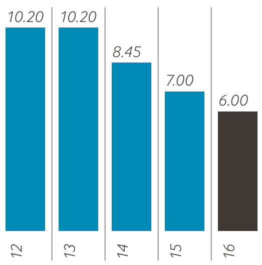
Significant, fully funded, organic growth in the current portfolio from Kestrel, Narrabri and Salamanca

Shareholder returns

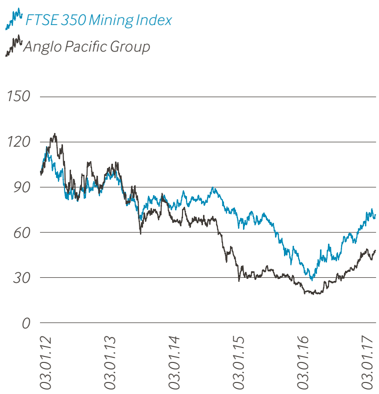
Dividend per share *(p)*

6.00p

Dividend cover of 1.6x in 2016 provides platform for growth



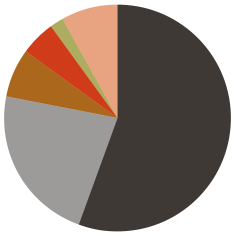
FTSE 350 Mining Index vs. Anglo Pacific Group 2011-2016
(Rebased to 100)



Diversified portfolio of royalties

Commodity exposure
at December 31, 2016

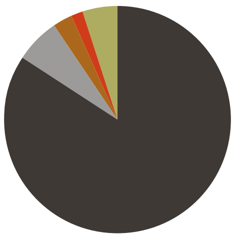
Targeting reduction in coal exposure to less than 50% through diversification



Coking coal	*55.7%*
Thermal coal	*22.5%*
Iron ore	*7.0%*
Gold	*4.9%*
Uranium	*1.9%*
Other	*8.0%*

Geographic exposure
at December 31, 2016

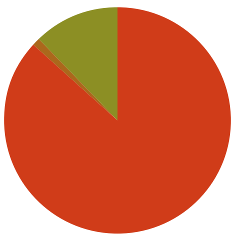
95.2% of the portfolio is in established natural resources jurisdictions



Australia	*84.4%*
Brazil	*6.2%*
Spain	*2.8%*
Canada	*1.8%*
Other	*4.8%*

Stage of production
at December 31, 2016

86.9% of the portfolio is producing royalties



Producing	*86.9%*
Development	*1.1%*
Early stage	*12.0%*

Mining royalties explained

A mining royalty is a non-operating interest in a mining project that provides the royalty holder with the right to a proportion of revenue, profit or production.

Historically, royalties originated as a result of the sale of a mineral property, allowing the seller to retain some ongoing economic participation in the property. However, an increasing number of royalties are now created directly by operators and developers as a source of finance. A royalty holder is not generally obligated to contribute towards operating or capital costs, nor environmental or reclamation liabilities.

Types of royalties
The Group's royalties are mostly revenue or production-based royalties. Typically, these royalties are either Gross Revenue royalties or Net Smelter Return royalties, each of which can be described as follows:

GRR : Gross Revenue royalty
A GRR entitles the royalty holder to a fixed portion of the gross revenues generated from the sales of mineral production from a property. In calculating a GRR payment, deductions, if any, applied by the property owner to reduce the royalty payment are usually minimal, and GRRs are therefore the simplest form of royalty to account for and implement.

NSR : Net Smelter Return royalty
An NSR entitles the royalty holder to a fixed portion of the net revenues received from a smelter or refinery from the sales of mineral production from a property, after the deduction of certain offsite realisation costs. Typical realisation costs include those related to transportation, insurance, smelting and refining. These deductions are generally higher in base metals mines due to the semi-finished product, such as concentrate, often being produced at the mine site, when compared to precious metals mines, which produce a nearly-finished product on site.

Primary versus secondary royalties
Primary royalties are entered into between a royalty company and the property owner directly, where the property owner grants a royalty to the royalty company in return for one or more up-front cash payments from the royalty company. In contrast, secondary royalties are existing royalties that are acquired from a third party with no payment made to the owner of the underlying property.

Metal streams
A metal stream is an agreement that provides, in exchange for an upfront payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the stream.

Streams, whilst providing similar outcomes for Anglo Pacific, are not royalties because they do not constitute an interest in land and there is an ongoing cash payment required to purchase the physical metal. However, a stream holder is not ordinarily required to contribute towards operating or capital costs, nor environmental or reclamation liabilities.

See the Group's portfolio of assets ➡ pages 04 and 05

GROUP OVERVIEW

Our portfolio

11 principal royalty and streaming related assets over five continents. More than 86% of the portfolio by value is producing and 95% of the portfolio is located in well established mining jurisdictions.

Our 11 principal assets are split across three stages. Six are Producing, two are in Development and three are Early-stage

Our principal assets

How are our assets performing?
More on ➡ pages 25-36

Producing royalties

	Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
1	Kestrel	Coking coal	Rio Tinto	Australia	7 – 15% GRR[1]	Investment property
2	Narrabri	Thermal & PCI coal	Whitehaven Coal	Australia	1% GRR	Royalty intangible
3	McClean Lake Mill	Uranium	Denison Mines Inc./ AREVA / Cameco	Canada	Tolling revenue	Loan & royalty financial instrument
4	Maracás Menchen	Vanadium	Largo Resources	Brazil	2% NSR	Royalty intangible
5	El Valle-Boinás/Carlés ('EVBC')	Gold, copper & silver	Orvana Minerals	Spain	2.5 – 3% NSR[2]	Royalty financial instrument
6	Four Mile	Uranium	Quasar Resources	Australia	1% NSR	Royalty intangible

Development royalties

	Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
7	Salamanca	Uranium	Berkeley Energia	Spain	1% NSR	Royalty intangible
8	Groundhog	Anthracite	Atrum Coal	Canada	1% GRR or US$1.00/t	Royalty intangible

Early-stage royalties

	Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
9	Pilbara	Iron ore	BHP Billiton	Australia	1.5% GRR	Royalty intangible
10	Ring of Fire	Chromite	Cliffs Natural Resources	Canada	1% NSR	Royalty intangible
11	Dugbe 1	Gold	Hummingbird Resources	Liberia	2 – 2.5% NSR[3]	Royalty financial instrument

1. *Kestrel: 7% of the value up to A$100/tonne, 12.5% of the value over A$100/tonne and up to A$150/tonne, 15% thereafter.*
2. *EVBC: 2.5% escalates to 3% when the gold price is over US$1,100 per ounce.*
3. *Dugbe 1: 2% except where both the average gold price is above US$1,800 per ounce and sales of gold are less than 50,000 ounces, in which case it increases to 2.5% in respect of that quarter.*

GROUP OVERVIEW

Chairman's statement

12 months ago I reported that 2015 had seen the beginnings of a turnaround in the fortunes of Anglo Pacific. It is therefore extremely gratifying to now report that that turnaround has become a full scale recovery with a further doubling in royalty income from £8.7m to £19.7m and more significant growth anticipated in 2017.

2017 should be a year of continued organic growth for Anglo Pacific

W.M. Blyth
Chairman

Key results

Royalty income, up from £8.7m in 2015 to £19.7m

£19.7m

Basic and diluted earnings per share

15.60p

Basic and diluted adjusted earnings per share

9.76p

Upward revaluation of Kestrel

£17.9m

Our royalty income benefited from a range of factors in 2016. Mining at Kestrel returned increasingly to our royalty lands, a trend which will continue in 2017 and beyond. There was a recovery in commodity prices during 2016, notably for Anglo Pacific, in coking coal. While there was slippage in spot prices towards the end of the year, the average price achieved was still significantly ahead of 2015, and the EU referendum and subsequent sterling weakness also benefited our royalty income, all of which is either Australian, Canadian or US dollar denominated.

With operating expenses remaining broadly unchanged, this led to a six fold increase in operating profit, up from £2.1m in 2015 to £12.7m in 2016. Our results were, as usual, impacted by a number of revaluation adjustments and non-cash impairments, which this year resulted in a net credit of £10.9m (2015: charge £32.5m). The main driver for this turnaround was an upward revaluation of our Kestrel royalty of £17.9m due to the improvement in coking coal prices together with a favourable exchange rate movement. As a result, overall profit before tax was £28.3m compared to a loss of £30.5m in 2015. Basic and diluted earnings per share were 15.60p (2015: loss per share 14.06p). Stripping out these non-cash items, we present an adjusted earnings measure (refer to ➡ *note 11* to the accounts) which, we believe, more closely reflects the performance within management's control. On this basis adjusted earnings per share were 9.76p (2015: 2.47p).

Dividends

Twelve months ago we rebased our dividend levels to a minimum annual payment of 6p per share, while retaining our overall target of paying dividends of 65% of adjusted earnings. On an adjusted basis, our dividend cover for 2016 is 1.6 times and current projections suggest that we should be reviewing dividend levels upwards during the course of 2017. Those projections are, however, heavily dependent on commodity prices in general and coal prices in particular. The latter were subject to significant fluctuations during 2016 and we wish to have much greater certainty about how they perform during 2017 before committing to a sustainable dividend increase.

Royalty portfolio

Once again it is encouraging to note that all of the Group's royalties that were in production in 2015 remain in production and continue to generate royalty income. It is equally encouraging to see that all of those royalties, with the exception of El Valle which remained flat, increased their contributions and that our Four Mile royalty contributed for the first time. Payments from Narrabri and, in particular, Kestrel increased significantly. Both benefited from improvements in coal pricing while at Kestrel, mining was increasingly within our royalty lands. More detail of our royalty performance is shown on ➡ *pages 25 to 36.*

No major acquisitions were concluded last year but we did announce a financing and streaming arrangement with Denison Mines Corp. earlier in the current year. Further details on this transaction are given in the case study on ➡ *pages 10 and 11.*

The improved trading performance referred to above coupled with the additional firepower available to us through headroom under our refinanced revolving credit facility and the steadily increasing value of our share portfolio have enabled us to extend our investment criteria. As shown on ➡ *pages 16 and 17*, this now includes pre-production royalties, which, we believe, offer the opportunity of significantly higher returns, albeit some distance in the future. Our principal objective, however, will remain the acquisition of producing or near production royalty and streaming assets.

Board

There were no changes to the Board during 2016. We have collectively, I believe, all the skills and expertise necessary to drive the Company forward. As you will have noted, however, we recently announced that I will be stepping down as chairman at the conclusion of the forthcoming AGM and will be succeeded by Patrick Meier.

The Company is now extremely well positioned to take advantage of the renewed confidence within the mining sector and the opportunities that will provide. Patrick, with his extensive experience in investment banking in general and the mining sector in particular, is perfectly placed to lead the Company through the next stage in its development.

Our Strategic report

Our 2016 Strategic report, from ➡ *pages 08 to 43*, was reviewed and approved by the Board on March 29, 2017.

Outlook

2017 should be a year of continued organic growth for Anglo Pacific as production at Kestrel moves increasingly into our royalty lands and we receive our first contributions from the Denison financing arrangement. Much, however, will depend on how coal prices move during the year. In addition, as confidence returns to the mining sector, fresh opportunities should arise. We have shown our ability to be innovative and imaginative in our approach to the Denison opportunity and believe that approach will continue to bear fruit in the year ahead.

In conclusion, I should like to thank all Directors and staff for their continued diligence and hard work during the year.

On behalf of the Board

W.M. Blyth

Chairman

March 29, 2017

STRATEGIC REPORT

Chief Executive Officer's statement

I am pleased to report that royalty income grew strongly in 2016 and is expected to do so again this year. The result was strong growth in profits, dividend cover and net asset value.

J.A. Treger
Chief Executive Officer

Market outlook

The outlook for the mining sector has changed markedly over the past year, primarily due to a combination of Chinese production restrictions and improved macro-economic conditions. Whereas a year or so ago, people expected a negative macroeconomic environment, today the combination of supply restrictions and faster growth prospects has led to a much more optimistic outlook and a rapid rebound in equity prices. This also suggests that we are at the beginning of another multiyear cycle and that we need to accelerate our level of activities over the next year or two, as this should be a relatively favourable period to put capital to work in the sector.

With regards to the royalty and streaming markets, this about turn has significant implications. First, some of the very large bulk royalties we were working on during 2016 with the majors are unlikely now to materialise. The rebound in commodity prices is rapidly resulting in the deleveraging of their balance sheets so they have little need for further assistance and soon will be looking to expand again. There is still a lack of capital flowing to the sector and so there may be room in the coming mergers and acquisitions activity for royalty financing. However, more prospective is the mid-tier and development arena where the expected supply deficits as a result of consistent underinvestment in the sector should spur renewed investment in developing the next wave of projects for the future. We are, as a result, already seeing an uplift in activity and royalty financing opportunities for those seeking to engage in mergers and acquisitions or moving projects forward.

Coal outlook

Whilst we continue to diversify the portfolio away from Kestrel, coal, and in particular coking coal, continue to be a major area of exposure for your company. Whilst we suffered with lower coal prices in 2015, fortunately at a time when our share of Kestrel's production was also low, the recovery in coal pricing together with the growth in that share contributed significantly to our growth in 2016 and is expected to do the same this year. In that context, the outlook for coal continues to be important to us.

The coal price has seen significant volatility over the past year, driven largely by restrictions on Chinese production in the autumn. This was part of a general trend to reduce poor quality coal production and consumption in China to improve air quality. The impact of this reduction in supply increased the price of energy or thermal coal by around a third in H2. The effect on the rarer form of coal which Kestrel produces, namely coking coal, was even more extreme and the spot price tripled. Subsequently over the Chinese winter, the authorities relaxed their restrictions and the price of thermal coal dropped by 20%, with the spot price of coking coal almost halving. It is worth noting that coking coal prices nevertheless remain roughly double the level of a year ago.

Looking forward, we expect the direction of travel to remain unchanged i.e. continued Chinese volume reductions. It is possible that further restrictions will be imposed during Q2 after the Chinese winter which in turn will send prices back up. However, we are making much more conservative assumptions in our internal forecasts and assume prices average slightly less than current spot levels for the year. What is important is that the environment for coal has changed and prices are unlikely to return to their previous low levels.

Shareholders should note that we are well positioned in coal with royalties on modern mines in safe locations and exposure to high quality, cleaner coals.

Denison financing and streaming agreements

Though this transaction was announced early in 2017, we had been working on it for much of last year. As the case study presented on ➡ *pages 10 and 11* highlights, it is a transaction which should provide a stable long-term stream of income with some upside. Shareholders should expect to see the positive effects of the Denison transaction start to come through in our results from Q1 of this year.

Reflecting the different structure of the Denison transaction, where income will be derived in part from the repayment of debt, we are now introducing a new KPI in the form of cash generation which we believe will be a more accurate measure of progress going forward than earnings.

We expect to execute on further transactions in the year ahead, though the structure of the Denison transaction was a one off and future deals should be more in the form of traditional royalties and streams.

New strategy
Although our main focus will continue to be on immediately revenue producing royalties, we announced early in the year that we were broadening our investment mandate to include development royalties. These could take up to a decade to bring into development, should generate higher returns, given the development risk, and have the potential to increase in value significantly in the coming years. The size of these investments is unlikely to exceed US$20m and the intention is to fund them primarily from retained earnings.

Dividend
The recovery in our earnings has significantly improved our dividend cover and it is pleasing that this exceeded 1.6x last year. With further improvement expected this year, there should be scope for dividend increases on a prudent and progressive basis. However, the levels of our earnings are in turn driven by the price of coking coal and this has been extremely volatile of late. Barring a transformational large transaction which fundamentally alters this relationship, your Board therefore intends to await the outcome of the first half of the year before considering any alterations to dividend levels. Any new level of dividends announced needs to be a new base from which we can comfortably grow in the years ahead.

Taxation
Assisted in part by the disposal of our Isua royalty, announced with the year end results, we have created significant tax losses. These should reduce our tax charge in the coming year, more than we had previously indicated to the market. We also have significant capital losses, some of which were used to shield against our equity profits in the current period, and which hopefully will be utilised during this cycle.

Currencies
The weakening of sterling as a result of the EU referendum has had the effect of increasing our income and profits. In order to maintain this benefit, we have instituted a rolling hedging program over part of our income, hedging against the main currencies in which our income is denominated. As at year end, this program had generated £0.7m of additional income.

Central costs
Central costs continued to be well controlled. One of the virtues of the Anglo Pacific model is that overheads do not increase in line with income, providing additional operating leverage. This proved to be the case in 2016 where income slightly more than doubled but operating profits rose almost six fold.

Financial resources
We are pleased to have repaid significant amounts of our borrowings last year and took advantage of the Denison opportunity to renew our borrowing facilities and extend them. If we had not invested in Denison, we would have been debt free by the end of Q1 2017. With our much higher income levels, we expect the new debt assumed for Denison to be repaid in short order leaving our new facility available for new acquisitions. This, together with our equity portfolio and income, provides considerable firepower for new deals. We intend to be prudent with regards to debt levels, with the intention of not exceeding 2x free cash flow and generally operating well below this level.

Net assets and share price
The increase in net asset value per share to 124p after the payment of 6p of dividends during the year is good news for all shareholders. The share price has recovered along with the sector and provides us with a better currency to move forward. However, it continues to trade at a discount to what we consider to be the true net asset value, and gives no credit for those assets in our portfolio which we believe have increased in value considerably since we acquired them and which is not reflected on the balance sheet.

Our shares continue to provide a much higher dividend yield than our global peers and we hope that the process of rerating will continue during the year. We were gratified that approximately 20 new institutional investors joined the register with the Denison transaction and we welcome these new shareholders on board.

Board developments
I would like to take the opportunity to pay tribute to the chairmanship of Mike Blyth over the past few years. He has made a significant difference to the way the Company is run and governed, instigating a series of disciplines and controls which reflect best practice, and which should stand us in good stead for the years ahead. We are fortunate that he has decided to retain his presence on the Board.

I look forward to working closely with Patrick Meier in the years ahead to take the Company to a new level.

Outlook
In summary we have moved forward significantly over the past 12 months and are now in the fortunate position of having the resources to take advantage of being in the early stages of the upcycle. We expect this progress to continue during 2017, both from organic growth and new acquisitions.

J.A. Treger
Chief Executive Officer

March 29, 2017

STRATEGIC REPORT

McClean Lake Mill financing and streaming agreements

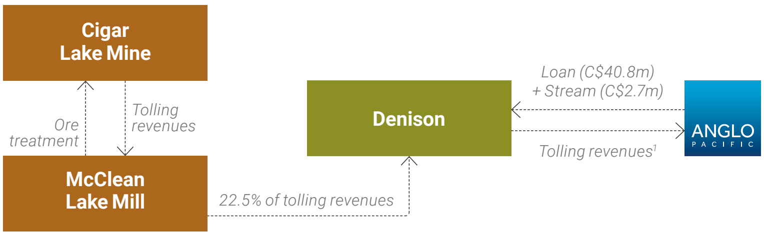
On February 13, 2017, the Group announced the completion of the C$43.5m financing and streaming agreements with the TSX-listed Denison Mines Corp. ('Denison').

Transaction highlights

- Anglo Pacific Group entered into a financing agreement related to the toll revenues generated from Denison's 22.5% ownership of McClean Lake Mill under a toll milling agreement for treatment of uranium from Cigar Lake ore.
- Total cash consideration of C$43.5 million (~£26.4 million) was structured as a:
  - C$40.8 million 13-year loan at an interest rate of 10%
  - C$2.7 million subsequent stream to take advantage of the upside from a potential Cigar Lake Phase II mine life extension
- Payment in respect of toll milling revenues was backdated to July 1, 2016.
- The McClean Lake Mill, operated by AREVA Resources Canada Inc, receives all of the output from the Tier 1 Cigar Lake uranium mine, operated by Cameco Corporation.
- According to the Cigar Lake Qualified Persons report[1], the mine is the world's highest grade uranium mine with an average ore grade above 18%, and has current published Proven Mineral Reserves and Probable Mineral Reserves of 221.6 Mlbs U_3O_8 making the deposit one of the largest in the world.
- Full production of 18.0 Mlbs per annum is expected by Cameco in 2017 and a remaining mine life of the deposit based on current Mineral Reserves of approximately 12 years.

1. Cigar Lake Operation Northern Saskatchewan, Canada. Cameco National Instrument 43-101 technical report (dated March 29, 2016)

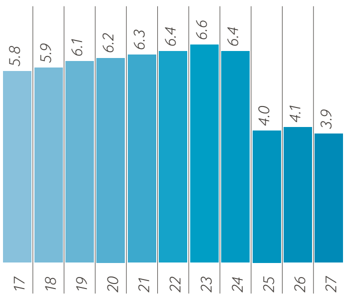
Transaction summary



1. Representing interest, mandatory prepayments or stream revenue

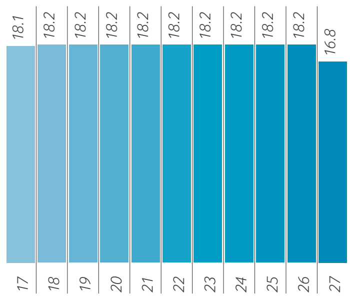
Stable production profile with upside potential

Toll Milling Revenues attributable to Denison[1] *(US$m)*



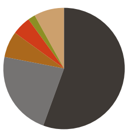
1. Cigar Lake Operation Northern Saskatchewan, Canada. Cameco National Instrument 43-101 technical report (dated March 29, 2016); forecast toll milling revenue adjusted for inflation at midpoint of Bank of Canada inflation target of 1-3%

Toll Milling Revenues attributable to Denison[1,2] *(mlb U_3O_8)*



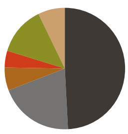
1. Phase 1 in the eastern area of the project with a 12 year mine life, is the focus of the current mine plan and includes 223.7 kt of Proven Reserves and 375.7 Mt of Probable Reserves
2. Mineral Resources are exclusive of Mineral Reserves

Further diversification of Group's portfolio of assets



Commodity exposure
Pre acquisition

Coking coal	55.7%
Thermal coal	22.5%
Iron ore	7.0%
Gold	4.9%
Uranium	1.9%
Other	8.0%



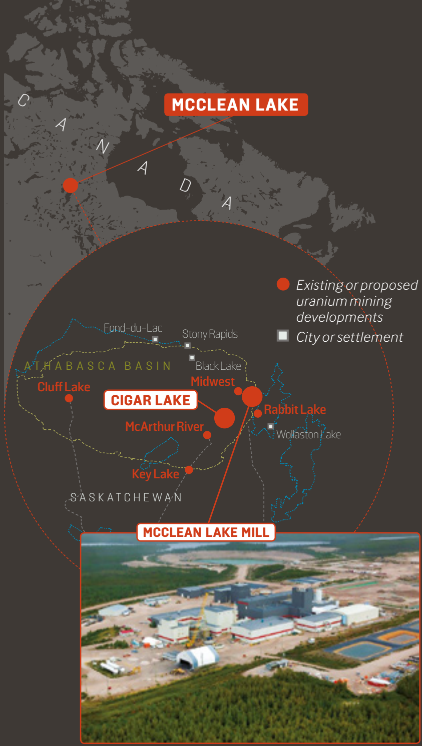
Commodity exposure
Post acquisition

Coking coal	49.4%
Thermal coal	19.9%
Iron ore	6.2%
Gold	4.4%
Uranium	13.0%
Other	7.1%

This transaction ticks all the boxes for Anglo Pacific and moves forward our growth and diversification in a material way

J.A. Treger
Chief Executive Officer

Established natural resources jurisdiction



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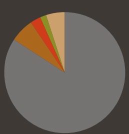
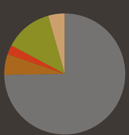
Diversification of geographic exposure



Geographic exposure
Pre acquisition

Australia	*84.4%*
Brazil	*6.2%*
Spain	*2.8%*
Canada	*1.8%*
Other	*4.8%*



Geographic exposure
Post acquisition

Australia	*74.9%*
Brazil	*5.5%*
Spain	*2.5%*
Canada	*12.8%*
Other	*4.3%*

Achieving our strategy

The completion of the McClean Lake Mill financing and streaming agreements demonstrates the Group's progress towards its aim of developing as the leading international diversified royalty company with a portfolio centred on income production based metals and bulk materials royalties and streams.

The financing and streaming agreements clearly satisfy the Group's stated investment criteria:

Established natural resources jurisdictions

- Established North American mining jurisdiction

Long-life, high-quality & low-cost asset

- 12 year reserve based mine life
- Underlying mine is the highest grade uranium operation globally, well positioned on the global uranium cost curve

Near-term producing assets

- The McClean Lake Mill is a producing asset with immediate cashflow generation and full production expected in 2017

Production & exploration upside potential

- Production upside potential from Cigar Lake Phase II mine life extension or mill capacity expansion

Strong operational management team

- Mine & mill operators amongst the world's largest publicly traded uranium companies

Diversification of royalty portfolio

- Further diversified asset base, commodity exposure and geography
- Growing exposure to non-carbon energy

In addition to satisfying the Group's investment criteria, the completion of the financing and streaming agreements was supported by a strong financial rationale:

- Immediately accretive to adjusted EPS and dividend cover
- Income backdated to July 1, 2016
- Toll milling revenue expected to provide stable cashflow base to Anglo Pacific's broader royalty portfolio
- Reduced commodity price risk given toll milling fees are inflation-linked and based on units of production

STRATEGIC REPORT

Market overview

2016 saw a marked recovery in market sentiment. The mining sector outperformed global markets following five straight years of underperformance as commodity prices recovered, balance sheets were recalibrated, and corporates trended toward increased cash flows and shareholder returns.

Commodity prices
as at 31 Dec for each calendar year

Coking coal *(US$/t)*

Thermal coal *(US$/t)*

The positive performance has continued into the first quarter of 2017 and that momentum is anticipated to be maintained for the remainder of the year. Despite this improving sentiment, the market remains cautious with regard to a second year of outperformance in light of slowing Chinese growth, global political instability and uncertainty of the impact of President Trump's economic policies.

Throughout 2016, equity values of miners globally rebounded in a manner reminiscent of the recoveries seen in 2009. Broadly, commentators are of the view that the multi-year commodity nadirs have passed and the sector as a whole may be at the beginning of another cycle. Commodity prices were pushed higher in part due to new fiscal support in China, reversing the deflationary conditions seen for the past two years. Additionally, improved economic performance in the US, Europe and Japan supported commodity price and equity recoveries.

The top performing commodity in the year was coal, with coking coal and thermal coal prices up 146% and 102% respectively. Restrictions in Chinese domestic coal supply and strong steel demand saw hard coking coal prices nearly quadruple to $310/t from January to November with thermal coal prices doubling to $110/t. With the restrictions relaxed in the second half of the year the prices have now eased off somewhat to around $150/t.

Industrial metals also performed well as supply met sustained demand and a perceived lack of investment during the downturn meant that supply deficits are widely anticipated. Copper prices ran from October rising to $2.50/lb by year end, an annual gain of 17%, as supply side concerns and stronger global demand positively impacted prices. Other top performing commodities included zinc (+86%), palladium (+52%) and lead (+44%).

Gold prices rallied for the first nine months of the year, reaching highs of $1,375 per ounce, but prices softened to $1,150 per ounce by year end due to a stronger US dollar and the Federal Reserve decision to raise interest rates in December.

The tough operating environment faced in 2014-15 has led to continued focus on cost optimisation, capital discipline, balance sheet strengthening and debt reduction. Companies focused on projects with higher returns on capital with greater optionality and flexibility across asset portfolios and improved cost curve positions. Dividend policies were revised by the majors in 2016 and several companies decided to suspend payments, certainly a signal of the low point in the cycle. A theme across the sector was to link dividend policies directly to earnings and cash flow within revised dividend policies.

Positive sector sentiment and rising commodity prices led to an increase in M&A volumes in 2016 despite the overall value of deals falling compared to the previous year. The diversified majors who typically drive acquisitions are still focused on portfolio realignment and balance sheet strengthening rather than acquisitions for future growth, with divestments still featuring in 2016. Junior and intermediate producers however did look to consolidate market share in the last 12 months, taking advantage of asset and corporate transactions which may not have been available under different operating environments.

The most targeted commodity continued to be gold and the most active geography was Canada. Capital raising saw a slight resurgence in 2016; global funds raised increased 9% year-on-year to $249 billion. Excluding China, corporate bond issuance fell, as did overall lending. Convertible bond issuance remained relatively flat and IPO activity was negligible. However, equity issuance volume and value saw an increase on 2015 levels. The upturn in commodity price environments across the board provided investors with greater confidence. Notwithstanding this, funding from equity markets remains significantly below pre-crash levels and therefore royalty and alternative financing remains an attractive and complementary source of capital for mining companies.

Looking to 2017, the sentiment towards the mining sector appears more positive than it has been for several years. Commentators broadly expect to see an uptick in M&A, as majors signal a potential end to their focus on divestments, and an increase in initial public offerings as commodity prices have firmed. It is expected that the majors will look to maintain efficient balance sheets and will enjoy enhanced cash flows having extensively reduced capex. They may look to spend on organic and inorganic development and exploration projects and this may increasingly be done by way of joint venture. The return of a sector wide focus on reserve and resource expansion may be of a higher priority now, and the return of growth to the sector in 2017 may require companies to look for additional capital to fund projects. As equity and debt financing return to favour, companies may look to balance these sources with alternative financing such as royalties and streams in order to ensure the long-term success of projects and create the capacity to return value to shareholders.

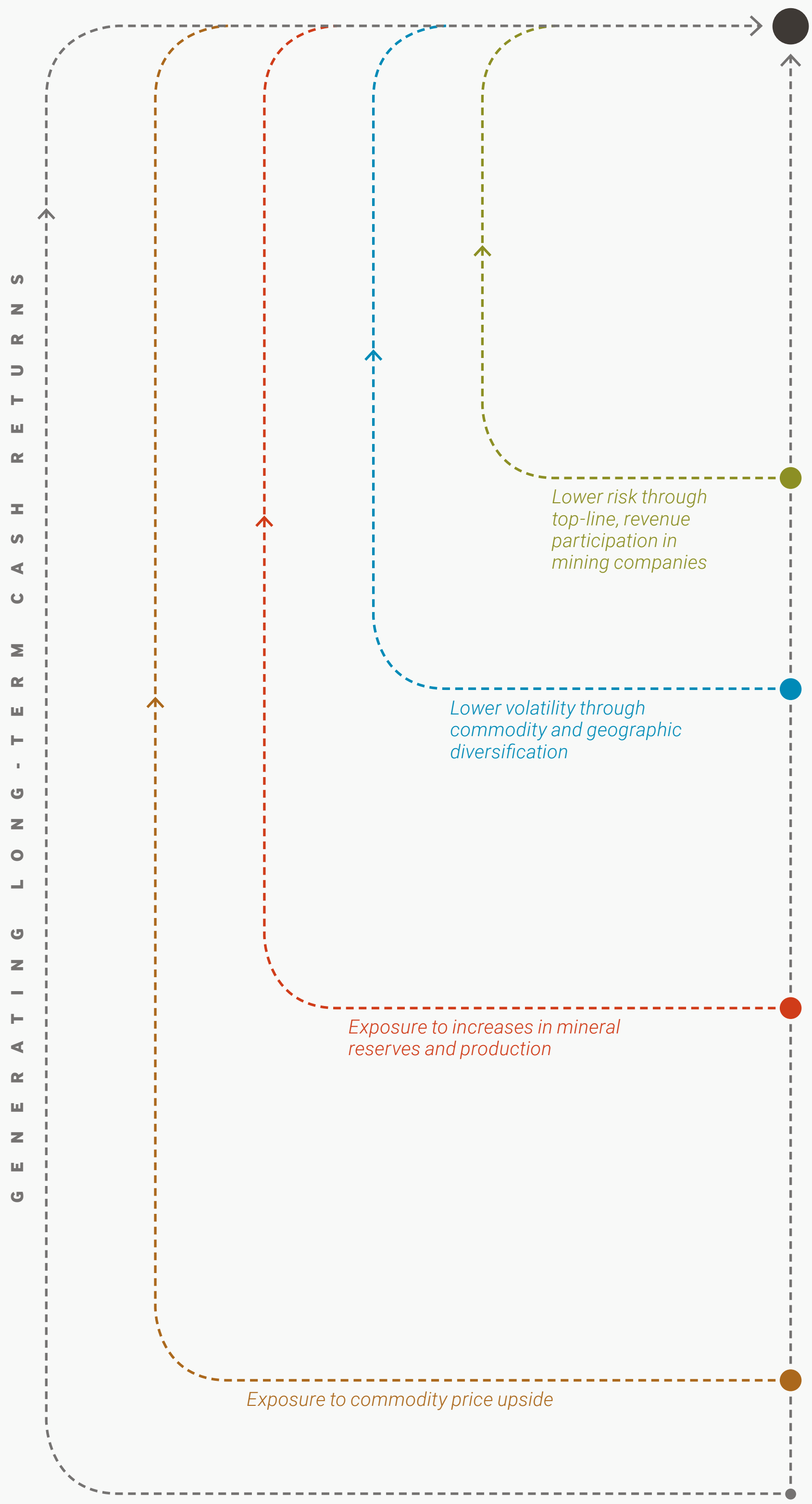
Gold *(US$/oz)*

Uranium *(US$/lbs)*

Vanadium *(US$/lbs)*

STRATEGIC REPORT

Our business model



Creating value for our shareholders

The Group is seeking to grow its portfolio of cash-generative royalties and streams by investing in producing or near-term producing assets with long mine lives. Given the relatively low overhead requirements of the business, the Group believes cash flow to shareholders can be maximised through economies of scale, which would allow for growth in the portfolio without significantly increasing our cost base.

Revenue-based royalties limit the Group's direct exposure to operating or capital cost inflation of the underlying mine operations, as there is no ongoing requirement for the Group to contribute to capital, exploration, environmental or other operating costs at mine sites.

The Group is seeking to build a diversified portfolio of royalties across a variety of different commodities and geographic locations. Investing in royalties across a wide spectrum of commodities and jurisdictions reduces the dependency on any one asset or location and any corresponding cyclicality. A fully diversified portfolio can help to reduce the level of income volatility, stabilising cash flows which contribute towards investment and dividend payments.

Royalty holders generally benefit from improvements made to the scale of a mining operation. Exploration success, or lower cut-off grades as a result of rising commodity prices, can serve to increase economic reserves and resources. Increased reserves will extend a mine's life, or facilitate an expansion of the existing operations. Any subsequent increases in production will generally result in higher royalty payments, without the requirement for the royalty holder to contribute to the cost of expanding or optimising the operation.

Royalties and streams provide exposure to underlying commodity prices. The Group expects to benefit from a rising commodity price environment, with the upside feeding through to increased royalty receipts.

Creating value for our counterparties

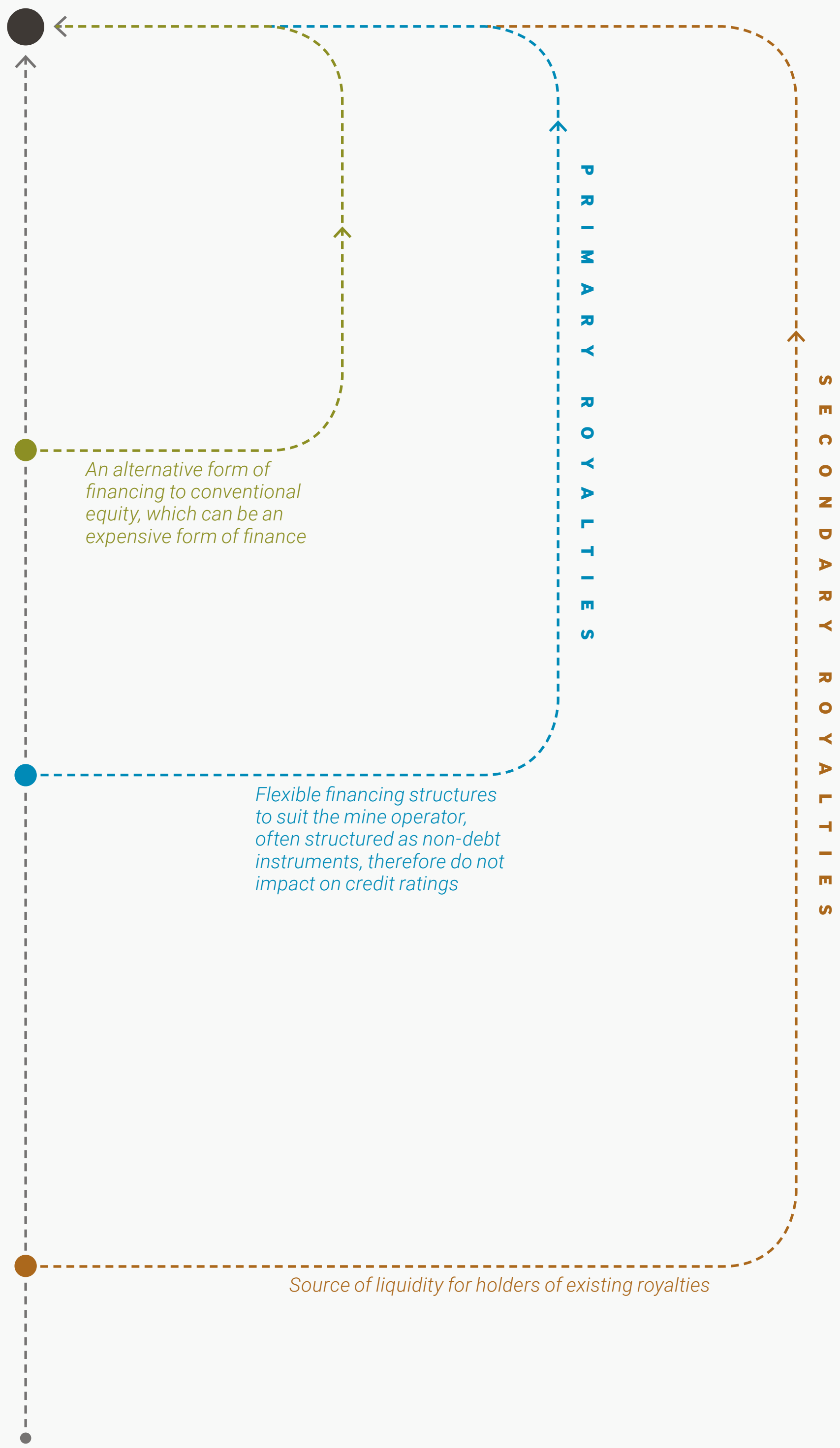
WE SERVE AS A PARTNER TO THE MINE OPERATOR

Royalties and streams reduce the upfront capital required to fund the development of a project. These are generally structured as asset (or even by-product) specific, often leaving the remaining assets of the operator unencumbered for raising additional finance.

Compared to the issuance of new equity, royalties and streams do not depend on the prevailing state of the capital markets but are rather the result of bilateral negotiations. The issuance of new equity can also serve to dilute existing shareholders, particularly during periods of depressed share prices. Furthermore, as royalties and streams are asset specific, the reduction in the upside for existing shareholders can be limited to a certain mine or product.

Royalties and streams do not typically levy interest, nor do they typically require principal repayments or have a maturity date. More importantly, unlike conventional debt arrangements where interest payments tend to start immediately or are capitalised until cash payments can be made from a project's cash flow, most royalties are payable only once the project comes into production and is generating sales. In addition, many forms of debt, such as project finance, include restrictive covenants and may require commodity price hedges to be put in place. These are not only typically costly in terms of fees, but can also limit the miner's exposure to upside in the prices of their core commodities.

The value of a royalty is realised over the duration of the mine life. Often royalty owners may have a need to free up cash in order to recycle capital. There is a limited secondary market for royalties and Anglo Pacific can be a source of valuable liquidity for private royalty holders.



STRATEGIC REPORT

Our strategy

During 2016, the Group continued to progress towards achieving its strategy and is pleased to have completed the Denison financing and streaming agreements in February 2017. The Group is currently evaluating a number of royalty and streaming opportunities against our disciplined investment criteria.

New strategy

Although income producing royalties remain our key focus, we will now selectively deploy modest amounts of capital on royalties which have the potential to offer superior returns albeit with some development risk.

Aim

To develop as the leading international diversified royalty company with a portfolio centred on income producing base metals and bulk materials royalties and streams.

Strategy

Achieving our aim through the acquisition of both primary and secondary royalties, together with metal streams.

Goal

Executing the strategy will result in additional cash producing royalties, a substantial proportion of whose cash flows will be paid to shareholders as dividends.

Criteria

Achieving our strategy through acquisitions which satisfy these criteria

- **Established natural resources jurisdictions**
- **Long-life assets**
- **High-quality and low-cost assets**
- **Near-term producing assets**
- **Production and exploration upside potential**
- **Strong operational management teams**
- **Diversification of royalty portfolio**

Established natural resources jurisdictions

The Group continues to review potential business opportunities globally and, in order to manage its risk profile, intends to focus predominantly on mines in established, relatively low-risk mining jurisdictions, primarily those in North America, South America, Europe and Australia. As at December 31, 2016, 95.2% of the Group's existing assets were based in such jurisdictions.

Long-life assets

Long mine life assets can provide long-term revenue, which in turn can contribute to ensuring that acquisitions to replace depleted royalties and maintain cash flows are not required on a regular basis. Three of the royalties in the Group's existing portfolio are over mines that have reserves of 20 years or more.

High-quality and low-cost assets

The Group is also focused on ensuring that new royalties are over high-quality and low-cost operations. This helps ensure longevity of cash flows by reducing the risk of mining operations ceasing to be economically viable. Within its existing portfolio, the Group has exposure to low cash cost assets in the Kestrel and Narrabri mines. Both Kestrel and Narrabri operate in the lowest quartile on the cost curve in comparison to similar mines.

Near-term producing assets

The Group is seeking to grow its royalty income beyond the existing organic growth profile of its current royalty portfolio by investing in producing or near-term producing assets.

Production and exploration upside potential

The Group seeks to acquire royalties where it may benefit from improvements made to the scale of mining operations. Any increases in production can result in higher royalty payments, without requiring the Group to contribute to the cost of expanding or optimising the operation. Royalties can also benefit from exploration successes that lead to enlarged economic reserves. Increased reserves can extend a mine's life or facilitate an expansion of the existing operations, potentially providing higher revenue over a longer period.

Strong operational management teams

Strong operational management teams are integral to delivering a successful project and to optimising the value of a mine and, therefore, a royalty or stream. The Group's current royalty portfolio includes mines operated by highly experienced management teams.

Diversification of royalty portfolio

The Group is seeking to build a diversified portfolio of royalties across a variety of different commodities and geographic locations to reduce dependency on its cornerstone royalty, Kestrel.

The Group's target portfolio would result in an increased exposure across various base metals and bulk materials. The Group may also selectively pursue royalties in energy commodities, such as uranium and oil and gas, as well as other commodities, such as platinum group metals and precious stones.

See our latest acquisition ➡ pages 10 and 11

STRATEGIC REPORT

Principal risks and uncertainties

Background

The Board, in conjunction with the Audit Committee, reviewed the Group's previous risk disclosures since the publication of the 2015 Annual Report and Accounts. Although risk is an area which is frequently considered by the Board, the latest review was performed against the backdrop of a much-improved outlook for commodities in particular and the sector in general. As such, the risks which have the potential to materially affect the Group's prospects now are likely to have a different weighting to those considered 12 months ago. In addition, an improved outlook for the sector, whilst positive for the Group's financial prospects, could result in less demand for royalty financing which would have a material impact on the Group's ability to execute its strategy. The table below presents the outcome of the Board's assessment of principal risks.

Risk appetite and viability

The Company is once again voluntarily complying with provision C2.2 of the 2014 Combined Code, which requires a statement on viability to be made in this report, including the determination and consideration of stress tested 'severe but plausible' scenarios. This analysis was performed for a three-year period, consistent with the Group's medium-term planning horizon and the term of its borrowing facility.

The viability statement, and underlying supporting papers, is intended to intertwine risk disclosure and going concern into a more meaningful discussion about the financial impact of principal risks. Risk can never be fully eliminated, but can be mitigated to a level which the Directors are prepared to accept as necessary to execute the Group's strategy.

Although the ultimate success of Anglo Pacific will depend on its ability to continue to add value enhancing royalties and streams to its portfolio, the focus of the viability statement is on the existing business of the Group and the ability of the current royalty portfolio to generate sufficient cash to meet the Group's outgoings, including the dividend. Under our 'severe but plausible' case, this results in the Group drawing down further on its borrowing facilities as income reduces. The Directors' risk appetite is therefore capped with reference to an acceptable and supportable level of borrowings relative to the Group's income profile over the next three years on a 'severe but plausible' basis.

Conclusion

The outcome of the Board's risk assessment resulted in the revisions to the principal risks detailed in the table below.

Taking into account the quantitative analysis performed around each risk identified above and having tested these scenarios under a 'severe but plausible' set of criteria, the Directors conclude that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

2016 ranking	*Risk*	*Category*	*2016 update*	*2015 ranking*
1	**Concentration risk associated with Kestrel**	Strategic	The Kestrel royalty is key to the Group's success and until such time that sufficient acquisitions are made to materially reduce the dependence on this asset. Any prolonged geological issues or an inability to produce at Kestrel would result in a significant loss of income to the Group. In addition, risk relating to government royalty rates, change of ownership or the economic viability of the mine could materially impact on the Group's prospects. The Group has limited means to alter or enhance the terms of or add any further level of protection to the royalty to mitigate the risk associated with Kestrel. The Board, however, takes assurances from the asset being located in Australia, governed by Australian law, operated by a world class miner and sufficiently low on the cost curve, which combined should reduce the risk associated with Kestrel.	***NEW RISK***
2 ↑	**That the Group fails to identify and acquire new royalty and streaming opportunities**	Strategic	Deal flow is crucial for Anglo Pacific due to the depleting nature of the Group's assets over the long-term and limited residual value. Although the recent strong performance of commodity prices has taken some pressure off larger mining companies, there remains a large section of the market which we believe is still experiencing capital constraints. As such, opportunities to acquire accretive royalties should still continue to exist. Furthermore, the Group will now pursue two investment strategies: core income generating royalties and development royalties. The latter has not been the focus for the Group whilst we have rebuilt our income, but we now intend to deploy modest sums into pre-production assets with a view to higher returns.	4
3 ↓	**Dependence on operators**	Operational	The Group has always been reliant on the mine operators for determining the correct royalty payable, providing information and production guidance and acknowledging the Group's rights as a royalty holder. Counterparty risk is relevant throughout the cycle although for different reasons. Towards the bottom of the cycle the risk of non-payment or operator survival is higher. At the other end of the cycle there is a greater chance of M&A activity and change of control, which could lead to an inferior operator taking control of projects or a new operator taking a different interpretation of the requirements under the royalty agreement.	2

2016 ranking	*Risk*	*Category*	*2016 update*	*2015 ranking*
4	**That the current portfolio will not generate sufficient cash**	Operational	Commodity prices recovered strongly in H2 16 which has improved the Group's financial prospects considerably. This is still a principal risk for the Group, although the direct impact between absolute levels of income and debt has subsided somewhat with the recovery in coal price and increased volumes at Kestrel. Even if the price of the Group's two principal commodities fell by 50%, the Group is forecasting full compliance with its financial covenants over the viability statement look out period, although it would have a higher refinancing risk.	1
5	**That the Group cannot finance royalty and streaming opportunities**	Strategic	With three fund raises behind it, the Group has demonstrated its ability to successfully finance royalty acquisitions. Equity markets are, by their nature, volatile and there can be no certainty that the Group will be able to successfully raise equity in the future. Equity will most likely be required as part of any large transformational deal, with the Group most likely to be able to use its balance sheet to fund smaller transactions.	5
6	**Development royalties fail to reach production**	Strategic	The Group will now consider royalties on operations which are not in production but have the potential to generate considerably higher returns. With higher returns comes a higher risk profile and there is a risk that those investments do not come into production and generate a return on investment. Although this risk cannot be mitigated in its entirety, management have exercised considerable discipline over the past few years in applying the Group's investment criteria as outlined as its core strategy. The Group will ensure any pre-production royalties satisfy our pre-defined investment criteria and we have a wealth of expertise, both at Board and management level, to identify those opportunities which have a greater likelihood of becoming successful investments.	NEW RISK
7	**That the reputation of coal will deteriorate and impact on its appeal as an investment proposition**	Strategic	This was a new risk added to the register in 2015 post the Paris climate accord when the sentiment toward fossil fuel extraction and consumption, including coal, deteriorated suddenly. Although the price of coal has recovered, and there has been recent M&A in the sector, it is still not clear that market sentiment has fully reversed. For Anglo Pacific specifically, we are aware that some European banks will no longer provide finance to the Group until we have further diversified away from coal (although non-coal co-investments could still be possible). This issue was not really encountered, nor provided any obstacle, in the recent equity raise. The Directors are supportive of cleaner energy, and note that the Group's royalties cover mines producing higher quality and lower polluting coal.	6
8	**That the Group fails to meet its obligations under its secured borrowing facility and is unable to refinance**	Operational	The ability to refinance is no longer as urgent as it was 12 months ago following the refinancing of the Group's borrowing facility until 2021. The risk associated with financial covenants has abated somewhat with the recovery in commodity prices in the past six months and the resulting impact on the Group's cash balances. Should leverage be deployed in a meaningful fashion in conjunction with an acquisition then this risk might heighten once again.	3

STRATEGIC REPORT

Principal risks and uncertainties

continued

Principal risks

OPERATIONAL

Risk	*Possible cause*	*Mitigation*	*Management comment*
Dependence on operators The Group depends on mine operators to correctly calculate royalties payable, to pay the royalty promptly when due, to provide information and guidance on the operator and to co-operate with any audit rights and requirements. In more extreme circumstances, the ability for the operation to remain economically viable is of upmost importance to the Group's financial prospects.	• Disputes over the quantum of royalty payable • Non-payment of royalty • Adhering to existing obligation under royalty contract in the case of a change of control	The best way the Group can mitigate against operator reliance is to continue diversifying its sources of income and reducing its reliance on any one operator. The Group has audit rights at several of its royalties which affords it the opportunity to challenge and verify royalty calculations.	For those royalties without audit rights, underlying royalty information and forecasts are often provided on a voluntary basis by the operator. As such, change of control at the Group's material assets could interfere with the systems and communication established over the years with the existing operators.
That the current portfolio will not generate sufficient cash The Group expects the current portfolio to generate a certain level of income, largely driven by increased mining at Kestrel within the Group's land and continued production upside at Narrabri.	• Further falls in commodity prices • Unexpected production issues at Kestrel and/or Narrabri • Reduction in Queensland royalty rate • Foreign exchange risk (discussed separately on ➡ *page 23)*	The Group has little ability to influence the quantum of royalties it receives post acquisition as it cannot readily and cheaply hedge its commodity exposure, nor can it influence the royalty rate. Detailed cash flow projections are prepared which include downside scenarios to understand the sensitivity of price and quantity assumptions for the Group's material assets.	The Group is exposed to commodity price volatility, although unlike mine operators its cost base is flexible and fully within its control.
That the Group fails to meets its obligations under its secured borrowing facility and is unable to refinance The Group's borrowings are secured and subject to certain financial covenants, the failing of which could impact on the ability of the Group to continue to run its business independently. The recent increases in coal prices enabled the Group to deleverage and, with dividend cover now re-established, the Group's leverage ratios should be much less sensitive to volatility in commodity prices.	• Breach of financial covenant associated with a reduction in royalty income or unexpected liabilities (via commodity price declines or production disruption) could result in the banks enforcing security	Detailed cash flow forecasts provide timely warning of any upcoming tightening of headroom under financial covenants. The Group has discretion over its cost base and has some further liquidity in its equity portfolio which could be monetised to reduce borrowings.	The Group cannot control or correct a severe production outage at Kestrel which could impact materially on covenant compliance.

STRATEGIC

Risk	Possible cause	Mitigation	Management comment
Concentration risk associated with Kestrel	• Kestrel accounted for over 65% of the Group's royalty income in 2016 and is likely to be the main source of revenue growth in 2017 • Any significant mining issues could result in considerable production disruption, impacting on the Group's expected cash flow • The royalty rate applicable to Kestrel is determined by the Queensland government and so any material downward revision to rates would directly impact on the Group • Change of control could result in disruption to royalty payments or processes • A material reduction in the coking coal price would impact on the level of income the Group expects to receive from the royalty	The Group has a good working relationship with the operator, Rio Tinto, and has received royalties from the operator consistently since 1992. The Group is also provided with production forecasts for the next four quarters which assists it in cash flow preparation, budgeting analysis and guiding the market. The map which Rio Tinto published at the beginning of 2016 showed for the first time the area covered by private royalty. This provided considerable assurance regarding the direction of mining, confirming our expectation that over 90% of production would be within our royalty land by the end of 2017. The map referred to above was published as part of a licence extension at Kestrel to obtain permitting beyond the currently approved mine plan. Although this will not impact on the Group as this area is outside our royalty area, it clearly demonstrates the economic viability of the operation. The Group could be impacted if Rio Tinto were to dispose of the mine as the Group would need to develop a relationship with a new counterparty which could result in some transitioning issues.	Ultimately, there is little that the Group can do to mitigate the dominant impact of Kestrel on the Group's prospects other than diversifying this through material and transformational royalty acquisitions, which is very much the focus of management.
That the Group fails to identify and acquire new royalty and streaming opportunities In order to execute its strategy, the Group needs to acquire further royalties. The success of this strategy will depend on the future demand for royalty financing as part of the financing mix in the sector.	• The recent recovery in commodity prices has shifted sentiment in the sector and eased the financial pressure on operators, making identifying royalty opportunities more difficult • Pricing competitiveness of royalties versus conventional sources of finance, particularly when the outlook for the sector is improving • Appetite of counterparties to relinquish operating margin in favour of restrictive debt or dilutive equity	Generally, demand for royalty financing is greater when the underlying market conditions are challenging. The past six months have seen considerable recovery in the sector which has resulted in a windfall for those with producing assets, which means there is likely to be reduced pressure for royalty financing. For operators not yet in production, the dynamic has not changed significantly and there remains high competition for capital, which should provide opportunities for the Group to add to its royalty portfolio. The Group also looks to acquire existing royalties, and these opportunities exist throughout the cycle.	There can be no guarantee that royalties will always be in demand throughout mining cycles. However, the Group has an extensive network of advisors and contacts globally, in addition to its own marketing initiatives, which provides a regular source of deal flow to appraise at any one time.

STRATEGIC REPORT

Principal risks and uncertainties

continued

Principal risks

continued

STRATEGIC

Risk	Possible cause	Mitigation	Management comment
That the Group cannot finance royalty and streaming opportunities There can be no certainty that the Group will have ready access to capital to finance royalty opportunities.	• Sudden adverse change in equity market conditions • The Group's cost of capital makes executing accretive deals more challenging • Production issues or significant price volatility could adversely impact on the Group's borrowing capacity	The Group demonstrated that royalty opportunities which meet its strict investment criteria, such as the Narrabri and Denison transactions, are capable of being financed. Management regularly meets both existing and potential investors and listens to any concerns or feedback with a view to future acquisitions. The Group remains in close dialogue with several institutions who are interested in co-investing in appropriate opportunities. This should significantly de-risk financing risk for larger transactions. The recent refinancing has reduced sole dependence on one bank which should provide greater financing capability.	There can be no guarantee market conditions will always be optimal for raising finance.
Development royalties fail to reach production Development royalties, by their nature, are exposed to greater risk than income producing royalties. Conversely, they offer the potential for higher returns.	• Unproven reserves/ resources • Geological/technical issues • Overspend/insolvency • Inexperienced management	The Group only intends to allocate a modest amount of capital, mainly retained income, to this asset class. As such, any failure will largely be immaterial. The Company has an experienced management team with in-house geological and finance experience to help identify those opportunities which represent the greatest chance of success.	Similar to production risk with the Group's existing royalties, risk around development royalties cannot be fully mitigated, although its impact is likely to be less detrimental due to the modest amounts likely to be invested.
That the reputation of coal will deteriorate and impact on its appeal as an investment proposition The coal industry has attracted considerable criticism in recent years as environmental lobbyists continue to exert pressure on the investment community not to support extractive industries. Although Anglo Pacific is not a coal operator, it continues to be considered akin to an indirect investment in coal.	• Climate change lobbyists continue to target the natural resource sector and coal producers in particular	Australian coal, on which the Group's Kestrel and Narrabri royalties are based, is generally regarded as low in ash and low in sulphur and much cleaner in nature. Anglo Pacific believes that the coal industry is beginning to promote cleaner, more sustainable coal which clearly has a place in future power solutions.	The Group's strategy is to build a diversified royalty portfolio which should naturally reduce the Group's exposure to coal going forward. The Directors continue to believe in the future of coal as both a power source and raw material, especially less polluting coal from mines such as Kestrel and Narrabri.

FINANCIAL

Risk	*Possible cause*	*Mitigation*	*Management comment*
Liquidity risk That the Group cannot meet all of its obligations as they fall due.	• Unexpected financial claim • Insufficient access to cash	The Group prepares regular cash flow projections which highlight all anticipated and probable expenses including routine overheads, tax and any capital commitments. The Group has sufficient headroom under its existing RCF and potential access to the capital markets to provide additional liquidity.	The Directors have carefully considered this risk in making a positive statement about going concern and viability.
Credit risk That there is a risk of default by those owing the Group money or those institutions holding the Group's cash reserves.	• Royalty payment default • Bank collapse	The Group operates controlled treasury policies which spreads the concentration of the Group's cash balances amongst separate financial institutions with sufficiently high credit ratings.	The risk of counterparty default is assessed when entering into new royalty agreements. The Directors are confident that the Kestrel and Narrabri royalties, which represent the majority of the Group's receivables, are at relatively low risk of default due to the nature of the operators involved.
Foreign exchange risk That foreign exchange movements adversely impact on the Group's cash flow projections.	• Cash flow risk associated with dollar derived income and costs (including dividend) largely payable in pounds • Translation risk of having a presentational currency in GBP but assets denominated in A$ • Financing risk when raising equity in GBP to fund dollar denominated acquisitions	The Board approved a currency hedging policy during the year which looks to protect a significant amount of the Group's next 12 month expected royalty income. Under the policy, the Group can hedge up to 70% of the next quarter's income, 60% of the second quarter followed by 30% and 25% thereafter.	The Group will always be exposed to foreign exchange risk on future acquisitions but has sought to commence a cash flow hedging programme for its current income producing assets.
Interest rate risk That an increase in interest rates could adversely impact on the Group's prospects.	• The Group is exposed to the US and UK LIBOR rate as part of its bank facility	The Group has a relatively low level of borrowings and, as such, interest rate risk is not considered material when assessing the Group's longer-term prospects.	Interest rates currently remain at historically low levels. There can be no guarantee that this will continue in the short to medium term which could impact on the cost of the Group's capital when acquiring future royalties.
Other pricing risk The Group's results are determined by other pricing inputs which could result in unrealised losses at each reporting date.	• The Group has a portfolio of certain publicly quoted equity investments which are marked to market at each reporting date • The Group's asset values are underpinned by the forward commodity price outlook at each reporting date. A decline in these prices could result in further impairment or revaluation charges	The Group's equity portfolio has largely been divested, meaning any future impairment should be much less material to the Group. The Group uses independent third party consensus prices at each reporting date in assessing for impairment.	The Group is exposed to commodity prices and a significant decrease in commodity prices is likely to result in further impairment charges. There is little the Directors can do to mitigate against this risk once a royalty has been acquired.

STRATEGIC REPORT

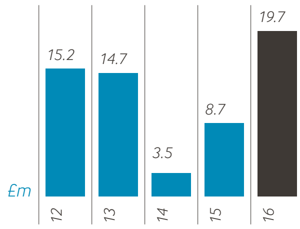
Measuring our progress

Key performance indicators

Royalty income *(£m)*

£19.7m

Royalty income reflects the revenue from the Group's underlying royalty and streaming assets on an accruals basis (refer to ➡ *note 4* for further details).

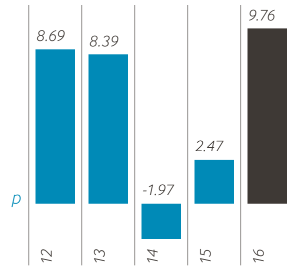


Adjusted earnings per share *(p)*

9.76p

Adjusted earnings per share reflects the profit which management is capable of influencing. It disregards any valuation movements, which reflect short-term commodity price fluctuations, impairments, amortisation and share-based payment expenses.

It also adjusts for any profits or losses which are realised from the sale of equity instruments within the mining and exploration interests as these are determined based on market forces outside the control of the Directors. Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share (refer to ➡ *note 11* for further details).

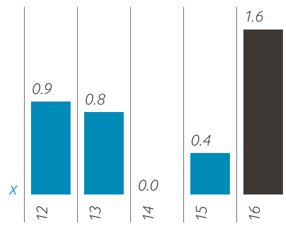


Dividend cover *(x)*

1.6x

It is a policy of the Group to pay a significant portion of its royalty income as dividends. Just as important as maintaining the dividend is maintaining the quality of the dividend. Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share (refer to ➡ *note 12* for further details).

In any period where there is an adjusted loss, the dividend cover will be reported as nil.

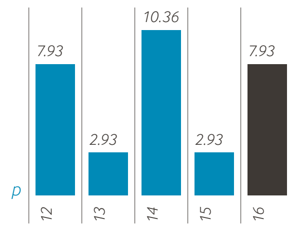


Free cash flow per share *(p)*

7.93p

The structure of a number of the Group's royalty financing arrangements, such as the Denison transaction completed in February 2017, result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. As the Group considers dividend cover based on the free cash flow generated by its assets, management have determined that free cash flow per share is a key performance indicator, going forward.

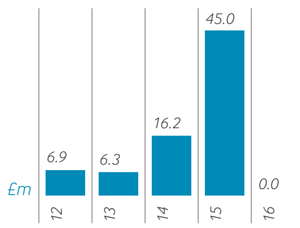
Free cash flow per share is calculated by dividing net cash generated from operating activities, plus proceeds from the disposal of non-core assets, less finance costs, by the weighted average number of shares in issue (refer to ➡ *note 33* for further details).

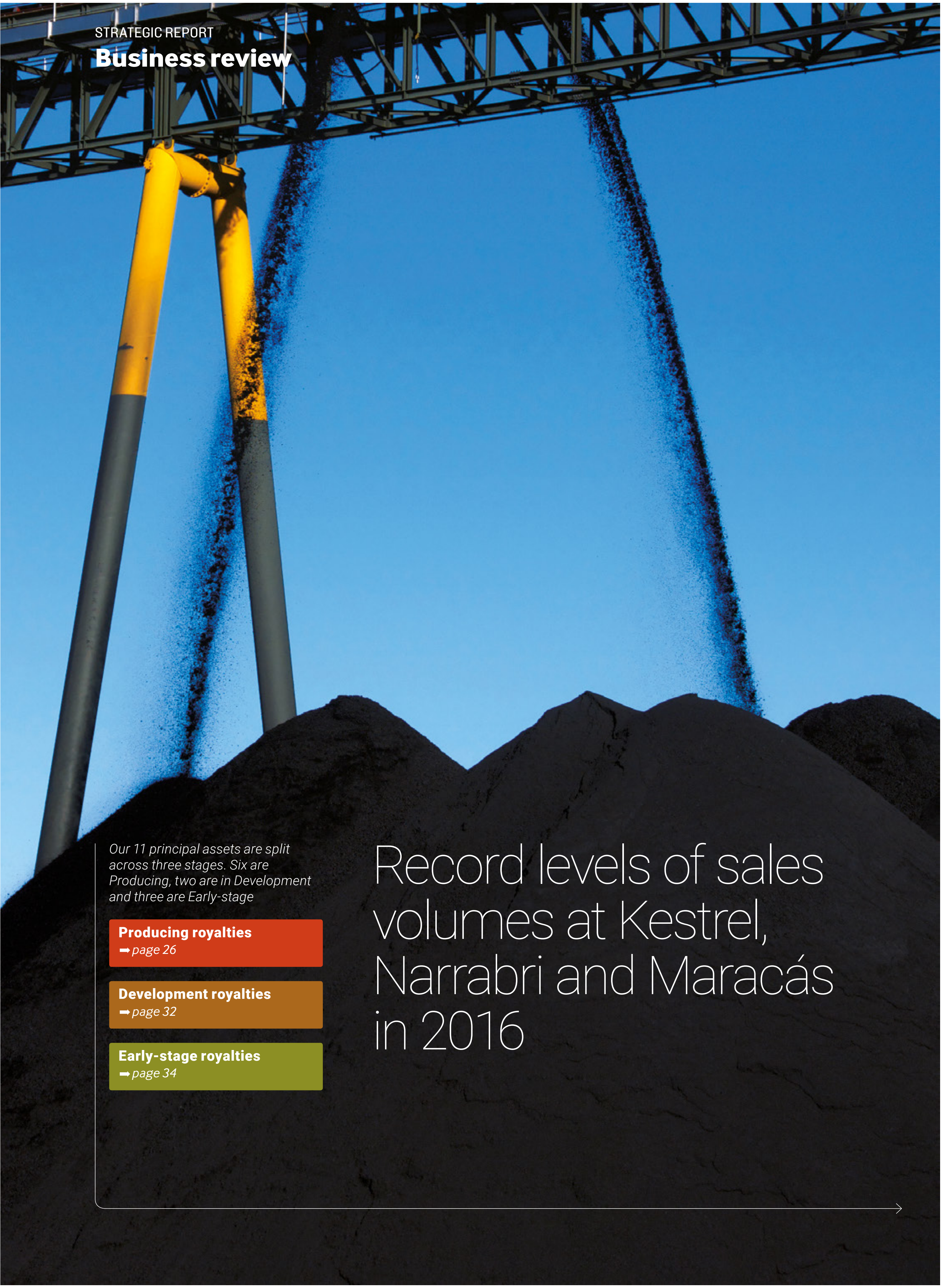


Royalty assets acquired *(£m)*

Nil

The Group's strategy is to acquire cash or near-cash producing royalties which will be accretive and in turn enable dividend growth. The chart opposite shows how much the Group invested in royalty acquisitions in each period.





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Our 11 principal assets are split across three stages. Six are Producing, two are in Development and three are Early-stage

Producing royalties
➡ *page 26*

Development royalties
➡ *page 32*

Early-stage royalties
➡ *page 34*

Record levels of sales volumes at Kestrel, Narrabri and Maracás in 2016

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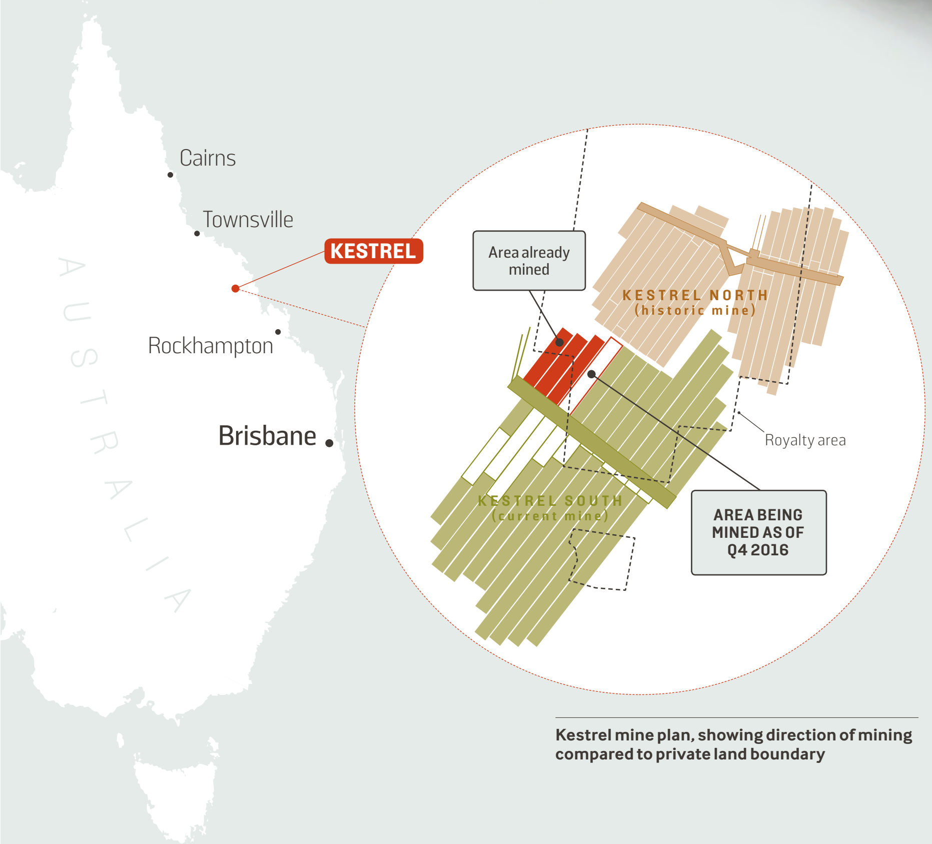
The significant growth in royalty income in 2016 was due primarily to increased Kestrel production within the Group's private royalty land and the weakening of the pound.



Kestrel mine plan, showing direction of mining compared to private land boundary

Producing royalties

Kestrel

Stage	Producing
Commodity	Coking coal
Operator	Rio Tinto
Location	Australia
Royalty rate and type	7 – 15% GRR
Balance sheet classification	Investment property

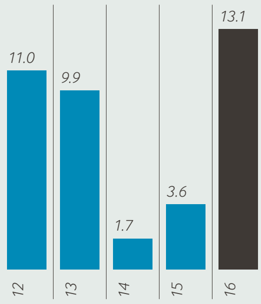
What we own

Kestrel is an underground coal mine located in the Bowen Basin, Queensland, Australia. It is operated by Rio Tinto Limited ('Rio Tinto'). The Group owns 50% of certain sub-stratum lands which, under Queensland law, entitle it to coal royalty receipts from the Kestrel mine.

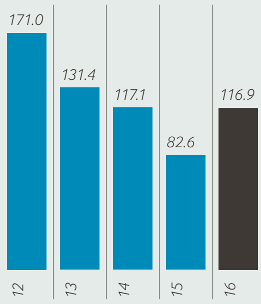
The royalty rate to which the Group is presently entitled is prescribed by the Queensland Mineral Resources Regulations. These regulations currently

The Group received royalty income of £13.1m from Kestrel during 2016, compared to £3.6m in 2015

Coal royalty income *(£m)*



Coal royalty valuation *(£m)*



stipulate that the basis of calculation is a three-tiered fixed percentage of the invoiced value of the coal as follows:

Average price per tonne for period		*Rate*
Up to and including A$100		*7%*
Over A$100 and up to and including A$150	*First A$100*	*7%*
	Balance	*12.5%*
More than A$150	*First A$100*	*7%*
	Next A$50	*12.5%*
	Balance	*15%*

Performance

The Group received royalty income of £13.1m from Kestrel during 2016, compared to £3.6m in 2015. The significant increase in royalty income in 2016 was due primarily to increased Kestrel production within the Group's private royalty land and the weakening of the pound during 2016.

In accordance with Anglo Pacific's Kestrel information rights, the Group estimates that 80-90% of mining at Kestrel will be within our royalty lands during 2017 (2016: 67%), increasing to over 90% from the end of 2017 for a period of ~8-9 years.

In addition to the percentage of production within the Group's private land increasing in 2016, the Group was encouraged by Rio Tinto's fourth quarter production announcement on January 17, 2017 which reported overall production from Kestrel of 4.9mt for 2016 compared to 4.1mt in 2015.

Valuation

The Kestrel royalty was independently valued at A$200.3m (£116.9m) and accounts for 46% of the Group's total assets as at December 31, 2016 (2015: A$167.7m; £82.6m; 42%). The increase in the valuation of Kestrel resulted in a gain of £17.9m (2015: loss £27.2m) on the income statement, together with a foreign currency translation gain of £16.3m (2015: loss £7.2m). The value of the land is calculated by reference to the discounted expected royalty income from mining activity, as described in ➡ *note 14*.

The independent valuation has been undertaken by a Competent Person in accordance with the Valmin Code (AusIMM, 2005), which provides guidelines for the preparation of independent expert valuation reports. The Group monitors the accuracy of this valuation by comparing the actual cash received to that forecasted.

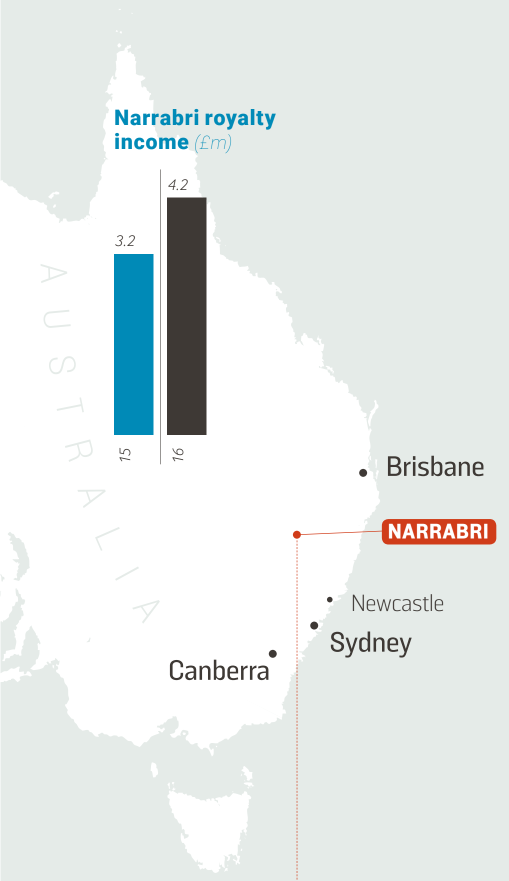
As the asset has a nominal cost base, the carrying value virtually represents the valuation surplus. The Group recognises a deferred tax provision against the valuation surplus and, as such, the net value on the balance sheet is £82.4m (2015: £58.3m).

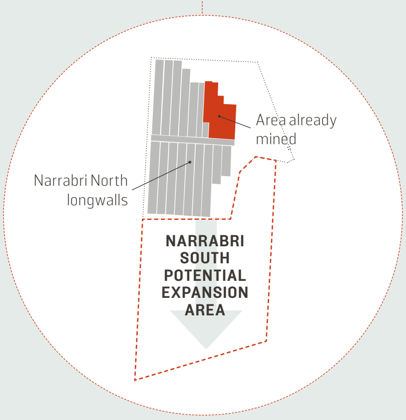
The increase in fair value is largely due to the recovery in coking coal consensus prices, combined with the translation benefit following the weakening of the pound during H2 16.

STRATEGIC REPORT

Business review

continued





Narrabri

Stage	**Producing**
Commodity	**Thermal & PCI coal**
Operator	**Whitehaven Coal**
Location	**Australia**
Royalty rate and type	**1% GRR**
Balance sheet classification	**Royalty intangible**

What we own

In March 2015, the Group acquired a royalty interest in the Narrabri coal project, a low cost thermal coal and pulverised coal injection ('PCI') coal mine located in New South Wales, Australia, operated by ASX-listed Whitehaven Coal Limited ('Whitehaven'). The Narrabri royalty entitles the Group to royalty payments equal to 1% of gross revenue on all coal produced from within the area covered by the Narrabri royalty. The Narrabri royalty includes the Narrabri mine, and the Narrabri South project.

The Narrabri mine has scope to materially increase production over the short and medium term. Whitehaven estimates Narrabri to have a reserve based mine life of 25 years, and the potential to extend production thereafter with the development of Narrabri South.

Performance

The Group received royalty income of £4.2m during 2016 from Narrabri compared to £3.2m the previous year.

Although the thermal coal price had a mixed year, production at Narrabri continued its impressive ramp up. In their FY 2016 (to June 30, 2016), Whitehaven announced that Narrabri produced 6.8mt run-of-mine ('ROM'), the top end of their guidance. They achieved 7.3mt of product, ahead of their previous guidance of 7.0-7.2mt. One of their key stated priorities at the time was to get the 400m wide longwall panel at Narrabri operational during FY 17.

The Narrabri mine has scope to materially increase production over the short and medium term

In 2016 Whitehaven have announced its intention to extend the Narrabri North longwall panels into the Narrabri South area in the near term

In their 2016 annual report, Whitehaven issued guidance of 8.0-8.3mt ROM for Narrabri, a significant increase on the 6.8mt achieved in FY 2016. On January 9, 2017 Whitehaven announced a revision to their guidance for FY 17 to 7.5-7.8mt. This was due to adverse geotechnical conditions at certain areas within the longwall panel. Despite this, and a period of wet weather, they remain on track to achieve their FY 17 saleable production guidance. The Group receives its royalty based on sales and not production.

Whitehaven remains on track to bring in the 400m wide longwall panel in the first half of 2017, and the surface infrastructure and electrical upgrades were completed on schedule.

On February 5, 2016, Whitehaven announced it intends to extend the Narrabri North longwall panels in the Narrabri South area, and that work to integrate Narrabri South into existing operations at Narrabri North had commenced. Drilling to convert Narrabri South Mineral Resources to Mineral Reserves is scheduled to occur during Whitehaven's fiscal year ending June 30, 2017.

Valuation

The Narrabri royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments and does not benefit from any valuation uplift resulting from the positive developments in the year, as described above. Its carrying value does, however, reflect the impact of translation from Australian dollars to pounds which, at the year-end, resulted in a favourable uplift. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

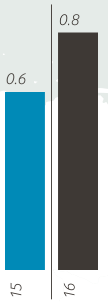
Maracás Menchen

Stage	**Producing**
Commodity	**Vanadium**
Operator	**Largo Resources**
Location	**Brazil**
Royalty rate and type	**2% NSR**
Balance sheet classification	**Royalty intangible**

What we own

The Group has a 2% NSR royalty on all mineral products sold from the area of the Maracás Menchen project to which the royalty interest relates. The project is located 250km south-west of the city of Salvador, the capital of Bahia State, Brazil and is 99.97% owned and operated by TSX listed Largo Resources Limited ('Largo').

Maracás royalty income *(£m)*



Performance

The Group received royalty income of £0.8m in 2016, an increase from the £0.6m it received in 2015, which was the first year of royalty revenue. Production ramp up was slower than envisaged at the time the Group acquired the royalty, not assisted by the pronounced decrease in the vanadium price during 2015 which persisted into the first half of 2016 and which will have impacted on the operator's cash flow profile.

Despite the weak vanadium price, and following a series of financings announced by Largo, production began to increase significantly from H2 15 onwards. Largo announced production of 600t of Vanadium in July 2015, increasing to 730t in April 2016, achieving a run rate of ~800t thereafter with a record month of 828t in December 2016.

This steady ramp up in production coincided with a recovery in the vanadium price in H2 16 which increased from $2.38/lb at the start of 2016 to reach $5.02/lb at December 31, 2016, and the Group's royalty income began to increase towards the end of 2016 accordingly.

Under the terms of the royalty sale agreement, the Group is required to pay a further US$1.5m once production reaches an annualised rate over a quarter of 9,500t. Given the production achieved in H2 16 by Largo, the Directors consider it probable that this production milestone will be achieved possibly in the next 18 to 24 months and as such the Group has recognised both an asset and corresponding liability for this additional payment, as set out in ➡ *note 26* to the financial statements. A further payment of US$1.5m would be payable if production reaches an annualised rate over a quarter of 12,000t. Based on the current guidance however, the Directors do not consider this probable and as such no liability has been recognised.

Valuation

The Maracás Menchen royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

The project is located 250km south-west of the city of Salvador, the capital of Bahia State, Brazil

The Group received royalty income of £0.8m in 2016, an increase from the £0.6m it received in 2015

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Business review

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El Valle-Boinás/ Carlés ('EVBC')

Stage	**Producing**
Commodity	**Gold, copper & silver**
Operator	**Orvana Minerals**
Location	**Spain**
Royalty rate and type	**2.5 – 3% NSR**
Balance sheet classification	**Royalty financial instrument**

What we own

The Group has a 2.5% life of mine NSR royalty on the EVBC gold, copper and silver mine owned by TSX-listed Orvana Minerals Corp ('Orvana'). EVBC is located in the Rio Narcea Gold Belt of northern Spain and was previously mined from 1997 to 2006 by Rio Narcea Gold Mines. The royalty rate increases to 3% when the gold price is over US$1,100 per ounce.

Performance

The Group received royalty income of £1.2m from EVBC during the past year. This compares to £1.2m received in 2015. EVBC has been one of the Group's most consistent royalties over the past few years.

Orvana acknowledged that EVBC produced a disappointing financial result in Q4 2016 (their Q1 FY 17). This resulted in overall production for the calendar year 2016 being some 20% lower than in 2015.

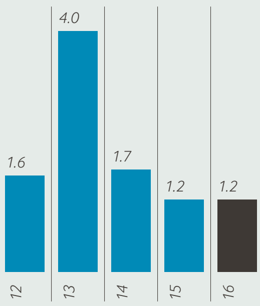
Orvana are determine to extract operational efficiencies at the mine by targeting higher grade oxide zones along with targeting a ramp up from the recommenced Carlés operation. They also intend to revisit the mine plan to transition away from zones with poor ground conditions which impacted on production in 2016.

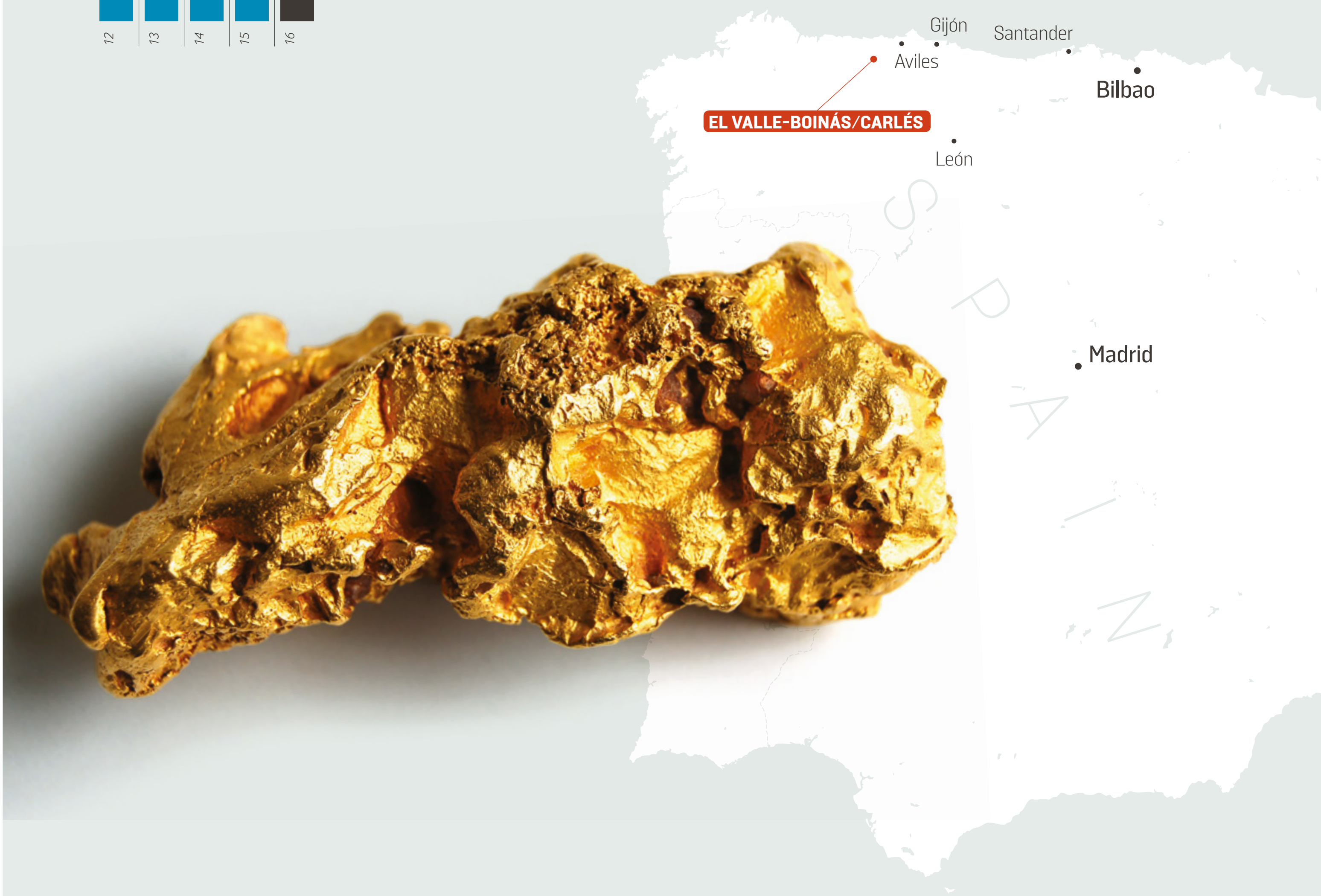
The strategy seems to be succeeding, as EVBC reached nameplate capacity of 2,000t per day in December 2016.

Valuation

The EVBC royalty is classified as an available-for-sale equity financial asset within royalty financial instruments on the balance sheet. As such, the asset is carried at fair value by reference to the discounted expected future cash flows over the life of the mine.

EVBC royalty income *(£m)*





Four Mile is operated by Quasar Resources Pty Ltd ('Quasar')

The key benefit of this royalty should accrue when Quasar enters into longer-term supply contracts which achieve higher pricing levels

Four Mile

Stage	**Producing**
Commodity	**Uranium**
Operator	**Quasar Resources**
Location	**Australia**
Royalty rate and type	**1% NSR**
Balance sheet classification	**Royalty intangible**

What we own

The Group has a 1% life of mine NSR royalty on the Four Mile uranium mine in South Australia. Four Mile is operated by Quasar Resources Pty Ltd ('Quasar').

Performance

Total royalty income was £0.3m with maiden royalty receipts of £0.1m from Four Mile in February 2016, following the commencement of sales by Quasar. Although royalties to date have not been to the level the Group was expecting, due to lower sales volumes and higher deductions – which the Group are currently disputing – the key benefit of this royalty should accrue when Quasar enters into supply contracts which achieve higher pricing levels.

Valuation

The Four Mile royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

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continued

Development royalties

Salamanca

Stage	**Development**
Commodity	**Uranium**
Operator	**Berkeley Energia**
Location	**Spain**
Royalty rate and type	**1% NSR**
Balance sheet classification	**Royalty intangible**

What we own

The Group has a 1% life of mine NSR royalty on the Salamanca uranium project located in Spain and operated by ASX-listed Berkeley Energia Limited ('Berkeley'). The project consists of four main deposits (Retortillo, Alameda, Zona 7 and Gambuta) and is located in the Salamanca Province, Spain, approximately 250km west of Madrid.

Performance

Berkeley had a very eventful and successful 2016 which saw them build on the progress they made in 2015 by raising finance during the year to fund construction.

On January 31, 2017, Berkeley announced its fourth quarter update in which it reported an oversubscribed $30m equity raise, signing of an off-take agreement and continued to develop the infrastructure required to construct the mine. They appear on track to complete the construction of the mine during 2017 which, if completed, should bring forward the start date for the commencement of our royalty.

In addition to having a royalty over the Salamanca project, Anglo Pacific is also a large shareholder in the company and currently holds just over 9%. The value of this investment increased considerably over the course of the year and the Group took the opportunity to realise a modest amount of cash from this position. We were pleased to see the successful fundraisings undertaken in 2016 which clearly demonstrates considerable support for the project and has increased liquidity in the stock.

We were also pleased to see the announcement on June 8, 2016 that Berkeley had entered into a financing agreement with Resource Capital Funds (RCF), which included a further 0.375% royalty on the project for US$5m. This would imply a fair value of $13.3m for the Group's 1% royalty. Anglo Pacific paid A$4.1m for the royalty a number of years ago, which implies that the value of the Group's royalty, which is not reflected on our balance sheet, is considerably higher.

Valuation

The Salamanca royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

Located in the Salamanca Province, Spain, approximately 250km west of Madrid

Berkeley had a very eventful and successful 2016 which saw them build on the progress they made in 2015

The Groundhog anthracite project is located in north-west British Columbia, Canada

An underground project capable of producing 880ktpa of ultra-high grade anthracite over a mine life of 28 yrs

Groundhog

Stage	**Development**
Commodity	**Anthracite**
Operator	**Atrum Coal**
Location	**Canada**
Royalty rate and type	**1% GRR or US$1.00/t**
Balance sheet classification	**Royalty intangible**

What we own

The Group retained a royalty on the Groundhog anthracite project located in north-west British Columbia, Canada, following its disposal of the related mining licences in 2014 to the project's operator, ASX-listed Atrum Coal Limited ('Atrum'). The royalty entitled the Group to the higher of 1% of gross revenue on a mine gate basis or US$1.00/t from coal sales derived from the Panorama licences. Following a series of discussions during 2016, an agreement was reached to settle amounts outstanding under a promissory note in return for additional royalties as follows:

0.5% GRR covering all production within Atrum's Groundhog Anthracite Project ('Groundhog') tenements from first production until ten years from the date that Atrum declares commercial production on the project; and subsequently

0.1% GRR from production within the Groundhog North Mining Complex project area.

Performance

On June 9, 2016, Atrum announced a revised PFS which outlined an underground project capable of producing 880ktpa of ultra-high grade anthracite over a mine life of 28 years.

Atrum published its key objectives for 2017 on February 14, 2017 which targets a small mine permit to enable them to produce up to 250kt from Groundhog per annum.

Valuation

The Groundhog royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

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Early-stage royalties

Ring of Fire

Stage	Early-stage
Commodity	Chromite
Operator	Cliffs Natural Resources
Location	Canada
Royalty rate and type	1% NSR
Balance sheet classification	Royalty intangible

What we own

The Group has a 1% life of mine NSR royalty over a number of claims on the Black Thor, Black Label and Big Daddy chromite deposits, owned by TSX-listed Noront Resources Limited ('Noront'), in the Ring of Fire region of Northern Ontario, Canada.

Performance

The projects which Noront intend to develop require considerable capital expenditure to be invested along with co-operation from local government and native land owners, all of which will take time. On September 29, 2016 Noront announced that the Premier of Ontario was targeting commencing road work access to the region beginning in 2018. Although this will not directly benefit the underlying licences which the Group has a royalty over, the commencement of infrastructure works will mark a significant event in progressing the asset towards production.

In the meantime, the price of chromite increased fourfold in 2016, which continued to underpin the carrying value of the royalty on the Group's balance sheet.

Valuation

The Ring of Fire royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

Pilbara

Stage	**Early-stage**
Commodity	**Iron ore**
Operator	**BHP Billiton**
Location	**Australia**
Royalty rate and type	**1.5% GRR**
Balance sheet classification	**Royalty intangible**

What we own

The Group has a 1.5% life of mine GRR over three exploration tenements in the central Pilbara region of Western Australia, owned by a wholly-owned subsidiary of BHP Billiton Limited ('BHP Billiton'), which is dual-listed on the LSE and ASX.

The tenements, covering 263km^2, host a number of known iron occurrences, including the Railway deposit. The tenements are supported by extensive rail infrastructure including the rail lines from Rio Tinto's West Angelas and Yandicoogina mines and BHP Billiton's rail line serving its current operations at Mining Area C, which lie immediately to the east of the Railway deposit.

Performance

The Pilbara royalties are over undeveloped tenements of BHP Billiton's iron ore operations in Western Australia. The Group was encouraged that BHP approached the Company in 2016 to seek certain consents to advance the tenements towards planning, an indication that BHP is moving this asset towards production.

Valuation

The Pilbara royalty is classified as a royalty intangible asset on the balance sheet. As such, this asset is carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.

BHP approached the Company in 2016 to seek certain consents to advance the tenements towards planning

Strong indications that BHP is moving this asset towards production

Dugbe 1

Stage	**Early-stage**
Commodity	**Gold**
Operator	**Hummingbird Resources**
Location	**Liberia**
Royalty rate and type	**2 – 2.5% NSR**
Balance sheet classification	**Royalty financial instrument**

What we own

The Group entered into a royalty financing agreement with AIM-listed Hummingbird Resources PLC ('Hummingbird') in December 2012 in relation to its Dugbe 1 gold project in Liberia. In exchange for US$15.0m, payable in three tranches of US$5.0m, the Group is entitled to a 2% life of mine NSR royalty from any sales of gold mined within a 20km radius of a specified point in the Dugbe 1 Resource.

Performance

Due to limited progress during the year, and Hummingbird's short-term focus on its Yanfolila project in Mali, the Group extended the likely start date of the Dugbe 1 project. This resulted in the net present value no longer exceeding cost and a fair value adjustment was recorded in the income statement.

Valuation

The Dugbe 1 royalty is classified as an available-for-sale debt financial asset within royalty financial instruments on the balance sheet. As such, the asset is carried at fair value by reference to the discounted expected future cash flows over the life of the mine.

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Business review

continued

Amapá

Commodity	Iron ore
Operator	Zamin Ferrous
Location	Brazil
Royalty rate and type	1% GRR
Balance sheet classification	Royalty intangible

What we own

Amapá

The Group has a 1% life of mine GRR on all iron ore and other non-precious minerals produced from the Amapá Iron Ore System ('Amapá') in northern Brazil, owned and operated by Zamin Ferrous Limited ('Zamin'). Amapá consists of the mine in Pedra Branca do Amapári and the port in Santana, which are linked by a railway. The mine has not resumed commercial production since it was suspended in mid-2013 following the port incident. Prior to production being suspended it was producing a mix of sinter feed, pellet feed and spiral concentrates.

Performance

Production at Amapá has been suspended since 2013 following a major port incident. The mine's operator, Zamin, had previously indicated that attempts were being made to restructure its finances in order to fund the rebuilding of the port facilities, however, in 2016 the Directors understand that Zamin has filed for bankruptcy protection in Brazil.

Valuation

The Directors have assessed the timing of Amapá returning to commercial production as being indeterminable and have recognised an impairment charge of £2.0m at the year end. Following the impairment charges recognised during the year and taking into account movements in foreign exchange, the residual carrying value was £nil as at December 31, 2016 (2015: £1.8m).

Jogjakarta

Stage	Early-stage
Commodity	Iron Sands
Operator	Indo Mines
Location	Indonesia
Royalty rate and type	1 - 2% NSR
Balance sheet classification	Royalty financial instrument

What we own

The Group has a 1% life of mine NSR royalty on the Jogjakarta iron sands project operated by ASX-listed Indo Mines Limited ('Indo Mines'). Until the project reaches commercial product, the Group receives 8% interest on the initial advance of US$4.0m in perpetuity. Upon entering commercial production the NSR royalty is calculated at 2% until the initial advance of U$4.0m is repaid. The NSR royalty remains at 2% where the pig iron price is more than US$700/t.

Performance

Indo Mines continued a program of quantitative test work on the quality of the iron concentrates produced from their test plant throughout 2016. On February 6, 2017, the Group entered into a deed of variation with Indo Mines agreeing to defer 70% of the interest due for the period September 1, 2016 to March 31, 2017 until June 30, 2017 to assist Indo in managing their cash flows position.

The Group noted that Indo Mines applied for a voluntary suspension from the ASX pending the finalisation and lodging of their December 31, 2016 half yearly accounts on March 17, 2017. Indo Mines announced that they were in the process of finalising two transaction, the first relating to the sale of their 51% share in a cash generating subsidiary and the second relating to the issuance of a quasi-debt instrument for between US$20.0 – US$24.0m would provide the necessary funding to bring the project into commercial production, along with repaying the US$4.0m advance provided by the Group.

Valuation

The Jogjakarta royalty interest is accounted for as an available-for-sale debt instrument at fair value, calculated on a discounted future cash flow basis using a market rate of interest to give a carrying value at December 31, 2016 of £3.2m (US$4.0m).

Financial review

The Group's financial position and prospects improved considerably during 2016, building on the growth which we had already experienced in 2015. This is the second year in a row in which we report noticeable increases in royalty income, and this resulted in the Group achieving dividend cover for 2016, the first time since 2011, as well as becoming debt free at the end of January, prior to the Denison financing transaction. With further growth in royalty revenue expected in 2017, the Group is in a strong financial position to grow its asset base and continue to reward shareholders through a progressive dividend policy.

Income statement

The combination of an increase in mining within the Group's royalty land at Kestrel along with the weakening of the pound following the EU referendum had the largest impact on the Group's earnings in 2016. The impact of much higher coal prices in Q4 16 ensured a very strong finish to the year.

	2016 £'000		*2015 £'000*
Royalty income	19,705	*127%*	8,683
Operating expenses – excluding share-based payments *(➡ see page 38)*	(3,327)	*3%*	(3,220)
Finance costs	(1,086)	*(73%)*	(629)
Finance income	2,347	*230%*	712
Other income *(➡ see page 39)*	309	*(26%)*	416
Tax *(➡ see page 39)*	(1,454)	*(27%)*	(1,994)
Adjusted earnings	16,494	*316%*	3,968
Weighted average number of shares ('000)	169,016		160,512
	9.76p	***295%***	2.47p

The Group continued to keep its cost base in line with the previous year, despite a significant increase in revenue. The benefit of the weaker pound, particularly in H2 16, led to considerable realised currency gains during 2016. All of this combined to produce earnings per share for the year of 15.60p and adjusted earnings per share of 9.76p. On the adjusted metric, the Group's dividend cover was 1.6x.

Royalty income

	2016 £'000		*2015 £'000*		*2014 £'000*
Kestrel	13,134	*263%*	3,614	*118%*	1,657
Narrabri	4,243	*32%*	3,217		-
EVBC	1,223	*(2%)*	1,246	*(24%)*	1,650
Maracas Menchen	791	*31%*	606		-
Four Mile	314		-		-
Recurring royalty income	19,705	*127%*	8,683	*163%*	3,307
Other	-		-		174
Total royalty income	19,705	*127%*	8,683	*149%*	3,481

Royalty income increased by 127% to £19.7m in the year, from £8.7m in 2015 and a world apart from the £3.5m earned in 2014. The reason for the growth in royalty income year on year since 2014 is largely due to the previously mentioned combination of higher sales volumes from Kestrel in 2016 and a greater proportion of this being within Anglo Pacific's royalty land.

Kestrel

Overall production from Kestrel in 2016 was 4.9mt compared with 4.1mt in 2015, a 19.5% increase in volume. Of greater significance to the Group's earnings was that the percentage of sales attributable to the Group's royalty land increased significantly, in line with our previous guidance and expectations.

In total, 67% of all sales from Kestrel in 2016 were from coal mined within our land, an increase on the 49% in 2015. The map included on *➡ page 26*. illustrates the direction of mining at the Kestrel South mine, and adds colour as to why the Group's income has been so volatile over the past three years. However, the map also illustrates why we believe that 2017 will show further growth for the Group as, save for a period in Q1 2017, we expect virtually all mining to be within our land for the foreseeable future. Our guidance for 2017 is for 80-90% of production to be within our land, and 90% thereafter.

Although Anglo Pacific attributable volume is the key driver of revenue growth at Kestrel, there are three other factors worth mentioning. Firstly, the prices which we realised from Kestrel were largely flat from 2015 levels up until Q4 2016 when the coking coal priced spiked suddenly from US$89t in Q3 2016 to $200t in Q4 2016. Although this level of pricing only relates to one quarter of income in 2016 it did provide a significant boost to our end of year income. Secondly, and a knock-on effect of the price increase, is that with the higher coal price, the highest royalty rate will apply due to a ratchet mechanism as outlined on *➡ page 27*. The more than doubling of the coal price for the final quarter ensured a greater portion of sales was attracting the highest royalty rate. This led to royalty revenue for Q4 16 being the fourth highest quarterly coal royalty received by Anglo Pacific in Australian dollar terms. Finally, the weakening of the pound, following the EU referendum and as discussed further below, meant that the Group was translating its Australian dollar revenue at more favourable rates throughout 2016.

All of this resulted in income from Kestrel increasing by 262% to £13.1m in the year, compared to £3.6m in 2015.

STRATEGIC REPORT

Financial review

Narrabri

Narrabri also contributed strongly to the Group's increase in earnings in 2016 generating income of £4.2m, an increase of 32% on the £3.2m earned in 2015. This increase has also been driven largely by favourable movements in coal price and foreign exchange rates. Sales by Whitehaven in 2016 were 7.8mt, slightly ahead of 7.6mt in 2015.

Similar to Kestrel, revenue from Narrabri also benefited from a sharp and sudden increase in coal prices in the final quarter of 2016, whereas prices had been falling throughout the first six months of the year. The implied average price received by the Group was ~10% higher than the previous year. The remainder of the increase is attributable to the benefit of translating Australian dollar revenue into pounds at a more favourable exchange rate following the weakening of the pound subsequent to the EU referendum.

Details on guidance for Narrabri are discussed in more detail on ➡ *page 28*, explaining why the Group expects further growth in royalty income in 2017.

EVBC

EVBC continues to be a consistent performer for the Group, generating revenue of £1.2m in 2016, which is 6% lower than 2015. The operator, Orvana Minerals ('Orvana'), does not publish specific sales information in relation to individual mines. They do, however, provide production information. Overall, production was approximately 21% lower in calendar year 2016 at 41,513oz gold, 130,301oz silver and 3.9mlbs copper. Their guidance for their fiscal year ending on September 30, 2017 shows anticipated increases to 50-55,000oz gold, 170-200,000oz silver and 6-6.5mlbs of copper, which would represent a significant uplift from 2016.

The average price for each commodity had mixed fortunes in 2016, with copper down 11.6%, gold up 7.6% and silver up 8.9%. Again, the Group's revenue benefited from translating the Canadian dollars it receives into pounds at a much more favourable exchange rate subsequent to the EU referendum.

Maracás

Income from Maracás increased by 29% in the period to just under £0.8m. The increase was largely attributable to sales volumes increasing significantly during the year as Largo reported very strong production numbers in H2 2016. Production increased from 630t in July to 828t in December 2016.

Strong sales numbers in H2 16 coincided with a recovery in the price of vanadium, which ended the year at $5.02/lb, more than double the level of $2.38/lb at the end of 2015.

Four Mile

Royalties from Four Mile commenced during 2016, although at a very low level. We have been disappointed with the level of deductions which the operator, Quasar Resources ('Quasar'), a subsidiary of Heathgate Resources (themselves a division of General Atomic), have applied in determining the royalty payable. We have disputed the manner in which Quasar have interpreted the royalty agreement, but have not been able to resolve this to date. We are considering our options in relation to this matter but currently, and conservatively, we are assuming limited royalty income from this royalty until the matter is resolved.

Operating expenses

Total operating expenses for the year were in line with 2015 which demonstrates one of the key benefits of the royalty model i.e. a significant increase in revenue does not necessitate a corresponding increase in the cost base.

	2016 £'000		*2015 £'000*
Staff costs	1,746		1,937
Professional fees	626		418
Other costs	955		865
Operating expenses[1]	**3,327**	***(3.3%)***	**3,220**
Share-based payments – including NI	803		840
Total operating expenses[2]	**4,130**		**4,060**

[1] As included in the calculation of adjusted earnings.

[2] As per the income statement.

Professional fees increased in the period, mainly due to costs associated with recovering tax, costs associated with revisions to the Group's value creation plan and general management of the Group's royalty portfolio. Staff costs decreased modestly in the period as headcount was higher in the first half of 2015. Overall, management are of the view that central costs are not excessive, and exercise discipline around cost control, identifying savings where possible.

Finance income and costs

	2016 £'000		2015 £'000
Interest expense on borrowing facility	(278)		(138)
Non-utilisation fee on undrawn borrowings	(132)		(133)
Aborted transaction costs/professional fees	(676)		(358)
Finance costs	**(1,086)**	***72.7%***	**(629)**
Bank interest	56		23
Interest on other investments	26		278
Realised foreign exchange gains	2,265		411
Finance income	**2,347**	***229.6%***	**712**

Finance costs increased significantly in the year, due to the combination of higher interest costs associated with running at higher average borrowings in the year and an increase in aborted costs associated with acquisitions which failed to complete. Aborted costs associated with acquisitions is a business cost which is incurred as part of the Group's efforts to add royalties to its portfolio. The Group invested a considerable amount of time during the year on certain transactions which unfortunately proved not to meet the Group's exacting investment criteria.

Finance income is dominated by realised foreign exchange gains in the period due to the weakening of the pound post Brexit. At a high level, it represents the difference between income accounted for at average rates versus the actual amount received. This was particularly noticeable during 2016, where the GBP:AUD rate averaged 1.95 in H1 16 whereas the average for H2 16 was 1.70. Even though the average for H2 16 was 1.70, the full year Australian revenue was translated at the average rate for the year, which was 1.82. With most of our revenue generated in H2 16, this created a large realised foreign exchange gain as the revenue was reflected in the income statement at a higher translation rate than what was ultimately received. A similar trend occurred with the Group's Canadian and US dollar derived revenue. Realised foreign exchange gains and losses are included within the calculation of adjusted earnings.

Other income

Other income comprises the effective income received in relation to royalty instruments along with any other forms of revenue which the Group earns through managing its activities. This income is included in the adjusted earnings calculation.

	2016 £'000		2015 £'000
Effective interest	246		213
Other	63		203
Included in adjusted earnings	**309**	***(25.7%)***	**416**
Mark to market of currency hedges	664		–
Other income	**973**		**416**

The mark to market 'gain' represents the extent to which the Group's forward currency hedges were in the money at the balance sheet date. As noted in the CEO report, the Group took advantage of the sudden devaluation of the pound to put in place a series of forward contracts designed to lock in favourable rates of converting its Australian dollar income over the following four quarters. The Group entered into these trades in December 2016. The policy is to hedge, on a sliding scale, a percentage (70%-25%) of the next four quarters' expected dollar income and this represents cash flow hedging rather than anything speculative. As this is a point in time valuation, this gain is not included in adjusted earnings.

Tax

The Group was successful in obtaining a number of tax rebates in the year, some of which were not provided for in previous periods. The Group utilised tax losses in the year, resulting in no corporation tax being paid in 2016.

	2016 £'000	2015 £'000
United Kingdom corporation tax	–	–
Overseas taxes	1,403	1,338
Adjustments in respect of prior years	(809)	(329)
	594	**1,009**
Less deduction claimed for amortisation	860	985
Tax per adjusted earnings	**1,454**	**1,994**

Deferred tax generally is a non-cash tax reflecting the probable tax on valuation gains which have yet to crystallise. As such, they are excluded from adjusted earnings.

STRATEGIC REPORT

Financial review

Profit after tax

Profit after tax of £26.4m for the year ended December 31, 2016, is represented by adjusted earnings as outlined above, plus the gain on sale of certain of the Group's mining and exploration interests of £2.4m, together with the favourable Kestrel revaluation of £17.9m, less the impairment charge of £2.0m in relation to the Amapá royalty and the revaluation charge of £4.9m in relation to the Group's Dugbe 1 royalty and tax thereon.

Balance sheet

Net assets increased from £162.0m at the beginning of the year to £210.1m at December 31, 2016, an increase of 28.5%. This equates to net assets per share of 124p per share at the end of 2016 compared to 95p at the end of the previous year. The main catalyst for the increase was undoubtedly the weakening of the pound in the second half of the year, as the majority of the Group's assets are denominated in dollar currencies. The impact of currency was most pronounced for Kestrel, which is fair valued at each reporting date. The following table reconciles the movement in net assets during 2016:

	FX	*£'000*	*£'000*	*Pence*
January 1, 2016			161,983	95p
Kestrel:				
Coal price (income statement)		18,540		
Translation from AUD:GBP	16,336	16,336		
Other (inc depletion & discount)		(640)		
Deferred tax (income statement)		(5,510)		
Deferred tax (other comprehensive income)	(4,754)	(4,754)	23,972	
Other:				
Foreign exchange on royalties held at cost	12,784		12,784	
Amortisation and impairment of royalties held at cost			(4,878)	
Fair value of royalties categorised as financial assets (net of tax)	2,178		(1,528)	
Tax asset on disposal of Isua royalty			4,426	
Mark to market of equity portfolio			9,534	
Adjusted earnings			16,494	
Dividends			(11,831)	
Other	(419)		(818)	
December 31, 2016	**26,125**		**210,138**	**124p**

The upward revision to the forward price outlook for coal translated into a noticeable increase in the underlying value of the Group's Kestrel royalty. The balance sheet also benefited from translating this Australian dollar asset into pounds at a more favourable rate on the reporting date following the weakening of the pound following the EU referendum. In line with IFRS, the Group recognises a deferred tax charge in relation to any movement in the value, resulting in an overall £24.0m increase in net assets during the period attributable to Kestrel.

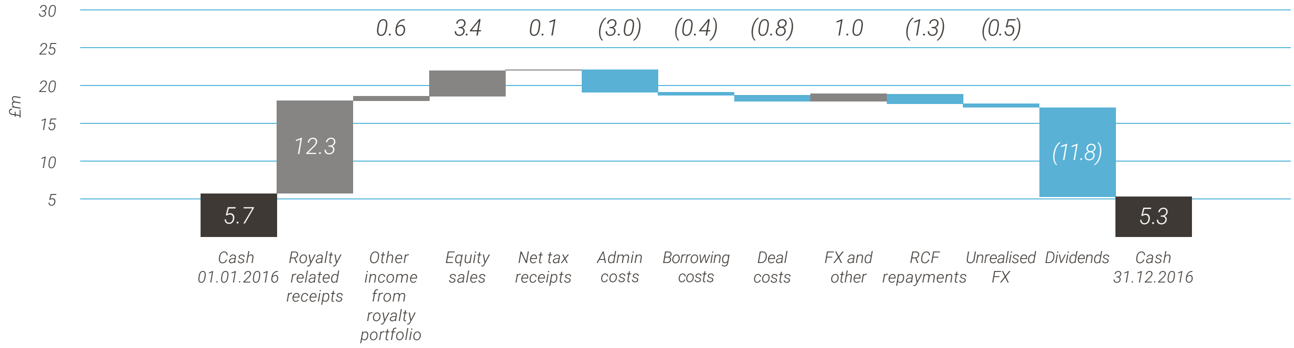
The other main increase in value was the £12.8m translation benefit associated with the portfolio of assets accounted for as intangible assets. Intangible assets are recognised at the lower of fair value and amortised cost. As these assets are largely denominated in Australian dollars, the increase here relates to the weakening of the pound throughout 2016. The main constituent of the royalty intangible category is the Group's Narrabri royalty. The value of this royalty, similar to Kestrel, has increased considerably with the outlook for thermal coal along with higher production rates. The Group, in accordance with IFRS, does not recognise this increase on the balance sheet but the unaudited valuation would indicate an increase of as much as 50% on what we paid for it two years ago.

In December 2016, the Group received several offers from the owner of the Isua project to purchase its Isua royalty, an asset which was carried on the balance sheet at £nil. After due consideration, the Group decided to accept an offer and disposed of its interest for £16,000. This gave rise to a tax asset of £4.4m which is expected to be available to shelter royalty income during 2017.

The Group recorded further impairment charges of £2.0m in relation to its Amapá royalty, along with a £5.0m reduction in value of its Dugbe 1 asset. These non-cash charges arose due to revisions made to the likely restart/start date of the projects, with the operator of Amapá experiencing financial difficulties. Using these revised cash flow projections for Dugbe 1 resulted in the value being less than cost and an adjustment was made accordingly.

The Group took the opportunity to realise a modest amount of cash from its non-core equity portfolio during the year. Despite this, the overall value of the portfolio grew by £4.1m, due largely to an increase in the share price of Berkeley Energia in which the Group has a large equity position.

Cash flow and borrowings



2015	8.8	5.3	3.7	1.7	(0.8)	(3.7)	(0.6)	(4.3)	(0.9)	7.5	0.9	(11.9)	5.7

The Group generated cash of £12.9m from its royalty portfolio during 2016, compared to £9.0m in the previous year. With royalty related receipts of £12.3m (2015: £5.3m) and other income from the royalty portfolio of £0.6m (2015: £3.7m), sufficient cash was generated during the year to allow a partial repayment of £1.3m on the borrowing facility. The Group ended the year with cash of £5.3m and had £6.3m drawn on its borrowing facility, resulting in net debt of £1.0m, down from £1.8m at the end of 2015.

The cash and borrowings analysis above has moved on considerably since the balance sheet date. Prior to the completion of the Denison transaction, the Group received the Q4 16 royalty receipts of £11.3m in full and paid the 2016 interim dividend of £5.1m. As a result, the Group was in a net cash position prior to the Denison transaction. With dividend cover now established, the borrowing facility should be used solely for acquisitions moving forward.

As part of the Denison transaction, the Group took the opportunity to refinance and extend by two years its existing borrowing facility, which was due to mature in February 2018. A key criterion in refinancing was the creation of a flexible borrowing feature. As such, although the committed amount remains unchanged at $30.0m, there is an accordion feature which allows for this to potentially increase to $40m for an acceptable accretive investment opportunity.

The refinancing also presented the Group with the opportunity to engage with other lenders. We decided that, with the Denison transaction imminent, it was the opportune time to establish a syndicate of lenders with the view that having two blue chip banks involved should result in greater borrowing capacity as the business grows. Accordingly, we were pleased to welcome Investec as our banker alongside Barclays.

Given the increasing level of cash flow generation expected over the coming years, primarily from Kestrel, and the increasing level of macroeconomic volatility, the Group has commenced a policy of hedging the currencies in which it receives its royalty income. This became particularly attractive immediately after the EU referendum. The Group will look to continue hedging a proportion of its forecast next 12 month cash flow.

Free cash flow per share

The structure of the Denison transaction will result in a significant amount of cash flow being reported as loan principal repayment, which will not be included in the income statement. As such, we have decided to introduce a key performance indicator measuring the cash generated by the Group. This is important as in addition to the Group assessing dividend cover by making reference to the adjusted earnings per share, the Group will also consider the free cash flow per share as a means of assessing the sustainability of the Group's dividend.

During 2016, the free cash flow generated by the Group was £13.2m (2015: £4.7m) versus dividend payments of £11.8m (2015: £11.9m). Most of the group's royalty income for 2016 was earned in the final quarter, and so not received until Q1 17. As such free cash flow, and associated dividend cover, in 2017 is expected to be considerably higher than 2016. With mining expected to be firmly within the Group's private royalty land at Kestrel from Q2 2017, the cash flow profile is expected to be much smoother than it has been over the past few years, which saw most of the revenue generated in the second half of the year. Refer to ➡ *note 33* for further detail details of the free cash flow per share.

STRATEGIC REPORT

Corporate social responsibility

Anglo Pacific seeks to maintain the highest standards in all areas of its business.

An extensive review was commissioned in 2014 by the Board, taking into account international guidance. The standards considered included: the Extractive Industries Transparency Initiative; the Global Reporting Initiative Mining and Metal Sectors Supplement; the United Nations' Guiding Principles on Human Rights; and the Voluntary Principles on Security and Human Rights, together with CSR reporting and CSR commitments of the mines that it is invested in. Consequently, the Group has extended and strengthened its due diligence process to reflect current best practices.

The mechanism that the Group uses to monitor CSR issues has been given greater granularity. In particular, it directs the Group to consider the governance, policy provision, management, measurement and reporting of each material issue. During 2016, the Group has applied this to the consideration of potential investments, including it as a key royalty acquisition criterion, and uses it in the monitoring of existing investments.

At the same time the Group has further improved its office practices, in particular those within its London head office. The Group has implemented improvements, including but not confined to measures to conserve energy, which we are pleased to report has improved by 14%.

During 2016, the Group improved its recycling policy and now recycles 35% of all office waste (2015: 25%). The Group plans to improve this further during 2017.

The Group is confident that the changes made will enable it to achieve improvements in its CSR practice.

Integrity

Anglo Pacific is committed to maintaining its reputation for fair dealing. The Group does not offer, give or receive bribes or inducements whether directly or through a third party.

The Group has policies and procedures in place to ensure that all Directors, officers, employees, consultants, advisors, business partners, and 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 expect employees to adopt a zero tolerance attitude to corruption. Employees are encouraged to report any potential or apparent misconduct in accordance with the Group's internal whistle-blowing policy and any employee that refuses to pay bribes, or raises any issues honestly, and in good faith, will be supported by the Group.

The Group chooses business partners and counterparties carefully, based on merit and reputation, and only works with persons of known integrity, who it believes will act consistently with its own standards. The Group does not make facilitation payments. Where business is conducted in countries with laws that are less restrictive than the Group's policies and procedures, it will seek to follow its own policies and procedures, promoting its standard of integrity wherever possible.

Environment

Anglo Pacific is 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.

As part of the Group's investment decision process, careful consideration is given to the environmental aspects of any potential asset purchase during the due diligence phase. In particular, the Group typically engages with consultants who have the requisite expertise to ensure that it can consider and, if necessary, mitigate any risks in this regard to a properly maintainable level. In 2016, as part of the Denison financing agreement, Anglo Pacific engaged an independent consultant, Golder Associates, to review the key environmental risks and environmental liabilities relating to the project. No issues were identified as part of this process. The Group expects employees 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

Anglo Pacific acknowledges that, whilst 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. The Group endeavours to ensure that companies it works with have appropriate procedures in place to facilitate this. More specifically, Anglo Pacific's investment decision process for potential asset purchases involves due diligence relating to the full range of CSR issues, including the social and community aspects of the project. As part of its 2016 Denison financing agreement, Anglo Pacific reviewed the social and community factors associated with the Cigar Lake Project. No issues were identified as part of this process.

Diversity

The Group's employees are instrumental to its success, and it respects and values the individuality and diversity that every employee brings to the business. As at December 31, 2016, 54% of the Group's employees were female (2014: 54%) as the Group had 11 employees, six of whom were female. In terms of the Company's Board of Directors, there were six Directors, five of whom were male and one of whom was female. Prior to any appointment to the Board, the Nomination Committee gives due regard to diversity and gender with a view to appointing the best placed individual for the role. The Group recognises that it has more to do in encouraging and supporting diversity and hopes to be able to identify and develop talent at all levels in the organisation as the Group continues to grow.

More information on the Nomination Committee's approach to diversity can be found on ➡ *page 48*.

Human rights

The debate on the role of business and human rights has gained increasing prominence in recent years. Anglo Pacific welcomes this focus as respect for human rights is implicit across the Group's employment practices. Further, a commitment to human rights is an important part of any successful organisation. As part of the Group's investment decision process, if necessary, consultants with the requisite expertise are engaged to assist in identifying and mitigating any such risks.

Health and safety

The health and safety of the Group's employees is of fundamental importance and is a responsibility it takes seriously. The Group's small size allows the day-to-day responsibility to remain at Board level, being monitored by the Chief Executive Officer. The Group has both a health and safety policy and office risk assessments in place, which are reviewed on an annual basis. Furthermore, a commitment to health and safety is a fundamental component of any mining project, and, as part of the Group's investment decision process, consultants with the requisite expertise are engaged to assist in identifying and mitigating any such risks.

Donations

The Group's philosophy on charity has historically been that this is a decision best made by shareholders with their own resources. The Group has revised its policy and will now consider supporting select charities at the discretion of the Directors. No donations were made during 2016; however, the Group will continue to consider supporting select charities during 2017.

Greenhouse gas emissions

The UK Government requires that UK listed companies should report their global levels of greenhouse gas emissions in their Annual Report. Anglo Pacific is a relatively small organisation, with 11 employees, which means that any emission sources within its operational and financial control, such as business travel, purchase of electricity, heat or cooling by the Group, are not material in their impact. As the management and operation of the underlying mines generating the Group's royalty income are outside its control, it is unable to report on these emissions.

Following the Group's move to a new office at the end of 2014, power consumption has been monitored and has improved by 14%.

The information on ➡ *pages 08 to 43* represents the Group's Strategic Report and has been approved by the Board.

J.A. Treger
Chief Executive Officer
March 29, 2017

GOVERNANCE

Corporate governance report

Our approach towards corporate governance

As a standard listed company on the London Stock Exchange, the Company is required to comply with the minimum regulatory requirements imposed by the EU that apply to all securities admitted to trading on EU regulated markets. Accordingly, the Company is subject to the relevant Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules. However, it is not required to comply with the super-equivalent provisions of the Listing Rules which apply to companies with a premium listing.

The Company is, however, complying on a voluntary basis with related party requirements that are substantially equivalent to those set out in Chapter 11 of the Listing Rules.

The Board remains committed to high standards of corporate governance, and considers all Non-Executive Directors to be independent.

Board and Committee structure

The Board is collectively responsible for approving the Group's long-term objectives and strategy and for reviewing performance against them. The Board is also responsible for the general oversight of the Group's operations and management.

In 2016, the Board continued to be chaired by Mike Blyth, as Non-Executive Chairman, responsible for the leadership and effectiveness of the Board. The time commitment expected of the Non-Executive Chairman is around six days per month. Mr. Blyth's other (mainly charitable) commitments are shown on ➡ *page 45*, none of which is considered to be significant.

The day-to-day management of the Group is delegated to the Chief Executive Officer ('CEO'), save for certain matters reserved for consideration by the Board. The CEO is supported by the Chief Financial Officer & Company Secretary and the Head of Investments who meet as an Executive Committee. The Executive Committee is no longer a formal Board Committee because it is not currently comprised of a majority of Executive Directors. The Chairman and CEO have distinct roles which have been defined in writing and agreed by the Board.

Other responsibilities are devolved to the Nomination, Remuneration and Audit Committees; their members are all Non-Executive Directors and their work is described more fully below. The terms of reference of each Committee, and the matters reserved to the Board, are available on the Group's website.

David Archer continued to act as the Group's Senior Independent Director ('SID') this year. 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. The SID takes the lead on meetings of the Non-Executive Directors outside the formal committee structure, and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, CEO or other member of the Executive Committee, or where such channels would be inappropriate.

The Board

Chairman

W.M. Blyth

66, was appointed Director in March 2013 and became Non-Executive Chairman on April 1, 2014. 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 RSM (previously 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. In addition to his chairmanship of Anglo Pacific, Mr. Blyth is a board member of Wheatley Housing Group; and director of Haldane Property Company Ltd and Glasgow & Suburban Property Company Ltd. Mr. Blyth also acts as trustee for a number of small charities.

Chief Executive Officer

J.A. Treger

54, joined the Group as Chief Executive Officer and Executive Director on October 21, 2013. He has an MBA from Harvard Business School and a BA from Harvard University. He began his career working for Lord Rothschild as an in-house corporate financier, managing a portfolio of public and private equity investments before co-founding Active Value Advisors Ltd. to invest in undervalued, predominantly UK-listed companies, where he advised on more than US$900.0m of funds over a 12-year period. Most recently, he has served as one of the principals of Audley Capital Advisors LLP, an investment advisory firm, which he co-founded in 2005, managing value-orientated, special situations investment strategies through hedge fund and co-investment vehicles, with a principal focus on the natural resources sector. Mr Treger holds an external Non-Executive Directorship with Mantos Copper S.A. for which he earned fees during the year. This directorship does not affect Mr Treger's ability to perform his role as CEO of the Company, as this directorship forms part of his 10% time commitment outside Anglo Pacific.

Senior Independent Director

D.S. Archer

60, was appointed Non-Executive Director in October 2014 and currently chairs the Group's Remuneration Committee. He is also the Group's Senior Independent Director. He has over 34 years' international resources industry experience in the Americas, Asia, Australia and the Middle East. He is the Chief Executive Officer of AIM-listed Savannah Resources PLC, which owns majority stakes in a mineral sands project in Mozambique and a copper project in Oman, and was previously the Managing Director of ASX-listed company Hillgrove Resources Limited, where he was responsible for growing the company into a significant, dividend paying, mineral explorer and copper producer with assets in Australia and Indonesia. Mr. Archer was the founder and Deputy Chairman of Savage Resources Limited, a coal, copper and zinc producer, and the founder and Executive Chairman of PowerTel Limited. He is also a barrister (non-practising) of the Supreme Court of New South Wales.

Non-Executive Directors

N.P.H. Meier

67, was appointed Non-Executive Director in April 2015. Mr. Meier has over 30 years of experience in investment banking with specialist knowledge of the mining sector. He has an MA in Natural Sciences from Cambridge University. Most recently Mr. Meier headed up the investment banking activities for RBC Capital Markets in Europe and Asia and drove a major expansion of RBC's European presence. Prior to this role, he headed up RBC's activities in the Metals and Mining sector in Europe, Africa and Asia for many years, and continues to enjoy strong relationships within the sector. Mr. Meier also served as a Director on the Board of RBC's main operating subsidiary in Europe.

R.C. Rhodes

46, was appointed Non-Executive Director in May 2014 and currently chairs the Group's Audit Committee. She has an MA in Economics from the University of Cambridge and is a member of the Institute of Chartered Accountants in England and Wales, having qualified with Coopers and Lybrand in London in 1997. She has over 15 years of experience in the mining industry, including with Anglo American PLC (until August 2008) and London Mining PLC (until November 2013) and is now CFO of Alufer Mining Limited. Ms. Rhodes also serves on the boards of Alufer Mining Services Limited and Bel Air Mining SA, and has played a leading role in listing companies on LSE, AIM and JSE, in raising significant project and corporate finance and in negotiating mining licences and fiscal platforms.

R.H. Stan

63, was appointed Non-Executive Director in February 2014. He has over 34 years of experience in the mining industry. He has held several senior positions with Fording Coal Limited, Westar Mining Ltd, and TECK Corporation before becoming a founding shareholder and director of publicly quoted Grande Cache Coal Corporation (GCC), an Alberta-based metallurgical coal mining company, in 2000. At GCC, he served as President, CEO and Director from 2001 to 2012, when the company was sold for US$1.0b to Winsway Coking Coal and Marubeni Corp, an Asian-backed strategic investor consortium. He has served as Chairman of the Coal Association of Canada Board of Directors and has acted as a board member of the International Energy Agency's Coal Industry Advisory Board. He currently serves on the board of several private companies, including Quantex Resources Limited, Lighthouse Resources Inc and Spruce Bluff Resources Limited, and formerly served on the board of publicly-listed Whetstone Minerals Limited.

Board evolution

There have been no appointments to the Board during 2016, however, Mike Blyth, having overseen revisions to the Group's internal governance and investment process, has announced that he will be stepping down as chairman at the conclusion of the forthcoming AGM and will be succeeded by Patrick Meier.

The Nomination Committee consider Patrick, with his extensive experience in investment banking in general and the mining sector in particular, well placed to lead the Company through the next stage in its development.

GOVERNANCE

The Board

Appointment, development and assessment of Directors

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 reappointment by shareholders at an AGM on the third anniversary of their appointment. All current Non-Executive Directors were appointed for an initial three-year term, renewable at the Board's discretion for up to two further three-year periods thereafter, and the Board intends that all future Non-Executive Director appointments will be on similar terms. Notwithstanding this, it is the Board's intention that all Directors, including the Non-Executive Directors, shall be subject to re-election at each AGM.

Each Director is required to disclose to the Board their other significant commitments prior to appointment and when there is any significant change. The Board considers that all of the Directors allocate sufficient time to the Company to discharge their responsibilities effectively.

Actual and potential conflicts of interest are regularly reviewed. Also, 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 deems appropriate.

The Company's Directors have a wide range of skills as well as appropriate experience in financial, commercial, audit and mining activities and provide a challenge to senior management and the Company's strategy. Each Director takes responsibility for undertaking the appropriate training required for developing and updating their knowledge and capabilities. The Chairman regularly reviews the Directors' training needs and, where appropriate, the Group provides the resources to meet the Directors' requirements.

The Board has in place a formal induction process for new Directors on joining the Board, which is tailored to the needs of the individual.

Board evaluation

Every year, the Board undertakes an evaluation of its own performance and that of the Board Committees and individual Directors (including the Chairman). This year, we carried out a self-evaluation of key areas of the Board's work including:

- roles and responsibilities; Committees; strategy setting;
- performance monitoring; risk management; and
- internal control.

Each of the Directors completed a self-assessment questionnaire and discussed views with the Chairman in one-to-one meetings held during October 2016. The findings of this review were discussed at a meeting of the Board in November and a number of actions to further improve Board performance were agreed.

Overall, the review concluded that the Board is performing well, with no significant issues identified. The Board is seen to be well balanced with a good mix of relevant skills and experience.

During the review process, the Board discussed a number of further performance enhancement opportunities. In summary, the Board has agreed to further refine our risk management procedures and the process of defining strategic objectives and monitoring progress against these throughout the year.

In addition, the Board agreed on a number of minor administrative changes which have already been implemented.

Functioning of the Board

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 agenda includes regular reports from the executive management and from the Board's committees on all matters relating to the running of the Group. The Chairman is also responsible for ensuring that adequate time is available for discussion of all agenda items and in particular strategic issues.

The Group's Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. All of the Directors have access to the Company Secretary's services and advice. All of the Directors may also seek independent professional advice in the performance of their duties, at the Group's expense.

Directors' attendance at Board and Committee meetings which they were eligible to attend during 2016 was as follows:

	Full Board	*Audit*	*Remuneration*	*Nomination*
Total meetings held	9	4	4	1
Attendance:				
D.S. Archer	8	–	4	1
W.M. Blyth	9	4	4	1
N.P.H. Meier	9	–	4	1
R.C. Rhodes[1]	8	4	3	1
R.H. Stan	9	4	4	1
J.A. Treger	9	–	–	–

[1] R.C. Rhodes stood down from the Remuneration Committee on November 8, 2016 and had attended all three meetings held up to that date.

Relations with shareholders

The Group is the only major natural resources royalty company listed on the LSE and recognises the importance of developing a fuller understanding of its business model amongst investors and an effective two-way communication with fund managers, institutional investors and analysts. The Chairman and SID meet with major shareholders, a range of fund managers and institutions on a regular basis.

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2016 AGM and the active engagement of investors to further their understanding of the current business activity.

The Company has three joint brokers, BMO Capital Markets, Macquarie Bank and Peel Hunt, and the Board remains satisfied that the UK, Australia and Canada, which are the three jurisdictions likely to make up most of our shareholder base, are well covered by brokers with significant local expertise.

At the same time, the Board continues to receive regular investor relations reports, including commentary on the perception of the Company, views expressed by the investment community, media reports, share price performance and analysis, so as to ensure that all Directors are made aware of the major shareholders' issues and concerns.

Risk management and 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. As discussed above, the Board has recognised the importance of increased focus on risk and risk management and has agreed to extend the remit of the Audit Committee to monitor the effectiveness of the Company's risk management processes on behalf of the Board. The Board, supported by executive management, will also enhance the review and monitoring of the Group's principal risks.

A statement of Directors' responsibilities in respect of the financial statements is set out on ➡ *page 69*.

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 judgement 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, 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 Board is responsible for reviewing the risk assessment and risk management processes for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives reports about significant risks and associated control and monitoring procedures. The Group's 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 or updates from its other Committees and directly from management in addition to carefully considering the Group's risk register at regular intervals.
- 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, 2016 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 during the period and concluded that the controls and procedures are adequate. The Board will continue to review the adequacy of the Company's internal controls and will test the controls and procedures again during 2017.

GOVERNANCE

Nomination Committee

Composition

Compliant with the Code:

W.M. Blyth – Chairman

D.S. Archer

R.C. Rhodes

R.H. Stan

Role and responsibilities

The primary responsibilities of the Nomination Committee are to:

- Set guidelines (with the approval of the Board) for the types of skills, experience and diversity being sought when making a search for new directors. With the assistance of external consultants, identifying and reviewing in detail each potential candidate available in the market and agreeing a 'long list' of candidates for each directorship. Following further discussions and research, deciding upon a shortlist of candidates for interview. Interview of shortlisted candidates by the Committee members who then convene to discuss their impressions and conclusions, culminating in a recommendation to the Board.
- Make recommendations as to the composition of the Board and its Committees and the balance between Executive Directors and Non-Executive Directors, with the aim of cultivating a board with the appropriate mix of skills, experience, independence and knowledge of the Company.
- Ensure that the succession plans for Directors and senior management are regularly reviewed for subsequent debate with the Non-Executive Directors and Chief Executive Officer.

The Committee's terms of reference can be found on the Group's website.

Diversity policy

To increase diversity, in particular the representation of women and ethnicity on the Board.

The Board recognises the benefits of diversity and that its current composition is still deficient in several respects. Whilst the appointment of Ms. Rhodes as Non-Executive Director and Audit Committee Chair in 2014 was a positive step in addressing this, the Company continues to seek further opportunities to promote both diversity to the Board and to maintain a policy to appoint positions on merit and the needs of the Group at any one time. The opportunities for developing and appointing women to Executive Directorships will be kept under review.

Main activities covered during 2016

The Nomination Committee was actively involved during 2016 in reviewing the structure, size and composition of the Board, in light of the need to maintain a balance of appropriate skills and accepted best corporate governance practice. The Committee concluded that no changes are required at this time.

Subsequent to the year end, the Committee unanimously approved the appointment of Patrick Meier as chairman in succession to Mike Blyth and the continuing appointment of Mike Blyth as a Non-Executive Director.

The Committee has reviewed the Company's Succession Planning Policy for Executive Directors and senior staff members and the policy to govern any future changes to executive management.

W.M. Blyth
Chairman
March 29, 2017

Audit Committee

Composition

Compliant with the Code:

R.C. Rhodes – Chairman

W.M. Blyth

R.H. Stan

The Committee members have a wide range of financial and commercial expertise, which the Board considers appropriate to fulfil the Committee's duties. Biographies of the Committee members are set out on ➡ *page 45*.

Roles and responsibilities

The objective of the Audit Committee is to assist the Board in monitoring decisions and processes designed to ensure the integrity of financial reporting, sound systems of internal control and risk management.

The Committee's terms of reference set out its main responsibilities, and are available on the Group's website. The Committee is responsible for:

- monitoring the integrity of the Company's annual and interim financial statements, the accompanying reports to the shareholders and corporate governance statements;
- making recommendations to the Board concerning the adoption of the annual and interim financial statements;
- reviewing and challenging the consistency of, and any changes to, accounting policies, methods and standards;
- overseeing the Group's relations with the external auditors, including the assessment of independence, and their effectiveness;
- making recommendations to the Board on the appointment, retention and removal of the external auditors and tendering of external audit services;
- advising the Board on the external auditor's remuneration for both audit and any non-audit work;
- reviewing and monitoring the reports from management on the principal risks of the Group outlined on ➡ *pages 18 to 23* and the management of those risks;
- monitoring and reviewing the adequacy and effectiveness of the Company's internal financial controls;
- considering the need for and managing the effectiveness of the Company's approach to internal audit; and
- reviewing and monitoring the environmental and social impact of the Company's activities, the Company's whistle-blowing procedure and the Company's systems and controls for the prevention of bribery.

Main activities covered during 2016

In 2016 the Committee's activities focused on:

- assessing management's projections under different scenarios to allow the Board to make its assessment of the longer-term viability of the Company;
- reassessing and refining the Group's principal risks and overall risk appetite documented in 2015;
- monitoring the effectiveness of the Group's risk management systems;
- reviewing asset carrying values and other material accounting matters;
- reviewing the accounting classification and treatment of potential acquisitions;
- monitoring legal and tax matters and reviewing associated accounting provisions; and
- considering the requirement for the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable.

Significant issues relating to the financial statements

The significant issues considered by the Committee in relation to the financial statements are set out in the table below, together with a summary of how the issue was addressed by the Committee. In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year and the areas of particular audit focus, as described in the Independent Auditors' Report on ➡ *pages 70 to 74*.

GOVERNANCE

Audit Committee

Significant issues considered by the Committee in relation to the financial statements	*How the issue was addressed by the Committee*
Review of carrying values of royalties held at amortised cost along with the investment portfolio and resulting impairment charges	The Committee reviewed and interrogated management's key assumptions including production profiles, forecast commodity prices and discount rates used to estimate the recoverable amount of each royalty and compared this to the respective carrying value. The Committee reviewed the disclosures related to the Group's impairment policy outlined in ➡ *note 2* and the impairment charge of £2.0m described in ➡ *note 16* for the year ended December 31, 2016. The Committee reviewed management's application of the Group's impairment policy in relation to available-for-sale equity investments outlined in ➡ *note 3.9* together with the disclosures related to the impairment charge described in ➡ *note 17* for the year ended December 31, 2016. The Committee concluded the impairment charges recognised during the year ended December 31, 2016 were appropriate and have been adequately disclosed.
Review of the carrying value of royalties held at fair value	The Committee reviewed and interrogated management's key assumptions including production profiles, forecast commodity prices and discount rates used to determine the carrying value of those royalties held at fair value. The Committee reviewed the disclosures related to the revaluation gain of £17.9m in relation to coal royalties, together with the revaluation charge of £4.9m in relation to royalty financial instruments, described in ➡ *notes 14 and 15* respectively, for the year ended December 31, 2016. The Committee concluded that the fair value has been calculated in accordance with the Group's accounting policy outlined in ➡ *note 2*, is appropriate as at December 31, 2016 and adequately disclosed.
Review and challenge the inputs and judgement used in arriving at the conclusion on going concern and viability	The Committee critically assessed the projections of future cash flows under different scenarios, including the 'severe but plausible' case, and compared these with cash balances and committed facilities available to the Group. The Committee satisfied itself that it was appropriate to recommend to the Board the adoption by the Group of the going concern basis of preparation.

Fair, balanced and understandable

A key requirement of the Group's Annual Report and Accounts is that it be fair, balanced and understandable. The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet this requirement as appropriate weight has been given to both positive and negative developments in the year.

In justifying this statement, the Audit Committee has considered the robust process which operates in creating the Annual Report and Accounts, including:

- the thorough process of review, evaluation and verification by senior management, which considered and drew on best practice for the creation of the Annual Report and Accounts;
- a meeting of the Audit Committee held to review and consider the draft Annual Report and Accounts in advance of the final sign-off; and
- final sign-off provided by the Board.

Internal control and risk management

The Committee is responsible for the oversight of internal control and risk management systems across the Group.

In carrying out its role, the Committee reviews the following:

- Regular updates of key internal control matters in respect of the Group financial reporting processes, such as financial reporting systems and controls.
- Procedures developed by management to identify and evaluate key business, financial and operational risks, and the effectiveness of the responses being implemented to mitigate the potential impacts.
- Policies and procedures in place to detect, monitor and investigate activity in respect of anti-fraud, bribery and corruption, such as the Group whistle-blowing facilities.

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 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 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 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, 2016 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 there have been no significant changes to the system of internal controls, nor have there been any significant breaches reported during the year. As a result the Board has concluded that the controls and procedures are adequate.

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.

External audit

To safeguard the objectivity and independence of the external audit process, it remains the Committee's policy to review and approve all fees related to non-audit services. The policy prohibits the auditors from providing certain services such as accounting or valuation services. Details of the auditors' remuneration are disclosed in ➡ *note 5b*.

The Committee will continue to review its activities in light of any regulatory developments going forward.

The Committee has satisfied itself that the external auditors' independence was not impaired.

The Committee held meetings with the external auditors without the presence of management on three occasions and the Chairman of the Committee held regular meetings with the lead audit engagement partner during the year.

The Committee's assessment of the external auditors' performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditors until the conclusion of the AGM in 2017. Resolutions to authorise the Board to re-appoint and determine the remuneration of Deloitte LLP will be proposed at the AGM on May 10, 2017.

R.C. Rhodes
Chairman
March 29, 2017

GOVERNANCE

Remuneration Committee

Composition

Compliant with the Code:

D.S. Archer – Chairman

N.P.H. Meier

R.H. Stan

R.C. Rhodes – stood down from the Remuneration Committee on November 8, 2016

Role and responsibilities

The primary responsibilities of the Remuneration Committee are to:

- establish and develop the Group's general policy on executive and senior management remuneration;
- determine specific remuneration packages for the Chairman and Executive Directors; and
- design the Company's share incentive schemes.

The Remuneration Committee's terms of reference can be found on the Group's website.

External advisors

The Remuneration Committee has access to the advice of independent remuneration consultants when required. During 2016, the Remuneration Committee received advice from New Bridge Street ('NBS'). NBS was first appointed by the Remuneration Committee on January 20, 2014. NBS is a signatory to the Remuneration Consultants' Code of Conduct and has no other connection with the Company. The Remuneration Committee is satisfied that the advice that it receives from NBS is objective and independent.

Main activities covered during 2016

The Remuneration Committee's activities focused on:

- the implementation of the amendments to the VCP approved by shareholders at the 2016 Annual General Meeting;
- designing the CEO's 2016 bonus framework and the associated performance scorecard criteria;
- the implementation of the Unapproved Share Option Plan ('USOP') to incentivise both direct and indirect reports of the CEO; and
- providing guidance to the CEO on salaries and bonuses to be awarded to his direct reports and approving salaries and bonuses paid.

Directors' remuneration report

Dear Shareholder,

Our remuneration report is, as last year, in two parts: a statement of the Company's policy on Directors' remuneration, and an Annual Remuneration Report which describes how the policy was implemented during 2016. There have been no changes to the policy in the current year and, as such, the format for the forthcoming AGM vote will be advisory rather than of formal approval. However, and as described below, we are looking for approval to amend the Company's articles of association to increase the ceiling on total fees payable to non-executive directors as a result of the increases effected from January 1, 2017 onwards and to refresh headroom.

This report is set against a background of strong Company performance during 2016, which generated total shareholder returns ('TSR') of 134% in the period. A key component of long-term executive compensation is to align the interests of management with shareholders. The changes made to the Value Creation Plan ('VCP') at the AGM last year extended the term of the plan such that there are still four years remaining before management's performance will be assessed against TSR. The Committee continues to believe this is an effective plan to incentivise its participants and to encourage the retention of key employees by giving them an opportunity to share in the growth of the company over the long term. The 2016 awards which were approved at the last AGM have not yet been granted due to a closed period which ends with the publication of this report and it is intended these will be made shortly.

The main focus for the Committee this year was in relation to the setting of bonus matrices, director fees and salary benchmarking. The salary of the Chief Executive Officer ('CEO'), and his direct reports were comprehensively benchmarked at the end of 2016. The committee concluded that no change to the basic salary of the CEO was required at this stage and will continue to conduct this exercise on a regular basis in order to ensure that the Company is paying market rates that attract and retain key personnel.

The Chairman's fee remained unchanged during 2016. However, the Committee reviewed the level of the Chairman's fees, noting that the fee had not been increased since April 1, 2014 and that the Chairman had waived the consideration of an increase at the end of 2015. The purpose of the review was to ensure that we were offering a market competitive fee that takes into account the need to attract and retain an individual of the right calibre and experience and having regards to their responsibilities and time commitment. The Remuneration Committee conducted a benchmarking exercise which examined companies of a similar market capitalisation within a comparable sector. As a result, the Remuneration Committee resolved to recommend an increase in the Chairman's fees from £95,000 to £115,000 effective from January 1, 2017 and that this be set for a period of two years.

Directors' fees, which were set in 2015, remained unchanged for 2016. However, the Chairman and the CEO reviewed the level of the directors' fees in conjunction with an industry benchmarking exercise and concluded that the fees be increased as follows from January 1, 2017:

- Base fee assuming at least one committee membership £46,000 (previous £40,000);
- Committee chairman – an additional £5,000 (previously £3,000) and
- Senior Independent Director – either an additional £6,000 (previously £5,000) or, if combined with a committee chairmanship, £10,000

With the increases in the Chairman's and Non-Executive Directors' fees we are seeking shareholder approval to increase the ceiling for the aggregate level of Director fees paid from the current £400,000 ceiling in the Company's articles of association. With the increases to the Chairman's and the Directors' fees in 2017, the ceiling is being approached which would limit the ability of the board to increase the size of the non-executive board beyond the current five members, or indeed to allow for future increases in fees in line with the growth of the Company. The proposal is to increase this to £600,000.

The Remuneration Committee spent some time considering the most appropriate balance between salary and short-term incentives. The Committee is of the view that short-term incentives such as bonuses should not be considered as de-facto salary. As a result, the Remuneration Committee is looking to modulate the balance between salary and bonus by way of ensuring that:

- base salary levels compare favourably with industry comparables; and
- bonus hurdle matrices are related to superior outcomes which truly constitute stretch-performance.

In terms of short-term incentives, the CEO and the CEO's direct senior reports have individually crafted bonus objectives which were agreed for the 2016 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance targets which are scored out of a total of 100 points. The criteria have been amended from those of 2015 both in recognition of the slightly changed circumstances of the Company and to introduce more precision to the link between the real 'stretch-performance' targets and favourable outcomes for the Company. This score is then applied to a maximum bonus calculated as a percentage of total salary as outlined on ➡ *page 61*.

It is notable that the CEO elected, having regard to the then challenging resources industry conditions, to forgo being considered for the award of a bonus in 2015. The CEO's bonus criteria were further tailored for the 2016 year, both to ensure that they closely match key performance metrics and at the same time provide real 'stretch-performance' targets. The CEO was awarded a bonus of £167,400 under the bonus criteria matrix or 46.5% of the total potential award.

The last Annual General Meeting approved the award of further Value Creation Plan ('VCP') units to the CEO and others during 2016. However, this was not actioned out of caution around potential closed periods. It is likely that the anticipated awards will be made in 2017, as mentioned above.

The VCP is a major plank in our overall remuneration strategy and is a long-term incentive plan which provides awards of shares (in the form of nil cost share options) at the end of five years to the CEO and to senior executives for increases in Total Shareholder Return ('TSR') at rates above 7% per annum. The VCP is designed to support the Company's growth strategy by providing incentives aligned with shareholder interests. Further details can be found in the Remuneration Policy part of this report.

In the same vein, no awards were made under the shareholder approved Unapproved Share Option Plan ('USOP') out of caution around potential closed periods although it is likely that awards will be made in 2017. The USOP was approved by shareholders at the 2016 AGM.

GOVERNANCE

Directors' remuneration report

Salaries

The main objectives for the Remuneration Committee in 2017 will be to:

- Review and further tailor the senior executive bonus criteria for the 2017 financial year;
- Action the award of further units under the VCP and USOP; and
- Maintain an ongoing review of and determine the most appropriate balance between, salary and bonus for the senior executive.

More detail is provided in the body of the Remuneration Report and the Remuneration Committee trusts you will endorse the level of remuneration paid during 2016.

Yours sincerely

D.S. Archer
Chairman of the Remuneration Committee
March 29, 2017

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' and sets out the remuneration strategy that the Company has applied following its approval by shareholders at the 2016 AGM. The approved policy can be found in the Report and Accounts for the year ended 31 December 2015 which can accessed via the Group's website www.anglopacificgroup.com. The Policy is set out below for information only; minor changes to the text of the Policy have been made, to reflect the fact that it has previously been approved by shareholders. It is structured in the following sections:

A. Strategic overview and policy drivers;
B. How the views of shareholders and employees have been taken into account;
C. The new remuneration policy for Executive Directors;
D. Annual bonus – Choice of performance measures and approach to target-setting;
E. VCP – Principal Terms and Conditions and Reward Scenarios;
F. Reward scenarios;
G. Determinations to be made by and discretions available to the Committee;
H. Differences in remuneration policy for Executive Directors compared to other employees;
I. Approach towards appointment of new Executive Directors;
J. Service contracts and payments for loss of office;
K. Non-Executive Directors; and
L. Legacy arrangements

The second part, the Annual Remuneration Report for 2016, details the remuneration paid to Directors during 2016 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2017 AGM. It is structured as follows:

A. Single figure total remuneration
B. Annual bonus for the year ended December 31, 2015
C. Vesting of long-term incentive awards
D. Directors' shareholding and share interests
E. Total pension entitlements
F. Loss of office payments
G. Percentage increase in the remuneration of the CEO
H. Total shareholder return
I. Total remuneration for the CEO over time
J. Relative importance of spend on pay
K. External directorships
L. 2016 salary review
M. Fees for the Chairman and Non-Executive Directors
N. Performance targets for the annual bonus and VCP awards granted in 2014 and beyond
O. Statement of shareholder voting

The information in sections A to G and I to M has been audited; the remaining sections are unaudited.

Remuneration policy report

A. Strategic overview and policy drivers

The foundations for our remuneration strategy were first enumerated in the 2013 Annual Report and Accounts, and largely continue to apply today. The strategy was, historically, based on the following Company specific elements, which continue to form the backdrop to the overall remuneration strategy:

- Long investment horizons; often there can be an interval of between two and 10 years before a royalty comes on stream and the royalty may continue to flow for 20 years or more. As business development is now focused on royalty acquisitions, incentives are heavily weighted towards longer-term performance.
- No comparable peer group; certainly in the UK, for the purposes of benchmarking Director performance. As a result, our incentive plans have been based on absolute performance rather than performance relative to other companies. A relative measure in relation to the VCP whereby the rewards for the holders of 2016 awards to be granted in 2017 will only be earned should the Company's share price performance match or exceed the performance of the FTSE 350 All Mining Index.
- A relatively high ratio between its market capitalisation (£220.1m at December 31, 2016) and the number of its employees (nine, as at December 31, 2016, of whom one is an Executive Director). The investment team is relatively small and much of the Company's royalty know-how rests with them. The risk to the business of losing these and other key employees is correspondingly significant, and we have traditionally regarded retention as an important objective of our remuneration strategy.

B. How the views of shareholders and employees have been taken into account

The Remuneration Committee has a policy of active engagement with shareholders on remuneration matters. The Chairman of the Remuneration Committee met with a number of shareholders to discuss remuneration matters during 2016, most noticeably in relation to the amendment to the VCP which was then approved by shareholders at the 2016 AGM. The Remuneration Committee also considers shareholder feedback received in relation to the AGM each year. Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the Annual Remuneration Report. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy.

Non-Board employees are consulted individually on the executive remuneration policy to the extent that it impacts upon the structure and level of their own pay and bonuses.

C. The remuneration policy for Executive Directors

The policy approved by shareholders at the 2016 AGM in respect of basic salary and annual bonus covers the three years 2016-2019 and was effective from May 10, 2016. The VCP, which was initially approved at the 2014 AGM and amended following shareholder approval at the 2016 AGM, remains in place. The Committee's specific policy for each element of remuneration is as follows:

Element, purpose and link to strategy	*Operation*	*Maximum*
Salary To recruit, retain and reward executives of a suitable calibre for the role and duties required	Salaries are set with reference to individual performance, experience and responsibilities to reflect the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general. Salaries are reviewed annually. Increases for Executive Directors will normally be in line with those for the general workforce except where there is a change of role or responsibilities or in other exceptional circumstances.	There is no prescribed maximum annual increase.
Pension and benefits To provide market competitive benefits	A Company contribution to a money purchase pension scheme, or a cash allowance in lieu of pension at the request of the individual. Other than a death in service policy which the Company subscribes to, no other benefits are provided. Executive Directors are entitled to 30 days' leave.	Pension: 10% of salary. Death in service policy: five times salary.
Annual bonus To encourage and reward delivery of the Company's operational objectives	The annual bonus will be paid wholly in cash with no deferred component, but with a provision for clawback. Bonus payments are determined based on the achievement of a combination of corporate and personal performance targets. Both are expected to form a substantial part of the scorecard. Corporate performance targets are agreed by the Board at the beginning of the year. Personal performance targets are agreed with the Chairman and the Committee. The Committee will use a balanced scorecard approach to assess performance against targets at the end of the year. The targets are discussed more fully in section D overleaf.	The maximum annual bonus opportunity is 100% of salary.
Long-term incentives To encourage and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares and incentivise retention of key personnel	The LTIP takes the form of a VCP with a performance period of approximately five years from the date of grant, or amendment, to June 16, 2021. Awards that were granted in 2014 were amended, as outlined in section E overleaf. New awards will have a performance period of five years to June 16, 2021 and will be subject to two TSR performance conditions: • Minimum growth in TSR of 7% per annum, with growth measured from a premium to the market capitalisation based on the net asset value per share as at December 31, 2015. • A relative measure of TSR which requires median performance compared to a comparator group New awards to participants with an existing award will accrue at a lower level once the 2014 awards reach the threshold growth of 7% per annum. The detailed design is discussed in section E overleaf.	The maximum number of shares that can be awarded under the option grants equates to 7.5% of the Company's issued share capital as at the end of the measurement period. The Committee intends to allocate the remaining pool as follows: CEO 20.0% Non-Board senior managers 4.0% Unallocated reserve: 13.1% In 2014, the Committee allocated the pool as follows: CEO 56.0% Non-Board senior managers 6.9%

The potential rewards achievable by Executive Directors under the remuneration policy are illustrated in section F. The policy in respect of any future Director appointments is discussed in section I below.

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Directors' remuneration report

D. Annual bonus – Choice of performance measures and approach to target setting

Annual bonuses are based on a scorecard of performance during the calendar year. The scorecard sets challenging targets for triggering bonus, and for rewarding outperformance on a sliding scale. The scorecard will be split between corporate objectives and personal objectives, both of which are expected to form a substantial part of the scorecard.

The corporate objectives are agreed by the Board at the beginning of each year, together with an assessment of the potential for outperformance and the risk of shortfall. This covers such areas as business performance, finance, relationships and reputation. This constitutes the criteria for triggering a bonus and for assessing the levels of challenge and outperformance that would warrant higher levels of bonus. The CEO's personal objectives for the year are agreed at the beginning of the year by the Chairman of the Board in conjunction with the Committee. The personal objectives focus on the required contribution of the individual Executive Director to the achievement of the Company's objectives for the year, but also on important but less measurable aspects such as leadership, building personal and team relationships, and the extent to which they personally have 'gone the extra mile'.

The CEO's performance against corporate and personal objectives is assessed by the Chairman and the Committee at the beginning of the following year, and a bonus is awarded on the basis of the agreed criteria.

E. LTIP – Principal terms and conditions and reward scenarios

The LTIP takes the form of a VCP. The key features of the VCP are as follows:

- All employees are eligible to participate in the VCP, although participation has been limited to the Executive Directors together with other non-Board members of the senior management team at the discretion of the Committee acting in consultation with the CEO.
- No value accrues under the VCP to its participants unless growth in the Company's TSR over the performance period is at least equal to 7% growth per annum.
- The maximum number of shares to be awarded under the VCP option grants will not be capable of exceeding such number equating to 7.5% of the Company's issued share capital as at the end of the measurement period. This cap would apply to total growth in TSR above 300%.

Awards granted in 2014

- Awards were made following shareholder approval of the VCP at the 2014 AGM. The current allocation is as follows:

– CEO:	56.0%
– Non-Board Senior Management:	6.9%
– Total allocated:	62.9%
– Unallocated:	37.1%

- For these awards made in June 2014, the performance period was extended by a further two years. No value accrues under the VCP to its participants unless growth in the Company's TSR over a seven-year performance period is at least equal to 7% growth per annum (or approximately 61% total growth over the period).
- Subject to such threshold growth, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to a cap, set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the five-year period or, if less, 50% of the growth in the Company's TSR over the five-year period in excess of the threshold growth, adjusted to reflect the percentage of the pool allocated.
- For the 2014 awards this will mean that, if the total growth in TSR over the extended seven-year period is:
  - below approximately 61%, no value accrues;
  - between approximately 61% and 76%, the value that accrues is equal to 50% of the growth in the Company's TSR over the seven-year period in excess of the threshold growth, adjusted to 31.5% to reflect the percentage of the pool allocated; and
  - between 76% and the 300% cap, the value that accrues is equal to 10% of the growth in the Company's TSR over a seven-year period, adjusted to 6.29% to reflect the percentage of the pool allocated.
- Options to which participants become entitled at the end of the seven-year period (extended from five years) will become exercisable as follows:
  - One-third immediately;
  - One-third after 12 months;
  - One-third after 24 months.

New awards to be granted in 2017

- The Remuneration Committee wished to avoid rewriting the general principles of remuneration as adopted at the 2014 AGM and wished to avoid changing the key principles of the VCP whilst at the same time reflecting the major change in market conditions.
- To achieve this, further awards are to be granted over the unallocated pool and will be measured to the same date as the original awards (i.e. June 16, 2021) on a similar basis as the original awards except that:
  - Rather than measuring growth from the market capitalisation in June 16, 2014, growth will be measured on the net asset value as at December 31, 2015 (£161.3m) which was a premium of approximately 61% to the market capitalisation on the same date.
  - Subject to a threshold growth of 7% per annum over £161.3m net asset value, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to a cap, set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the five-year period, adjusted to 3.71% to reflect the percentage of the pool allocated. There will be no 'catch-up' once the threshold growth is achieved. This means:
    - below approximately 40%, no value accrues;
    - above approximately 40%, the value that accrues is equal to 10% of the growth in the Company's TSR over 94.9p per share over a five-year period, adjusted to reflect the percentage of the pool allocated.
  - Pay-outs under the proposed additional awards to the CEO and other participants who already have awards will accrue at a lower level based on the outcome of the awards currently allocated. Once the share price reaches the threshold at which value accrues under the existing awards, value accrues on only half of the units under the additional awards held by the CEO and any non-Board members of the senior management team who have an existing award.
  - In addition, a relative measure of TSR will be introduced to ensure it is at least equal to the movement in the index of a relevant comparator group. Although there is no directly comparable peer group, using the FTSE 350 Mining Index would support the strategy of diversifying the portfolio and reflect other companies impacted by commodity prices. In the event that the increase in TSR does not equal or exceed the aforementioned index, no value will accrue to the new awards.
- Options to which participants become entitled at the end of the five-year period will become exercisable as follows:
  - One-third immediately;
  - One-third after 12 months;
  - One-third after 24 months.
- The Committee intends to allocate the pool as follows:
  - CEO: 20.0%
  - Non-Board senior managers: 4.0%
  - Unallocated reserve: 13.1%

The maximum value that can accrue for the full award pool (which includes both the 2014 and the 2017 awards) is capped at 7.5% of the Company's issued share capital as at the end of the measurement period.

Illustrative returns

The following table illustrates the potential return for the CEO and other participants and shareholders for various levels of growth in TSR over the seven-year performance period to June 16, 2021:

		Benefit assuming total growth in TSR (from an illustrative starting market capitalisation of £248.0m) over a seven-year period of:			
	Allocation of pool	*50%*	*76%***	*100%*	*150%*
CEO – original award	56%	£0.0m	£10.6m	£13.9m	£20.8m
CEO – new award	20%	£2.3m	£3.2m	£3.8m	£5.0m
Others – original awards	6.9%	£0.0m	£1.3m	£1.7m	£2.6m
Others – new awards	17.1%	£2.0m	£3.0m	£3.9m	£5.7m
Total	100%	£4.27m	£18.07m	£23.24m	£34.14m
Shareholders		£119.73m	£170.91m	£224.76m	£337.86m

* Approximately 76% growth in TSR over the seven-year period results in a total pool equal to 9.3% of growth. This reflects a pool equal to 10% for the original awards and a pool for the new awards which reflects the reduction in the value that accrues for participants with original awards once the threshold growth of 7% per annum is met.

** At the cap of total growth in TSR of 300% over the period, the benefit to shareholders would be £677.20m and total participant awards would be £66.80m, of which the CEO would receive £41.7m under the original award and £8.7m under the new proposed award.

TSR performance must match or exceed the performance of the FTSE 350 All Mining Index for new awards to pay out. Awards in the table are calculated from the respective starting market capitalisations (£248.0m for original awards and £161.3m for new awards (based on the net asset value as at December 31, 2015)).

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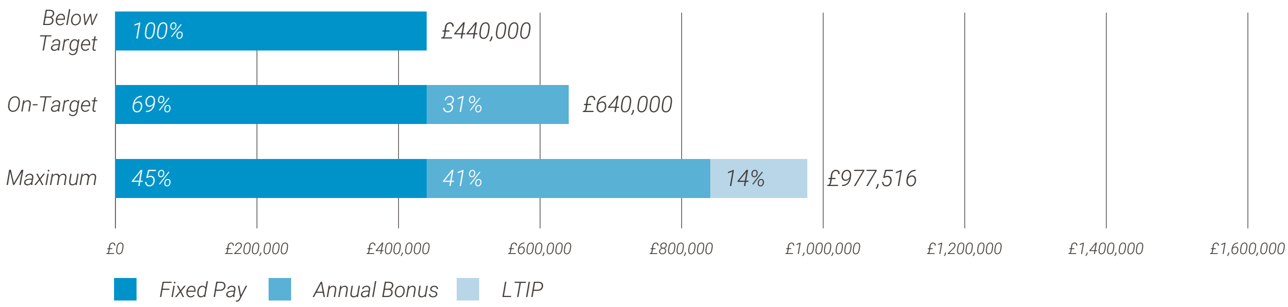
F. Reward scenarios

The Company's policy results in a significant portion of remuneration received by the Executive Director being dependent on Company performance. The charts below illustrate how the total pay opportunity for the Executive Director varies under three different performance scenarios: below target (fixed pay only), on-target and maximum. These charts are indicative as share price movement and dividend accrual have been excluded. All assumptions made are noted below the charts.

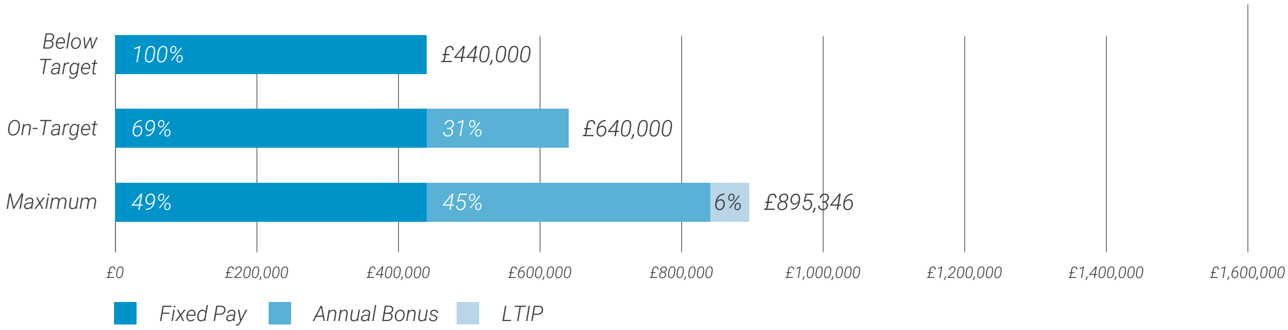
The chart below illustrates the total pay opportunities under three levels. Below target and on-target do not include any VCP vesting and simply allow for salary and pension for the below-target level with a bonus award included in the on-target level. The maximum level includes the current fair value of the VCP should the full 300% TSR hurdle and outperformance of the FTSE 350 Mining Index be achieved.

CEO full-time equivalent total remuneration at different levels of performance



To aid comparability with standard LTIP structures, the chart below reflects the total pay opportunity if the VCP (both the original awards made in 2014 and the new awards) are included on an annualised basis.

CEO full-time equivalent total remuneration at different levels of performance



Assumptions:

- Below Target = fixed pay only (salary + benefits + pension);
- On-target = fixed pay, 50% vesting of the annual bonus and 0% of the VCP awards (i.e. the value that accrues for threshold performance);
- Maximum (2016 VCP award included in full in the year of grant) = fixed pay and 100% vesting of the annual bonus and 2016 VCP award, to be granted in 2017;
- Maximum (2014 and 2016 VCP awards included on an annualised basis) = fixed pay and 100% vesting of the annual bonus and annualised 2014 and 2016 VCP awards, to be granted in 2017;
- Salary levels (on which other elements of the package are calculated) are based on those which applied from January 1, 2016. Salary for the CEO is on a full-time equivalent basis. The Executive Director does not receive any taxable benefits; and
- The fair value of the VCP in both charts has been calculated using a stochastic model as at February 29, 2016 using assumptions that, at grant, the start value from which the TSR growth is calculated is £248.0m for 2014 awards (which includes the adjustment for additional capital raised), the start value from which the TSR growth is calculated is £161.3m for the new awards and there are 169.9m shares in issue.

G. Determinations to be made by and discretions available to the Committee

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee will be required to make determinations and apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- adjusting basic salaries for changes in time commitment (within the full-time equivalent levels set out in this policy);
- determining the quantum of awards and/or payments (within the limits set out in the policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, variation of share capital including rights issues and corporate restructuring events, and special dividends);
- determining 'good leaver' status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan from year-to-year.

If an event occurs which results in the annual bonus plan or long-term incentive performance conditions and/or targets being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

H. Differences in remuneration policy for Executive Directors compared to other employees

The Committee aims to ensure, over time, a proper differential between the level of the remuneration of Executive Directors and other employees, but also appropriate differences in the structure of remuneration to reflect different levels of responsibility and planning horizons of employees across the Company.

The remuneration framework of non-Board employees was reviewed during 2015 and will continue to be reviewed going forward. There are currently three main differences to the remuneration framework:

- the Committee will continue to reserve access to the VCP to the most senior executives who have the greatest potential to influence the Company's long-term performance; and
- the Executive Directors will receive any annual bonus wholly in cash because of the large potential shareholding offered by the VCP; but
- in order to encourage employees without access (or with less access) to the VCP to build up a shareholding in the Company, consideration will be given to either including a share component in any annual bonuses awarded to non-Board employees and continuing to offer them options pursuant to the CSOP or the USOP, or a combination of the two.

I. Approach to appointment of new Executive Directors

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Currently, for an Executive Director, this would include a potential annual bonus of no more than 100%. There is also provision within the VCP arrangements for the Committee to dilute the pool by an additional 10% for new appointees.

The salary for a new Executive Director may be set below the normal market rate, with phased increases following an initial probationary period and over the first few years as the executive gains experience in their new role. The Committee may offer new appointees additional cash and/or share-based elements when it considers these to be in the best interests of the Company and its shareholders, including the use of awards made under 9.4.2 of the Listing Rules. Such payments would take account of remuneration relinquished when leaving the former employer and would reflect (as far as practicable) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Shareholders will be informed of any such payments at the time of appointment.

For an internal Executive Director appointment, any variable pay element awarded in respect of the prior role will be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other ongoing remuneration obligations existing prior to appointment may continue, provided that they are put to shareholders for approval at the earliest opportunity.

For external Executive Director appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

J. Service contracts and payments for loss of office

The Committee, together with the Nomination Committee, reviews the contractual terms for new Executive Directors to ensure that these reflect best practice.

Although the current Executive Director's service contract is for an indefinite term, it is the Company's continuing policy that service contracts should not have a notice period of more than one year.

The service contracts contain provision for early termination. A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing company terminates the employment of an Executive Director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. Payments in lieu of notice are not pensionable. The service contract of Mr. Treger provides for a six-month notice period and an additional termination payment equivalent to six months' basic salary. In the event of a change of control of the Company there is no enhancement to contractual terms. The service contract of the Executive Director is available for inspection at the Company's registered office.

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In summary, the contractual provisions for Executive Directors are as follows:

Provision	*Detailed terms*
Notice period	One year or less.
Termination payment	Basic salary plus benefits (including pension), paid monthly and subject to mitigation. In addition, any statutory entitlements or sums to settle or compromise claims in connection with the termination would be paid as necessary. Additional termination payment to bring the total payment to the equivalent of 12 months' basic salary.
Remuneration entitlements	A pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
Change of control	There are no enhanced terms in relation to a change of control.

Any share-based entitlements granted to an Executive Director under the VCP will be determined based on the plan rules. The default treatment is that any outstanding unvested awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, disability, retirement or other circumstances at the discretion of the Committee (taking into account the individual's performance and the reasons for their departure) 'good leaver' status can be applied. For good leavers, the unvested awards remain subject to performance conditions (measured over the original time period) and are reduced pro-rata in size to reflect the proportion of the performance period actually served. The Committee has the discretion to disapply time pro-rating if it considers it appropriate to do so. In determining whether an executive should be treated as a good leaver or not, the Committee will take into account the performance of the individual and the reasons for their departure.

K. Non-Executive Directors

The Company aims to attract and retain a high-calibre Non-Executive Chairman and Non-Executive Directors by offering a market competitive fee level.

The Committee's specific policy is as follows:

Element, purpose and link to strategy	*Operation*	*Maximum*
Board fees Attract, retain and fairly reward high calibre individuals	Fees are currently paid in cash. Non-Executive Directors are not eligible to participate in the Company's annual performance related incentive schemes, share option schemes or pension scheme. The Chairman is paid a single fee for all his responsibilities. The Non-Executive Directors are paid a basic fee. Additional fees are paid to Chairmen and members of the main Board Committees and to the SID to reflect their extra responsibilities. Fees are reviewed by the Board taking into account individual responsibilities, factors such as Committee Chairmanships, time commitment, other pay increases being made to employees in the Company, and fees payable for the equivalent role in comparable companies. Normally fees are reviewed bi-annually and fee increases are generally effective from annual re-election after the AGM. The Board may adjust the fees for an individual Non-Executive Director during the intervening period if there is a significant change in their responsibilities and/or time commitments.	Current fee levels are set out in the Annual Report on Remuneration. Overall fee limit will be within the £400,000 limit set out in the Company's Articles of Association, although the Company is seeking shareholder approval to increase this to £600,000 following the fee increases effective January 1, 2017.

Mr. Blyth, Mr. Archer, Mr. Meier, Ms. Rhodes and Mr. Stan were appointed for an initial three-year term, renewable at the Board's discretion for up to two further three-year periods thereafter and the Board intends that all future Non-Executive Directors' appointments will be on similar terms. None of the letters of appointment have provisions that relate to a change of control of the Company.

The details of the Non-Executive Directors' letters of appointment are as follows:

Non-Executive	*Date of appointment*	*Notice period*
W.M. Blyth	March 20, 2013	One month
D.S. Archer	October 15, 2014	One month
N.P.H. Meier	April 30, 2015	One month
R.C. Rhodes	May 8, 2014	One month
R.H. Stan	February 19, 2014	One month

L. Legacy arrangements

In approving this Policy Report, authority is given to the Company to honour any commitments entered into with current or former Directors (such as the payment of a pension or the unwinding of legacy share schemes) that have been disclosed to shareholders in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Remuneration Report as they arise.

Annual Remuneration Report for 2016

This part of the report details the remuneration paid to Directors during 2016 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2017 AGM. The information in sections A to G and I to M has been audited, the remaining sections are unaudited.

A. Single figure for total remuneration

		Salary/fees £'000	*Benefits £'000*	*Total bonus £'000*	*Pension/cash Allowance[5] £'000*	*Other £'000*	*Total remuneration £'000*
Executive Directors							
J.A. Treger[1]	2016	360	–	167	36	–	563
	2015	342	–	–	32	–	374
Non-Executive Directors							
W.M. Blyth	2016	95	–	–	–	–	95
	2015	95	–	–	–	–	95
D.S. Archer	2016	48	–	–	–	–	48
	2015	48	–	–	–	–	48
N.P.H. Meier[2]	2016	40	–	–	–	–	40
	2015	27	–	–	–	–	27
R.C. Rhodes	2016	43	–	–	–	–	43
	2015	43	–	–	–	–	43
R.H. Stan	2016	40	–	–	–	–	40
	2015	40	–	–	–	–	40
Former Directors							
M.R. Potter[3]	2016	–	–	–	–	–	–
	2015	93	–	–	2	–	95
A.H. Yadgaroff[4]	2016	–	–	–	–	–	–
	2015	38	–	–	–	–	38

[1] J.A. Treger agreed to receive 90% of his contractual salary as outlined in section K overleaf.

[2] N.P.H. Meier was appointed to the Board on April 30, 2015.

[3] M.R. Potter resigned from the Board on May 31, 2015.

[4] A.H. Yadgaroff resigned from the Board on December 31, 2015.

[5] J.A. Treger and M.R. Potter received contributions toward pension plans, all other amounts were cash payments in lieu of pension.

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B. Annual bonus for the year ending December 31, 2016

A set of individually crafted corporate and personal bonus criteria were agreed with the CEO for the 2016 financial year. These criteria differed somewhat from the criteria for 2015 and took into account the evolving corporate and financial priorities of the Group.

The Remuneration Committee was conscious of the need to 'sense check' the bonus arrangements for the CEO both for major negative external influences and for truly outstanding performance. As a result, the bonus criteria and calculations were made subject to two major caveats:

- That the Company had not suffered an exceptional negative event in the bonus year or in the lead up to the determination of the quantum of the bonus; and
- The Remuneration Committee may look at overriding some or all of the bonus criteria should the CEO's efforts in the 2016 financial year result in a major transformational outcome that demonstrably benefits shareholders, is reflected in a material share price increase and would not otherwise be adequately captured in the bonus matrix.

In addition, many of the bonus criteria are referenced to the achievement of hurdle performance that is either 'superior' or 'exceptional'. No bonus is earned for 'poor' or merely 'adequate' performance.

The main bonus categories which total 100% are: Growth (40%); Financial Performance (25%); Financial Control (10%): Relationships, Reputation and Business Development (10%); and Professionalism (15%). The largest factor in the CEO's bonus matrix at 36% of the total bonus payable relates to growth and securing new royalty opportunities.

Growth: The recent transaction with Denison in February was an out-of-period event and fell into the 2017 bonus year and hence no bonus was attributable to growth and securing new royalty opportunities for 2016. Part of the Growth bonus (4%) related to the performance of investments in 2015 (Narrabri) and 2016 (none) meeting modelled returns. The returns as modelled gave an overall score of 4%. Total overall score of 4%.

Financial Performance: Net profit after tax of £26.4m was a multiple of the budgeted amount and earned the maximum bonus of 10%. There were no capital raisings in 2016 hence no bonus was earned in relation to this metric. As at year end, the share price was £1.295 versus NAV per share of £1.225 and hence exceeded the hurdle of >1 and earned the full bonus allocation of 5%. Total overall score of 15%.

Financial Control: A new risk and currency management plan was successfully implemented in 2016 resulting in the Group effectively hedging its Q4 2016 Australian dollar denominated royalty income against the pound, together with the first three quarters of 2017 royalty income, this plan earned a bonus allocation of 2.5%. Budgeting and financial reporting continued to be very effectively carried out with timely high quality and met the hurdle bonus level of superior to earn a score of 2.5%. Total overall score of 8%.

Relationships, Reputation and Business Development: The implementation of a new investor relations plan was undertaken and a very active programme of engagement with equity providers was undertaken which laid a strong base for the capital raise associated with Denison. Continued high calibre engagement was both maintained and developed with royalty sourcing networks. Superior hurdles were met in each of the three metrics. Total overall score of 8.5%.

Professionalism: Under the guidance of the CEO, the senior management team, whilst small, continued to develop its capability and maintained a high tempo of activity in 2016 in terms of developing the pipeline of new prospects and evaluating a number of significant new business opportunities. Focus was applied to the development of a collaborative, goal oriented, ethical company with harmonious working relationships. Superior hurdles were met in each of the two metrics. The CEO's personal contribution was demonstrated as a result of the excellent outcomes around the increase in value of the legacy share portfolio and the realisation of profits and the judgement applied to defer acquisitions so as to limit dilution and having regard to the Company's cost of capital. An overall score of 11 %.

The overall bonus score was agreed at 46.5% under the bonus scoring matrix for a total award of £167,400 (46.5% x £400,000 x 90%). The overall aggregate bonus of £167,400 bonus falls within the 100% bonus limit set out in the policy table of the 2015 Annual Report.

The CEO's direct senior reports, none of whom are Executive Directors, have individually crafted bonus objectives which were agreed for the 2016 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance criteria which are scored out of a total of 100 points. This score is then applied to a maximum bonus calculated as a percentage of total salary. The percentages range up to 150% of salary depending on the executive's position and their level of individual participation in the VCP.

Bonus criteria will be further tailored for the 2017 year to ensure that these closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

The bonus matrix for the CEO for 2016 is detailed below. Specific measures are excluded due to commercial sensitivity.

2016 CEO Scorecard

Criteria	*Maximum Award (%)*
Corporate Performance Criteria	
A. Growth	**40**
Measures for assessment included:	
• Acquisition of royalties (transformational and medium-sized)	
• Previous acquisitions meeting targeted returns	
• Royalty accretiveness to earnings	
B. Financial Performance	**25**
Measures for assessment included:	
• Net profit after tax	
• Capital raisings	
• Price/book value	
C. Financial Control	**10**
Measures for assessment included:	
• Risk and currency management implementation	
• Budgeting and financial reporting	
Personal Performance Criteria	
D. Relationships, Reputation and Business Development	**10**
• Implementation of IR plan	
• Engagement with debt and equity providers	
• Engagement with and development of royalty sourcing network	
E. Leadership	**15**
• Senior management development and succession	
• Development of a collaborative, goal-oriented, ethical company with harmonious working relationships	
• Personal contribution	
Total	**100**

C. Vesting of long-term incentive awards

No allocations under the VCP were made in 2016, although the Committee intends to allocate the awards outlined in the 2015 remuneration report as soon as the Company exits the close period following the completion of the Denison financing transaction and the publication of the 2016 Annual Report and Accounts. Allocation of units under the VCP out of the pool to Executive Directors have remained unchanged with 56,000 units or 56% of the total number of units allocated to the CEO. As at the date of this report there are a total of 66,880 units issued out of a total pool of 100,000 units, including the awards for non-Board senior managers (2015: 66,880 units).

Long-term incentive awards made during the year

There were no awards granted to Executive Directors under the JSOP, the CSOP or USOP in 2016.

Outstanding share awards

There are currently no awards to Executive Directors outstanding under the JSOP, the CSOP or the USOP.

D. Directors' shareholding and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company, so as to ensure the alignment of their interest with those of shareholders, but there is no formal shareholding guideline. In addition, the VCP is designed to increase this alignment.

The Chairman and Non-Executive Directors are also encouraged to hold shares in the Company although the Chairman and independent Non-Executive Directors are expected to ensure that the level of their individual shareholdings is not significant and thereby call into question their continuing independence.

GOVERNANCE

Directors' remuneration report

Details of the Directors' interests in shares are shown in the table below.

	Beneficially owned at March 24, 2017	Beneficially owned at December 31, 2016	Not subject to performance conditions: LTIP	Not subject to performance conditions: Deferred bonus shares	Subject to performance conditions: LTIP	Subject to performance conditions: Deferred bonus shares
Executive Directors						
J.A. Treger	5,586,454	5,546,454	–	–	–	–
Non-Executive Directors						
W.M. Blyth	126,822	118,822	–	–	–	–
D.S. Archer	20,000	–	–	–	–	–
N.P.H. Meier	173,318	157,318	–	–	–	–
R.C. Rhodes	22,500	15,000	–	–	–	–
R.H. Stan	147,540	123,540	–	–	–	–

None of the Directors hold their shares in hedging arrangements or as collateral for loans. Such an arrangement would require the express permission of the Board.

E. Total pension entitlements

The Company makes contributions to employees' pensions and has designated the National Employment Savings Trust (NEST) 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.

F. Loss of office payments

There were no loss of office payments made to Directors in 2016 (2015: nil).

G. Percentage increase in the remuneration of the CEO

CEO £'000	2016	2015	% change
– salary (full time equivalent basis)	400	380	5%
– benefits	–	–	–
– bonus	167	–	100%
Average per employee £'000			
– salary	81	85	(5%)
– benefits	–	–	–
– bonus	49	26	88%

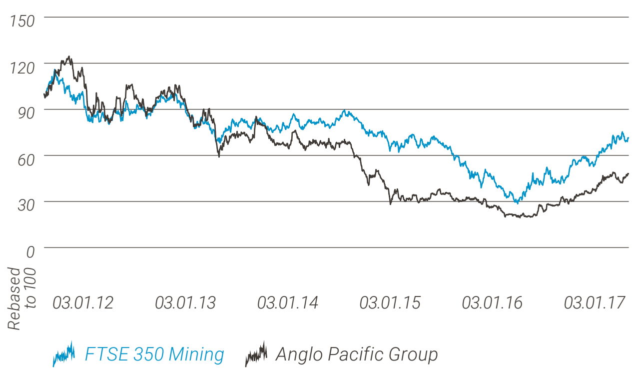
The table above shows the movement in the salary, benefits and annual bonus for the CEO between the current and previous financial year compared to that for the average UK employee. The Committee has chosen this comparator and it feels that it provides a more appropriate reflection of the earnings of the average worker than the movement in the Group's total wage bill, which is distorted by movements in the number of employees. For the benefits and bonus per employee, this is based on those employees eligible to participate in such schemes.

H. Total shareholder return

The performance of the Company's ordinary shares compared with the FTSE 350 Mining Index for the five-year period ended on December 31, 2016 is shown in the graph above. Both have been re-based at the start of the period in order to provide a graphical measure of comparative performance.

The Company has chosen the FTSE 350 Mining Index as a comparator for historical reporting purposes as it believes it to be the nearest relevant index appropriate to the Group.

The middle market price of an ordinary share on December 31, 2016 was 129.50p. During the year the share price ranged from a low of 52.50p to a high of 132.00p.



I. Total remuneration for the CEO over time

	2011	2012	2013	2013	2014	2015	**2016**
			J. Theobald[1]				*J.A. Treger*[2]
Total remuneration (£'000)	253	209	193[3]	39	432	374	563
Bonus outturn (%)	37%	–	–	–	64%	–	47%
Bonus (£'000)	84	–	–	–	160	–	167
LTIP vesting (%)	–	–	–	–	–	–	–

[1] J. Theobald was appointed CEO on October 6, 2010.

[2] J.A. Treger was appointed CEO on October 21, 2013.

[3] J. Theobald also received £63,333 as payment in lieu of notice, £95,000 termination payment (paid in January 2014) and £2,400 for legal advice.

The table above shows the total remuneration for the CEO during each of the financial years. The total remuneration figure includes the annual bonus. No LTIP awards vested. The bonus outturn percentage is expressed as a percentage of the cap, where applicable, for the period in question. As there were no caps on bonus in 2010, the actual bonus payable based on performance in those years has been included for information in the table.

J. Relative importance of spend on pay

(£m)	**2016**	2015	% (decrease) /increase
Staff costs	2.55	2.68	(5%)
Dividends	11.80	11.90	(1%)

K. External directorships

Mr. Treger holds an external non-executive directorship with Mantos Copper S.A. for which he earned fees during the year. This directorship does not affect Mr. Treger's ability to perform his role as CEO of the Company, as this directorship forms part of his 10%-time commitment aside from Anglo Pacific (see 'The Board' section of the Governance Report). As a result, Mr. Treger is paid 90% of his full-time equivalent salary of £400,000.

L. 2017 salary review

The Executive Directors' full-time equivalent ('FTE') salaries were reviewed in January 2017, and the current salaries (on a FTE basis) are as follows:

Current salaries for the Executive Directors

Executive	***FTE Salary as at January 1, 2017***	*FTE Salary as at January 1, 2016*	*Increase*
J.A. Treger	400,000	400,000	–

M. Fees for the Chairman and Non-Executive Directors

As detailed in the Remuneration Policy, the Company's approach to setting Non-Executive Directors' remuneration is with reference to market levels in similar companies, levels of responsibility and time commitments. A summary of current fees is as follows:

	2017	2016	% Increase
Chairman	115,000	95,000	21%
Base fee	40,000	38,000	5%
Senior Independent Director	57,000	48,000	19%
Committee Chairman	51,000	43,000	19%
Committee Member	46,000	40,000	15%

The Chairman's fee of £95,000 was set with effect from April 1, 2014 for a two-year period, however, the Chairman elected to maintain this fee for the duration of 2016. On the recommendation of the Remuneration Committee, the Chairman's fee has been set at £115,000 per annum for a two-year period effective from January 1, 2017.

Members of the main Board Committees are paid an additional amount, currently £6,000 per annum, to reflect extra commitments, with a Committee Chair receiving a further £5,000. The SID also receives a further additional fee, currently £6,000 per annum, to reflect his extra duties.

N. Performance targets for the annual bonus and LTIP awards to be granted in 2016 and beyond

Annual bonuses for 2016 were made in accordance with the policy approved by shareholders in 2015.

The CEO was awarded a bonus of £167,400 which reflects his performance against his scorecard being assessed as 46.5%. The 2016 scorecard for the CEO is detailed on ➡ *page 63*. A similar scorecard approach will continue in 2017. The scorecard will set challenging targets for triggering bonus, and for rewarding outperformance on a sliding scale. The scorecard will be a combination of corporate objectives and personal objectives. Corporate objectives for 2017 will cover areas such as business performance, funding and finance, relationships and reputation. Due to the commercially sensitive nature of the Group's corporate objectives, further details of the 2017 scorecard will be provided in the 2017 Directors' Remuneration Report.

GOVERNANCE

Directors' remuneration report

No long-term incentive awards were made during 2015 or 2016. Long-term incentive awards for 2014 were made under the VCP with a five-year performance period from the date of grant (i.e. to mid-2019); this was extended to seven years following approval by the shareholders at the 2016 AGM. No value accrues under the VCP to its participants unless growth in the Company's TSR over the performance period is at least equal to 7% growth per annum (or approximately 40% total growth over the period).

Long-term incentive awards for 2017 will be made under the amended terms of the VCP, approved by shareholders at the 2016 AGM, with a performance period from the date of grant to June 16, 2021. No value accrues under the VCP to its participants unless growth in the Company's TSR over the performance period is at least equal to 7% growth per annum (or approximately 40% total growth over the period). Growth will be measured based on the net asset value per share as at December 31, 2015. A relative measure of TSR will be introduced to ensure it is outperforming a relevant comparator group.

O. Statement of shareholder voting

At last year's AGM held on May 10, 2016, the Directors' remuneration report was approved by shareholders on a show of hands. Details of the valid proxy votes received for the resolution are detailed below:

	Votes	*Percentage*
Votes cast in favour (including proxy appointments that gave discretion to the Chairman)	77,507,658	99.53%
Votes cast against	366,113	0.47%
Total votes cast (excluding votes directed to be withheld)	77,873,771	100.00%
Votes withheld	28,236	

Approval

This report was approved by the Board on March 29, 2017 and signed on its behalf by

D.S. Archer

Chairman of the Remuneration Committee

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended December 31, 2016.

Principal activities

The Group's principal royalty activities are set out in the Strategic Report on ➡ *pages 04 and 05*.

Going concern

The financial position of the Group and its cash flows are set out on ➡ *pages 77 and 80*. The directors have considered the principal risks of the company which are set out on ➡ *pages 18 to 23*, and considered key sensitivities which could impact on the level of available borrowings. As at December 31, 2016, the Group had net debt of £1.0m as set out in ➡ *note 22* and subject to continued covenant compliance, has access to a further £18.0m in undrawn borrowings from its secured revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2018. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance and other uncertainties, together with the Group's net debt position and access to the undrawn facilities, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Results and dividends

The consolidated income statement is set out on ➡ *page 75* of the financial statements.

The Group reported a profit after tax of £26.4m (2015: loss £22.6m).

Total dividends for 2016 will amount to 6.00p per share (2015: 7.00p per share), combining the recommended final dividend of 3.00p per share for the year ended December 31, 2016, with the interim dividend of 3.00p per share paid on February 8, 2017. The final dividend for the year ended December 31, 2016, is subject to shareholder approval at the 2017 AGM. The Board proposes to pay the final dividend on August 9, 2017 to shareholders on the Company's share register at the close of business on June 30, 2017. The shares will be quoted ex-dividend on the London Stock Exchange on June 29, 2017, and the Toronto Stock Exchange on June 28, 2017.

Directors

The names of the Directors in office on the date of approval of these financial statements, together with their biographical details and other information, are shown on ➡ *page 45*.

All Directors will stand for election or re-election at the 2017 AGM.

A table of Directors' attendance at Board and Committee meetings during 2016 is on ➡ *page 46*.

Directors' disclosures

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. At the next AGM, all of the Company's Directors will be offering themselves for election or 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 2016 AGM, held on May 10, 2016, the Directors were given the power to issue new shares up to an aggregate nominal amount of £1,132,947. This power will expire at the earlier of the conclusion of the 2017 AGM or June 30, 2017. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 16,994,203. This power will expire at the earlier of the conclusion of the 2017 AGM or June 30, 2017.

At the AGM, held on May 10, 2016, 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 2017 AGM or June 30, 2017.

The Group maintains insurance for its Directors and officers against certain liabilities in relation to the Group. The Group has entered into qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006.

Capital structure

The structure of the Company's ordinary share capital at March 24, 2017 was as follows:

	Issued No.	*Nominal value per share*	*Total*	*% of total capital*
Ordinary shares	180,902,034	0.02	3,618,041	100%

Change of control

There are a number of agreements that terminate upon a change of control of the Company such as certain commercial contracts and the revolving credit facility. None of these are considered significant in terms of the business as a whole. There is no change of control provision in any of the Directors' contracts.

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

The Company's ordinary shares are subject to transfer restrictions and forced transfer provisions that are intended to prevent, among other things, the assets of the Company from being deemed to be 'plan assets' under US Employment Retirement Income Security Act of 1974 (ERISA). For more information refer to the important notices section.

Employee share schemes

Details of employee share schemes are set out on ➡ *page 56* below and in ➡ *note 28* to the financial statements.

Treasury

No shares are currently held in treasury by the Company.

GOVERNANCE

Directors' report

Warrants

On May 22, 2014, the Company resolved to create 500,000 warrants, to be issued pursuant to a warrant instrument dated June 10, 2014. These warrants entitle the warrant holders to subscribe in cash for ordinary shares at the subscription price of £2.50 per ordinary share (subject to any adjustment events in accordance with the warrant instrument). The rights to subscribe for ordinary shares conferred by the warrants may only be exercised within five years from the date of the grant of the warrants and in accordance with the warrant instrument.

On January 18, 2017, the Company resolved to create 294,695 warrants, to be issued pursuant to a warrant instrument dated February 10, 2017, with Investec Bank PLC as part of the refinancing of the Group's revolving credit facility *(➡ refer to note 34)*. These warrants entitle the warrant holders to subscribe in cash for ordinary shares at the subscription price of £1.58 per ordinary share (subject to any adjustment events in accordance with the warrant instrument). The rights to subscribe for ordinary shares conferred by the warrants may only be exercised within three years from the date of the grant of the warrants and in accordance with the warrant instrument.

Allotment of ordinary shares

On February 6, 2017, the Company issued 10,960,000 new Ordinary Shares at a price of 125p per share amounting to an aggregate nominal value of £219,200 and aggregate consideration of £13,700,000 as part of a firm placing announced on February 1, 2017. The issue price was fixed on February 1, 2017 and represented a discount of approximately 5.1% to the closing middle market price on the London Stock Exchange of 131.75p per share on January 31, 2017. The net proceeds were used to provide the majority of funding for the Denison financing and streaming agreements, further details of which are set out in *➡ notes 32 to the financial statements*.

As a result of the preceding issuances, the Company has issued 10,960,000 new Ordinary Shares other than as part of a pre-emptive offer in the 12 months preceding the date of this Annual Report and Accounts, representing approximately 6% of the Company's share capital as at the date of this Annual Report. The Company has issued a further 36,429,609 new Ordinary Shares other than as part of a pre-emptive offer in the three years preceding the date of this Annual Report and Accounts, representing an aggregate of approximately 26% of the Company's share capital as at the date of this Annual Report.

Substantial shareholdings

The Company has been notified, aside from the interests of the Directors, of the following interests of 3% or more in the share capital of the Company at March 24, 2017.

	Ordinary Shares of 2p each	*Representing*
Liontrust Investment Partners LLP	15,578,644	8.61%
Aberforth Partners LLP	17,044,444	9.42%
Schroders PLC	12,210,712	6.75%
Ransome's Dock Limited	7,489,360	4.14%
AXA Investment Managers UK (Framlington)	5,494,332	3.04%
Kings Chapel International Limited*	5,285,204	2.92%

* Kings Chapel International Limited is a connected person of Mr. J.A. Treger.

See *➡ page 64* for a list of Directors' interests in shares.

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 has 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.

Other statutory and regulatory information

Information in relation to the Group's payment policy can be found in *➡ note 26* and a statement on Going Concern is provided in *➡ note 3.1.1*.

Auditors

Deloitte LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to appoint auditors will be proposed at the 2016 AGM.

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 Conduct 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.

By Order of the Board

K. Flynn
Company Secretary
March 29, 2017

Registered office
1 Savile Row
London
W1S 3JR

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and Accounts, 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, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

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

We confirm that to the best of our knowledge:

- 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 or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By Order of the Board

W.M. Blyth
Chairman
March 29, 2017

FINANCIAL STATEMENTS

Independent auditor's report to the members of Anglo Pacific Group PLC

Opinion on financial statements of Anglo Pacific Group PLC

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 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

The financial statements that we have audited 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 35*.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: • Impairment assessment of the royalty intangibles portfolio • Valuation of the Kestrel & Dugbe royalties Within this report, any new risks are identified with ▲ and any risks which are the same as the prior year identified with ◆.
Materiality	The materiality that we used in the current year was £4.0 million which was determined on the basis of 2% of net assets.
Scoping	Consistent with the how the Group is managed, we consider the Group to be one component. Consequently all assets, liabilities, income and expenses were subject to a full scope audit.
Significant changes in our approach	Last year our report included a risk on classification of the Narrabri transaction. This was not included in our report this year as there were no new material royalties transacted in the period.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within ➡ *note 3.1.1* to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on ➡ *page 18*.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on ➡ *page 18* that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on ➡ *pages 18 to 23* that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in ➡ *note 3.1.1* to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on ➡ *page 18* as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

As described above, the risk identified in the prior year titled 'Classification of the Narrabri transaction' is no longer applicable to this year, and there were no other new material royalties transacted in the period.

In respect of the 'Valuation of royalty arrangements held at fair value' risk reported in the prior year, this has been focussed on the Kestrel royalty asset in the current year as it is the most material royalty asset held at fair value. This risk is now described as the 'Valuation of the Kestrel royalty'.

In respect of the 'Impairment assessment of the royalty and investment portfolio' risk reported in the prior year, this has been focussed on the intangible royalty assets in the current year reflecting that the remainder of the investment portfolio had a lesser effect on our audit strategy and allocation of resources during the current audit. This risk is now described as the 'Impairment assessment of the royalty intangibles portfolio'.

Valuation of the Kestrel royalty (➡ notes 14)

Risk description ◆	Royalties arrangements held at fair value, have a value of £130.4 million at 31 December 2016 (2015: £89.2 million). The Kestrel royalty comprises £116.9 million (2015: £82.6 million) of the total and management engage an independent valuation specialist to perform an independent valuation of the royalty asset. The valuation of the Kestrel royalty is subjective and contains significant levels of judgement in relation to the discount rate used, the forecast commodity prices and the expected production profile. In addition, the heightened coal price volatility during the year has widened the range of analyst forecasts and increased the subjectivity in the valuation. The price and discount rate assumptions are set out in ➡ *note 14* along with the related sensitivity analysis. Refer to the Audit Committee report where this matter is considered by the Audit Committee as a significant issue, 'Review of the carrying value of royalties held at fair value' on ➡ *page 50*
How the scope of our audit responded to the risk	We obtained the valuation model used by management's expert to determine the fair value of the Kestrel royalty held at fair value. We challenged the assumptions made by management by comparison to recent third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports. To challenge the discount rates we used independent valuation experts to create independent discount rates and compared them back to the rates used by management. We evaluated the independence, objectivity and competence of management's expert. We challenged the valuation assumptions consistent with the above methodology directly by reviewing their report and speaking directly with the specialist. In doing so we assessed the extent to which management may have influenced the key assumptions in the valuation model to address the risk of any possible management bias.
Key observations	The fair value of the Kestrel royalty is in an acceptable range.

FINANCIAL STATEMENTS

Independent auditor's report to the members of Anglo Pacific Group PLC

Impairment assessment of the royalty intangibles portfolio (➡ notes 16)

Risk description ◆	Royalty arrangements held as intangibles have a gross carrying amount of £115.7 million at 31 December 2016 (2015: £97.5 million) and a carrying amount of £80.0 million (2015: 71.5 million). As a consequence of the volatility in current commodity prices, the assessment of the recoverable amount of royalty arrangements accounted for as intangible assets involve key judgements. The recoverable amount valuations are subjective and contain significant levels of judgement in relation to the discount rates used, the forecast commodity prices, the expected production profiles and where relevant the probability of production commencing. Impairment indicators were identified for Four Mile and Amapá with carrying amounts of £1.7 million and £2.1 million (pre-impairment) respectively. Indicators of impairment reversal were also identified for Ring of Fire which has a carrying amount of £3.8 million. In the year an impairment of £2.1 million has been recognised at Amapá (➡ see note 16) Refer to the Audit Committee report where this matter is considered by the Audit Committee as part of the significant issue, 'Review of carrying values of royalties held at amortised cost along with the investment portfolio and resulting impairment charges ' on ➡ page 50.
How the scope of our audit responded to the risk	We challenged management's assessment as to whether indicators of impairment exist for specific royalty arrangements through discussions with management, evaluation of changes in production and pricing forecasts and review of publically available information. Where such indicators were identified, we obtained copies of the valuation models and challenged the assumptions made by management in relation to these models by comparison to third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports. To challenge the discount rates we used independent valuation experts to create independent discount rates and compared them back to the rates used by management We also reviewed and challenged management's assessment of whether projects still in the development phase would reach production and performed an independent assessment based on third party data available from asset operators. Where there were indicators of impairment reversal for royalty assets we evaluated whether it was appropriate to reverse previous impairments.
Key observations	We concur with management's full impairment of the Amapá royalty. In respect of the other intangible assets where indicators were identified, we found that the assumptions used were reasonable and had been determined and applied on a consistent basis across the Group. No additional impairments or impairment reversals were identified from the work performed.

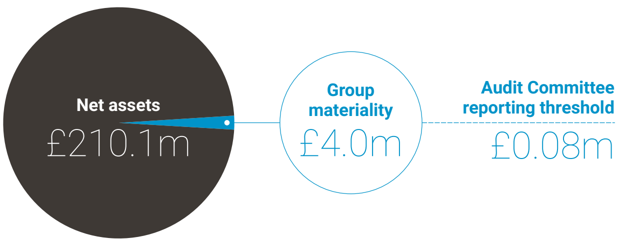
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£4.0 million (2015: £3.2 million)
Basis for determining materiality	2% (2015: 2%) of net assets
Rationale for the benchmark applied	Net assets was considered a more stable base than profits due to the effect of unrealised fair value gains/losses in each financial year.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.08 million (2015: £0.06 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Consistent with the how the Group is managed, we consider the Group to be one component. Consequently all assets, liabilities, income and expenses were subject to a full scope audit.

There were no changes to the overall scope of the audit compared the prior year.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

FINANCIAL STATEMENTS

Independent auditor's report to the members of Anglo Pacific Group PLC

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, 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). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Thomas ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
March 29, 2017

Consolidated income statement

for the year ended December 31, 2016

	Notes	**2016 £'000**	2015 £'000
Royalty income	4	19,705	8,683
Amortisation of royalties	16	(2,869)	(2,573)
Operating expenses	5a	(4,130)	(4,060)
Operating profit before impairments, revaluations and gains on disposals		**12,706**	**2,050**
Gain/(Loss) on sale of mining and exploration interests	17	2,449	(484)
Impairment of mining and exploration interests	17	(29)	(930)
Impairment of royalty and exploration intangible assets	16	(2,009)	(4,414)
Revaluation of royalty financial instruments	15	(4,939)	–
Revaluation of coal royalties (Kestrel)	14	17,900	(27,201)
Finance income	7	2,347	712
Finance costs	8	(1,086)	(629)
Other income	9	973	416
Profit/(Loss) before tax		**28,312**	**(30,480)**
Current income tax charge	10	(594)	(1,009)
Deferred income tax (charge)/credit	10	(1,356)	8,913
Profit/(Loss) attributable to equity holders		**26,362**	**(22,576)**
Earnings/(Loss) per share			
Basic and diluted earnings/(loss) per share	11	15.60p	(14.06p)

The notes on ➡ *pages 81 to 115* are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

for the year ended December 31, 2016

	Notes	**2016 £'000**	2015 £'000
Profit/(Loss) attributable to equity holders		**26,362**	**(22,576)**
Items that will not be reclassified to profit or loss		–	–
Items that have been or may be subsequently reclassified to profit or loss			
Available-for-sale investments			
Revaluation of available-for-sale investments	15, 17	9,184	857
Reclassification to income statement on disposal of available-for-sale investments		(2,449)	484
Reclassification to income statement on impairment		29	930
Deferred tax relating to items that have been or may be reclassified		27	159
Net exchange gain/(loss) on translation of foreign operations	25	26,125	(8,597)
Other comprehensive income/(expense) for the year, net of tax		**32,916**	**(6,167)**
Total comprehensive income/(expense) attributable to equity holders for the year		**59,278**	**(28,743)**

The notes on ➡ *pages 81 to 115* are an integral part of these consolidated financial statements.

Consolidated balance sheet and Company balance sheet

as at December 31, 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Non-current assets					
Property, plant and equipment	13	77	113	77	113
Coal royalties (Kestrel)	14	116,885	82,649	–	–
Royalty financial instruments	15	13,556	6,534	6,724	6,534
Royalty and exploration intangible assets	16	80,047	71,491	2,349	2,349
Mining and exploration interests	17	17,062	10,898	13,861	8,259
Deferred costs	18	1,370	1,013	155	–
Investments in subsidiaries	19	–	–	56,543	56,595
Other receivables	20	–	10,132	39,303	46,518
Deferred tax	25	9,126	3,094	–	–
		238,123	185,924	119,012	120,368
Current assets					
Trade and other receivables	20	12,090	5,106	8,551	1,474
Derivative financial instruments	21	711	–	–	–
Cash and cash equivalents	22	5,331	5,708	924	410
		18,132	10,814	9,475	1,884
Total assets		**256,255**	**196,738**	**128,487**	**122,252**
Non-current liabilities					
Borrowings	24	6,167	7,272	3,100	–
Other payables	26	1,491	1,193	276	180
Deferred tax	25	36,637	24,546	662	766
		44,295	33,011	4,038	946
Current liabilities					
Income tax liabilities		465	574	465	465
Trade and other payables	26	1,357	1,170	1,090	1,019
		1,822	1,744	1,555	1,484
Total liabilities		**46,117**	**34,755**	**5,593**	**2,430**
Net assets		**210,138**	**161,983**	**122,894**	**119,822**
Capital and reserves attributable to shareholders					
Share capital	27	3,399	3,399	3,399	3,399
Share premium	27	49,211	49,211	49,211	49,211
Other reserves		63,600	29,976	40,923	33,912
Retained earnings		93,928	79,397	29,361	33,300
Total equity		**210,138**	**161,983**	**122,894**	**119,822**

The notes on ➡ *pages 81 to 115* 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 £7,892,000 (2015: loss £1,359,000).

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on ➡ *pages 75 to 115* were approved by the Board and authorised for issue on March 29, 2017 and are signed on its behalf by:

W.M. Blyth
Chairman

J.A. Treger
Chief Executive Officer

FINANCIAL STATEMENTS

Consolidated statement of changes in equity

for the two years ended December 31, 2016

			Other reserves								
	Share capital £'000	*Share premium £'000*	*Merger reserve £'000*	*Warrant 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, 2015	2,329	29,328	9,453	143	1,487	678	6,040	632	(2,601)	113,761	161,250
Loss for the year	–	–	–	–	–	–	–	–	–	(22,576)	(22,576)
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	–	–	–	–	857	–	51	–	–	–	908
Transferred to income statement on disposal	–	–	–	–	484	–	–	–	–	–	484
Transferred to income statement on impairment	–	–	–	–	930	–	–	–	–	–	930
Deferred tax	–	–	–	–	159	–	1	–	–	–	160
Foreign currency translation	–	–	–	–	–	–	(8,649)	–	–	–	(8,649)
Total comprehensive expense	**–**	**–**	**–**	**–**	**2,430**	**–**	**(8,597)**	**–**	**–**	**(22,576)**	**(28,743)**
Dividends	–	–	–	–	–	–	–	–	–	(11,901)	(11,901)
Issue of ordinary shares	1,070	19,883	19,681	–	–	–	–	–	–	–	40,634
Value of employee services	–	–	–	–	–	630	–	–	–	113	743
Total transactions with owners of the company	**1,070**	**19,883**	**19,681**	**–**	**–**	**630**	**–**	**–**	**–**	**(11,788)**	**29,476**
Balance at December 31, 2015	**3,399**	**49,211**	**29,134**	**143**	**3,917**	**1,308**	**(2,557)**	**632**	**(2,601)**	**79,397**	**161,983**
Balance at January 1, 2016	3,399	49,211	29,134	143	3,917	1,308	(2,557)	632	(2,601)	79,397	161,983
Profit for the year	–	–	–	–	–	–	–	–	–	26,362	26,362
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	–	–	–	–	9,184	–	57	–	–	–	9,241
Transferred to income statement on disposal	–	–	–	–	(2,449)	–	–	–	–	–	(2,449)
Transferred to income statement on impairment	–	–	–	–	29	–	–	–	–	–	29
Deferred tax	–	–	–	–	27	–	1	–	–	–	28
Foreign currency translation	–	–	–	–	–	–	26,067	–	–	–	26,067
Total comprehensive income	**–**	**–**	**–**	**–**	**6,791**	**–**	**26,125**	**–**	**–**	**26,362**	**59,278**
Dividends	–	–	–	–	–	–	–	–	–	(11,831)	(11,831)
Value of employee services	–	–	–	–	–	708	–	–	–	–	708
Total transactions with owners of the company	**–**	**–**	**–**	**–**	**–**	**708**	**–**	**–**	**–**	**(11,831)**	**(11,123)**
Balance at December 31, 2016	**3,399**	**49,211**	**29,134**	**143**	**10,708**	**2,016**	**23,568**	**632**	**(2,601)**	**93,928**	**210,138**

The notes on ➡ *pages 81 to 115* are an integral part of these consolidated financial statements.

Company statement of changes in equity

for the two years ended December 31, 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Other reserves: Warrant reserve £'000	Other reserves: Investment revaluation reserve £'000	Other reserves: Share based payment reserve £'000	Other reserves: Foreign currency translation reserve £'000	Other reserves: Special reserve £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2015	2,329	29,328	9,453	143	1,301	678	82	632	46,447	90,393
Changes in equity for 2015										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	272	–	–	–	–	272
Transferred to income statement on disposal	–	–	–	–	(13)	–	–	–	–	(13)
Transferred to income statement on impairment	–	–	–	–	618	–	–	–	–	618
Deferred tax on valuation	–	–	–	–	435	–	–	–	–	435
Net income recognised direct into equity	–	–	–	–	1,312	–	–	–	–	1,312
Loss for the year	–	–	–	–	–	–	–	–	(1,359)	(1,359)
Total recognised income and expenses	–	–	–	–	1,312	–	–	–	(1,359)	(47)
Dividends	–	–	–	–	–	–	–	–	(11,901)	(11,901)
Issue of ordinary shares	1,070	19,883	19,681	–	–	–	–	–	–	40,634
Value of employee services	–	–	–	–	–	630	–	–	113	743
Balance at December 31, 2015	**3,399**	**49,211**	**29,134**	**143**	**2,613**	**1,308**	**82**	**632**	**33,300**	**119,822**
Balance at January 1, 2016	3,399	49,211	29,134	143	2,613	1,308	82	632	33,300	119,822
Changes in equity for 2016										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	8,578	–	–	–	–	8,578
Transferred to income statement on disposal	–	–	–	–	(2,406)	–	–	–	–	(2,406)
Transferred to income statement on impairment	–	–	–	–	26	–	–	–	–	26
Deferred tax on valuation	–	–	–	–	105	–	–	–	–	105
Net income recognised direct into equity	–	–	–	–	6,303	–	–	–	–	6,303
Profit for the year	–	–	–	–	–	–	–	–	7,892	7,892
Total recognised income and expenses	–	–	–	–	6,303	–	–	–	7,892	14,195
Dividends	–	–	–	–	–	–	–	–	(11,831)	(11,831)
Issue of ordinary shares	–	–	–	–	–	–	–	–	–	–
Value of employee services	–	–	–	–	–	708	–	–	–	708
Balance at December 31, 2016	**3,399**	**49,211**	**29,134**	**143**	**8,916**	**2,016**	**82**	**632**	**29,361**	**122,894**

The notes on ➡ pages 81 to 115 are an integral part of these consolidated financial statements.

FINANCIAL STATEMENTS

Consolidated statement of cash flows and Company statement of cash flows

for the year ended December 31, 2016

	Notes	Group 2016 £'000	Group 2015 £'000	Company 2016 £'000	Company 2015 £'000
Cash flows from operating activities					
Profit/(Loss) before taxation		28,312	(30,480)	7,324	(1,263)
Adjustments for:					
Finance income	7	(82)	(301)	–	(1)
Finance costs – excluding foreign exchange gains/losses	8	1,086	629	560	231
Other income	9	(973)	(416)	(246)	(213)
(Gain)/Loss on disposal of mining and exploration interests	17	(2,449)	484	(2,406)	(13)
Impairment of mining and exploration interests	17	29	930	26	618
Impairment of royalty and exploration intangible assets	16	2,009	4,414	–	–
Revaluation of royalty financial instruments	15	4,939	–	–	–
Impairment of investment in subsidiaries	19	–	–	6,956	–
Revaluation of coal royalties (Kestrel)	14	(17,900)	27,201	–	–
Depreciation of property, plant and equipment	13	36	40	36	40
Amortisation of royalty intangible assets	16	2,869	2,573	–	–
Share based payment	6a	708	840	708	840
Forgiveness of loan to subsidiary undertaking		–	–	50	149
Intercompany dividends		–	–	(10,387)	–
		18,584	5,914	2,621	388
(Increase)/Decrease in trade and other receivables		(8,613)	(2,653)	(231)	47
Increase/(Decrease) in trade and other payables		282	(1,767)	166	(1,864)
Cash generated from/(used in) operations		10,253	1,494	2,556	(1,429)
Income taxes refunded/(paid)	10	63	(1,466)	897	(584)
Net cash generated from/(used in) operating activities		**10,316**	**28**	**3,453**	**(2,013)**
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests	17	3,431	1,722	3,326	113
Purchases of royalty and exploration intangible assets	16		(41,587)	–	–
Proceeds from royalty financial instruments	9	246	213	246	213
Other royalty related repayments	20	352	2,868	–	–
Prepaid acquisition costs	18	(155)	–	(155)	–
Sundry income	9	63	203	185	212
Finance income	7	82	301	–	1
Investment in subsidiaries	19	–	–	–	(23,712)
Return of capital from subsidiaries	19	–	–	2	4,090
Loans granted to subsidiary undertakings	31	–	–	(258)	(22,553)
Loan repayments from subsidiary undertakings	31	–	–	2,788	16,001
Net cash generated from/(used in) investing activities		**4,019**	**(36,280)**	**6,134**	**(25,635)**
Cash flows from financing activities					
Drawdown of revolving credit facility	23, 24	8,000	10,853	3,600	–
Repayment of revolving credit facility	23, 24	(9,256)	(3,326)	(500)	–
Proceeds from issue of share capital	27	–	37,326	–	37,326
Dividends paid	12	(11,831)	(11,901)	(11,831)	(11,901)
Finance costs	8	(1,086)	(629)	(560)	(231)
Net cash used in/(generated from) financing activities		**(14,173)**	**32,323**	**(9,291)**	**25,194**
Net increase/(decrease) in cash and cash equivalents		**162**	**(3,929)**	**296**	**(2,454)**
Cash and cash equivalents at beginning of year		**5,708**	**8,769**	**410**	**1,996**
Unrealised foreign currency (loss)/gain		(539)	868	218	868
Cash and cash equivalents at end of year		**5,331**	**5,708**	**924**	**410**

The notes on ➡ *pages 81 to 115* are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2016

1 General information

Anglo Pacific Group PLC (the 'Company') and its subsidiaries (together, the 'Group') secure natural resources royalties and streams by creating new royalties directly with operators or by acquiring existing royalties. The Group has royalties and investments in mining and exploration interests primarily in Australia, North and South America and Europe, with a diversified exposure to commodities represented by coal, uranium, gold and iron ore.

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 1 Savile Row, London, W1S 3JR, United Kingdom (registered number: 897608).

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements and estimates that can have a significant impact on the financial statements. 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. The most critical accounting judgement relates to the classification of royalty arrangements and the key sources of estimation uncertainty relate to the calculation of certain royalty arrangement's fair value and the key assumption used when assessing impairment of property, plant and equipment and intangible assets. The use of inaccurate or unreasonable assumptions in assessments made for any of these estimates could result in a significant impact on the financial results.

Critical accounting judgements

Classification of royalty arrangements: initial recognition and subsequent measurement

The Directors must decide whether the Group's royalty arrangements should be classified as:

- Intangible Assets in accordance with IAS 38 'Intangible assets';
- Financial Assets in accordance with IAS 32 'Financial Instruments: Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'; or
- Investment properties in accordance with IAS 40 'Investment Property'.

The Directors use the following selection criteria to identify the characteristics which determine which accounting standard to apply to each royalty arrangement:

Type 1 – Intangible assets ('vanilla' royalties): Royalties, in their simplest form, are classified as intangible assets by the Group. The Group considers the substance of a simple vanilla royalty to be economically similar to holding a direct interest in the underlying mineral asset. Existence risk (the commodity physically existing in the quantity demonstrated), production risk (that the operator can achieve production and operate a commercially viable project), timing risk (commencement and quantity produced, determined by the operator) and price risk (returns vary depending on the future commodity price, driven by future supply and demand) are all risks which the Group participates in on a similar basis to an owner of the underlying mineral licence. Furthermore, in a vanilla royalty, there is only a right to receive cash to the extent there is production and there are no interest payments, minimum payment obligations or means to enforce production or guarantee repayment. These are accounted for as intangible assets under IAS 38.

Type 2 – Financial assets (royalties with additional financial protection): In certain circumstances where the 'vanilla' risk is considered too high, but the Group still fundamentally believes in the quality or potential of the underlying resource, the Group will look to introduce additional protective measures. This has typically taken the form of performance milestone penalties (usually resulting in the receipt of cash or cash equivalent), minimum payment terms and interest provisions or mechanisms to convert the initial outlay into the equity instruments of the operator in the event of project deferral. Once an operation is in production, these mechanisms generally fall away such that the royalty will display identical characteristics and risk profile to the vanilla royalties; however, it is the contractual right to enforce the receipt of cash through to production which results in these royalties being treated as financial assets in accordance with IAS 32 and IAS 39.

Type 3 – Investment property: Royalties which are derived from the ownership of sub-stratum land are accounted for as investment properties under IAS 40, even though the substance of their commercial terms is identical to vanilla royalties. The Group does not expect to obtain royalties in this manner going forward, as it is unusual for sub-stratum minerals not to be the property of the state.

FINANCIAL STATEMENTS

Notes to the consolidated financial statements

for the year ended December 31, 2016

A summary of the Group's accounting approach is set out below:

Accounting classification	*Substance of contractual terms*	*Accounting treatment*	*Examples*
Intangible assets	• Simple royalty with no right to receive cash other than through a royalty related to production	• Investment is presented as an intangible asset and carried at cost less accumulated amortisation and any impairment provision • Royalty income is recognised as revenue in the income statement • Intangible asset is amortised on a systematic basis • Intangible asset is assessed for indicators of impairment at each period end	• Amapá & Tucano • Four Mile • Salamanca • Pilbara • Ring of Fire • Bulqiza • Mount Ida • Maracás Menchen • Creso • Narrabri
Available-for-sale debt financial asset	• Royalty arrangement with a contractual right to receive cash (e.g. through a mandated interest rate or milestones which, if not met, trigger repayment)	• Financial asset is recognised at fair value on the balance sheet • Changes in fair value due to changes in expected future cash flows are recognised within the income statement with other valuation changes taken to reserves • Fixed effective interest income recognised in the income statement • Royalty receipts reduce the asset's carrying value	• Isua • Jogjakarta • Dugbe 1
Available-for-sale equity financial assets	• Similar in contractual terms to an intangible asset • However, includes a right to convert into equity (noting that for EVBC this right was subsequently extinguished)	• Financial asset is carried at fair value with fair value movements recognised in reserves • Royalty income is recognised as revenue in the income statement • Asset is assessed for impairment at each reporting period end	• EVBC
Investment property	• Direct ownership of sub-stratum land • Returns based on royalty related production	• Investment property is carried at fair value on the balance sheet • Movements in fair value recognised in income statement • Royalty income is recognised as revenue in the income statement	• Kestrel • Crinum

The Group considers that the application of the above accounting standards, and the resulting accounting classification and financial impact of each in the financial statements, most appropriately reflects the substance of the underlying commercial terms of each royalty arrangement. The application of each standard to the underlying royalty arrangement, rather than electing to apply IAS 32 and IAS 39 to all royalties is consistent currently with the Group's international peer group and as such enables its stakeholders to make informed investment decisions.

Key sources of estimation uncertainty

Assessment of fair value of royalty arrangements held at fair value

A number of the Groups' royalty arrangements are held at fair value. Fair value is determined based on discounted cash flow models (and other valuation techniques) using assumptions considered to be reasonable and consistent with those that would be applied by a market participant. The determination of assumptions used in assessing fair values is subjective and the use of different valuation assumptions could have a significant impact on financial results.

In particular, expected future cash flows, which are used in discounted cash flows models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and resources and timing/likelihood of mines entering production together with economic factors such as commodity prices, discount rates and exchange rates.

The Group's most significant royalty arrangement held at fair value is Kestrel, for which the key assumptions and sensitivity analysis is set out in ➡ *note 14*.

Impairment review of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are assessed for indicators of impairment at each reporting date with the assessment considering variables such as the production profiles, production commissioning dates where applicable, forecast commodity prices and guidance from the mine operators.

Where indicators are identified, the starting point for the impairment review will be to measure the expected future cash flows expected from the royalty arrangement should the project continue/come into production. A pre-tax nominal discount rate of between 7% and 13% is applied to the future cash flows. The discount rate of each royalty arrangement is derived using a capital asset pricing model specific to the underlying project, making reference to the risk free rate of return expected on an investment with the same time horizon as the expected mine life, together with the country risk associated with the location of the operation. Changes in discount rate are most sensitive to changes in the risk free rate and the expected mine life.

The outcome of this net present value calculation is then risk weighted to reflect management's current assessment of the overall likelihood and timing of each project coming into production and royalty income arising. This assessment is impacted by news flow relating to the underlying operation in the period, in conjunction with management's assessment of the economic viability of the project based on commodity price projections.

3 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.

3.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical costs basis, as modified by the revaluation of coal royalties (investment property) and certain financial instruments.

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 2*.

We highlight on the face of the income statement the following material balances which have been separated to assist users understand the performance of the Group:

- Gain/(Loss) on sale of mining and exploration interests *(➡ refer to note 17)*
- Impairment of mining and exploration interests *(➡ refer to note 17)*
- Impairment of royalty and exploration intangible assets *(➡ refer to note 16)*
- Revaluation of royalty financial instruments *(➡ refer to note 15)*
- Revaluation of coal royalties – Kestrel *(➡ refer to note 14)*

Net foreign exchange gains in the year of £2,265,000 have been included in 'Finance income'. The comparative presentation has been restated to be on a consistent basis with gains of £411,000 being reclassified from 'Finance costs' to 'Finance income' *(➡ refer to notes 7 and 8)*.

3.1.1 Going concern

The financial position of the Group and its cash flows are set out on ➡ *pages 77 and 80*. The directors have considered the principal risks of the company which are set out on ➡ *pages 18 to 23* as well as access to funding as set out in in our borrowings ➡ *note 24* and considered key sensitivities which could impact on the level of available borrowings. As at December 31, 2016, the Group had net debt of £1.0m and subject to continued covenant compliance, has access to a further £18.0m in undrawn borrowings from its secured revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2018. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance and other uncertainties, together with the Group's net debt position and access to the undrawn facilities, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason the Group continues to adopt the going basis in preparing its financial statements.

3.1.2 Changes in accounting policies and disclosures

(a) Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- Amendments to IAS 1 'Presentation of Financial Statements – Disclosure Initiative'

The Group has adopted the amendments to IAS 1 Disclosure Initiative for the first time in the current year. The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

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The amendments also address the structure of the financial statements by providing examples of systematic ordering or grouping of the notes.

The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The Group has adopted the amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation for the first time in the current year. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(i) when the intangible asset is expressed as a measure of revenue; or

(ii) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

As the Group already uses the straight-line method for depreciation and amortisation for its property, plant and equipment and intangible assets, respectively, the adoption of these amendments has had no impact on the Group's consolidated financial statements.

- Annual Improvements to IFRSs 2012-2014 Cycle

The Group has adopted the amendments to IFRSs included in the Annual Improvements to IFRSs 2012-2014 Cycle for the first time in the current year.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high qualify corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The adoption of these amendments has had no effect on the Group's consolidated financial statements.

(b) New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 2 'Classification and Measurement of Share-based Payment Transactions – amendments'
- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- IFRS 16 'Leases'
- IAS 7 'Disclosure Initiative – amendments'
- IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses – amendments'

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 9 will impact both the measurement and disclosures of financial instruments

  The Directors have considered the impact of IFRS 9 on the Group's royalty interests and have concluded that the application of this standard will not have any impact on those royalty interest classified as Investment Property *(➡ refer to note 3.5)* or Intangibles *(➡ refer to note 3.6)*, as both are considered to be outside the scope of IFRS 9.

  The Group's royalty financial instruments, which are either classified as available-for-sale debt or available-for-sale equity financial instruments will however, be impacted by the requirement to either account for such interests at amortised cost or fair value through profit or loss. The Directors do not consider this change will have a material impact on the Group's financial statements, as fair value movements relating to the Group's available-for-sale debt financial instruments are largely recognised in the income statement and the Group's only available-for-sale equity financial instrument is approaching the end of the life of mine.

- IFRS 15 may have an impact on revenue recognition and related disclosures

  The Group's royalty income are derived from three sources; assets accounted for as investment property (Kestrel) under IAS 40, assets at fair value (EVBC) accounted for under IAS 39 and assets account for as intangibles (Narrabri, Maracás Menchen and Four Mile) under IAS 38.

  The royalty income derived from these sources will continue to be accounted for in accordance with the assets overriding standards, with exception of assets at fair value, which will be accounted for under IFRS 9 following its adoption. As a result the Directors do not believe that IFRS 15 will have a material impact on the recognition and disclosure of revenue.

- IFRS 16 may have an impact on the presentation, recognition and disclosure of the operating leases disclosed in *➡ note 30*.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3.2 Consolidation

Subsidiaries

The financial statements incorporate a consolidation of the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved when the Company has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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.

3.3 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 or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rates at the date of the transaction (and not retranslated). Non-monetary assets and liabilities 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:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are charged/credited to other comprehensive income and recognised in the currency translation reserve in equity.

Exchange differences on foreign currency balances with foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future, and therefore form part of the Group's net investment in these foreign operations are recognised in other comprehensive income and accumulated in the foreign 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.

3.4 Property, plant and equipment

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 as a producing asset within 'Other Assets' together with any amount transferred from 'Exploration and Evaluation Costs' (➡ *note 3.6(b)*).

Property, plant and equipment is depreciated over its useful life, or where applicable over the remaining life of the mine if shorter once it is operating in the manner intended by management. The major categories of property, plant and equipment are depreciated on a units of production and/or straight-line basis as follows:

Equipment and Fixtures	4 to 10 years
Other Assets:	
Producing assets	Units of production (over reserves)
Coal tenures	Units of production (over reserves)

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.

3.5 Coal royalties (investment property)

Royalty arrangements which are derived from the ownership of sub-stratum lands are accounted for as investment properties in accordance with IAS 40. Investment property is held to earn a return in the form of royalty entitlements arising from mining activity and is initially measured at cost including any transaction costs. Investment property is subsequently measured at fair value at each reporting date with any valuation movements recognised in the income statement. Fair value is determined by a suitably qualified independent external consultant based on the discounted future royalty income expected to accrue to the Group.

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3.6 Intangible assets

(a) Royalty arrangements

Royalty arrangements which are identified and classified as intangible assets are initially measured at cost, including any transaction costs.

Upon commencement of production at the underlying mining operation intangible assets are amortised on a straight-line 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.

(b) Exploration and evaluation costs

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. If this is no longer the case, an impairment loss is recognised in the income statement. Amortisation of capitalised exploration and evaluation costs does not commence until the underlying project commences commercial production.

3.7 Impairment of property, plant and equipment and intangible assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If such an indication is identified, the recoverable amount of the asset is estimated in order to determine the extent of any impairment.

The recoverable amount is the higher of fair value (less costs of disposal) and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that has been adjusted to reflect the risks specific to that asset. If the recoverable amount of the asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is also recognised in the income statement.

Should an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment loss is also recognised in the income statement.

3.8 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.

(a) 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.

(b) 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 other receivables fall into this category of financial instruments.

(c) Derivative financial instruments

The Group will selectively enter into foreign exchange forward contracts to manage its exposure to foreign exchange risk associated with its Australian dollar denominated royalty income, when considered necessary. Further details of derivative financial instruments are disclosed in ➡ *note 21*.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

(d) 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 available-for-sale financial assets.

Interests classified as available-for-sale are measured at subsequent reporting dates at their fair value. For available-for-sale investments, unrealised gains and losses arising from changes in fair value are recognised directly in other comprehensive income and accumulated in the investment revaluation reserve, until the security is either disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in 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.

(e) 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 as either debt or equity instruments depending on the nature of the individual agreement.

Debt
Assets classified as debt instruments are carried on the balance sheet at fair value. Upon initial recognition an effective interest rate is computed based on the estimated future cash flows. Expected future cash flows are determined based on non-observable market data such as commodity price forecasts and estimated production schedules. Valuation movements caused by changes in expected future cash flows, which could be caused by changes in resource estimates or commodity price assumptions, are recognised in the income statement along with the effective interest, if material, with other valuation changes taken to other comprehensive income. Amounts are required to be recognised whether received in cash or not.

Equity
Similar to debt instruments, equity instruments are carried at fair value at each reporting date, based on the estimated future cash flows from the underlying operation. All valuation movements are recognised in other comprehensive income, except to the extent where valuation is below cost and is considered 'significant' or 'prolonged' in accordance with IAS 39 and the policy outlined in ➡ *note 3.9*. In this case, the valuation difference is recycled through the Income Statement.

(f) Financial liabilities and equity instruments

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.

(g) 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.

(h) Borrowings

Interest bearing bank facilities are initially recognised at fair value, net of directly attributable transaction costs. Transaction costs are recognised in the income statement on a straight-line basis over the term of the facility.

(i) Equity instruments

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

3.9 Impairment of financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. Losses are recognised in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Impairment losses relating to available for sale equity investments are recognised when the decline in fair value is considered significant or prolonged which are defined as follows:

- Prolonged: a period of greater than 18 months that the interest's fair value is below cost; or
- Significant: a decline in fair value of greater than 25% relative to an individual asset's original acquisition cost, or its rebased cost post impairment.

These impairment losses are recognised by transferring the cumulative loss that has been recognised in the statement of comprehensive income to the income statement. The loss recognised in the income statement is the difference between the acquisition cost or rebased cost and the current fair value. Once the Group has recognised an impairment loss on an available-for-sale equity investment, it cannot recognise a reversal through the income statement.

Impairment losses on debt instruments classified as available-for-sale are reversed only if in a subsequent period, the fair value of that debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised. The amount of such reversal is recognised through the income statement.

3.10 Taxation

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

Current 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 reporting date.

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Deferred tax

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 generally 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 difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they related to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.11 Share-based payments

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

3.12 Reserves

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares in issue.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of issuance costs.

Other reserves

- 'merger reserve' is created when more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company.
- 'warrant reserve' The warrant reserve was created in June 2014 in connection with the issue of share warrants as part consideration of the Maracas royalty.
- 'Investment revaluation reserve' represents gains and losses due to the revaluation of the investments in mining and exploration interests and royalty instruments 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 ('JSOP') (➡ note 27 and note 28).
- 'Retained earnings' represents retained profits.

Of these reserves £93,928,000 are considered distributable as at December 31, 2016 (December 31, 2015: £79,397,000).

3.13 Revenue recognition

The revenue of the Group comprises mainly royalty income. It is measured at the fair value of the consideration received or receivable after deducting discounts, value added tax and other sales tax. The royalty income becomes receivable on extraction and sale of the relevant minerals, and once able to be reliably measured, the revenue is recognised.

Interest income is accrued on a time basis, by reference to the carrying value 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.

3.14 Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.15 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 or, in the case of the interim dividend, when it is paid to the shareholders.

3.16 Alternative Performance Measures

The financial statements include certain Alternative Performance Measures (APMs) which include adjusted earnings per share, dividend cover and free cash flow per share. These APMs are defined in the table of contents and explained in the Strategic Report on ➡ page 24, and are reconciled to GAAP measures in the ➡ notes 11, 12 and 33 respectively.

4 Segment information

The Group's chief operating decision maker is considered to be the Executive Committee. The Executive Committee evaluates the financial performance of the Group based on a portfolio view of its individual royalty arrangements. Royalty income and its associated impact on operating profit is the key focus of the Executive Committee. The income from royalties is presented based on the jurisdiction in which the income is deemed to be sourced as follows:

Australia: Kestrel, Narrabri, Four Mile, Pilbara, Mount Ida

Americas: Amapá and Tucano, Maracás Menchen, Ring of Fire

Europe: EVBC, Salamanca, Bulqiza

Other: Jogjakarta, Dugbe I, and includes the Group's mining and exploration interests.

The following is an analysis of the Group's results by reportable segment. The key segment result presented to the Executive Committee for making strategic decisions and allocation of resources is operating profit as analysed below.

The segment information for the year ended December 31, 2016 is as follows (noting that total segment operating profit corresponds to operating profit before impairments, revaluations and gains/losses on disposals which is reconciled to Profit/(Loss) before tax on the face of the consolidated income statement):

	Australia Royalties £'000	*Americas Royalties £'000*	*Europe Royalties £'000*	*All other segments £'000*	*Total £'000*
Royalty related income	17,691	791	1,223	–	19,705
Amortisation of royalties	(2,416)	(453)	–	–	(2,869)
Operating expenses	(1,652)	–	–	(2,478)	(4,130)
Total segment operating profit/(loss)	13,623	338	1,223	(2,478)	12,706
Total segment assets	187,879	19,106	12,314	36,956	256,255
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	–	–	–	–
Total segment liabilities	35,799	1,215	662	8,441	46,177

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The segment information for the year ended December 31, 2015 is as follows:

	Australia Royalties £'000	Americas Royalties £'000	Europe Royalties £'000	All other segments £'000	Total £'000
Royalty related income	6,831	606	1,246	–	8,683
Amortisation of royalties	(2,167)	(406)	–	–	(2,573)
Operating expenses	(1,898)	–	–	(2,162)	(4,060)
Total segment operating profit/(loss)	2,766	200	1,246	(2,162)	2,050
Total segment assets	138,635	17,359	6,298	34,446	196,738
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets	44,971	–	–	–	44,971
Total segment liabilities	23,573	1,013	767	9,402	34,755

The amounts provided to the Executive Committee with respect to total segment 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.

The amounts provided to the Executive Committee with respect to total segment 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 related income in Australia of £17,691,000 (2015: £6,831,000) includes the Kestrel and Narrabri royalties which generated £13,134,000 and £4,243,000 respectively (2015: Kestrel £3,614,000; Narrabri: £3,217,000). Individually the revenue generated by Kestrel and Narrabri royalties represents greater than 10% of the Group's revenue in 2015 and 2016. In addition, royalty related income in Europe of £1,223,000 (2015: £1,246,000) is derived from a single gold royalty, EVBC, and in 2015 represented greater than 10% of the Group's revenue.

Impairments

The Group recognised an impairment charge of £2.0m in relation to the Amapá royalty, which is within the 'Americas Royalties' segment during the year ended December 31, 2016. The Group recognised impairment charges of £2.8m and £1.6m in relation to the Amapá and Ring of Fire royalties respectively, both within the 'Americas Royalties' segment, during the year ended December 31, 2015. Refer to ➡ *note 16* for further details on the Group's impairments.

5a Expense by nature

	2016 £'000	2015 £'000
Group		
Employee benefit expense (➡ *note 6a*)	2,547	2,680
Professional fees	626	418
Listing fees	93	116
Operating lease payments	220	152
Other expenses	644	694
	4,130	4,060

5b Auditor's remuneration

	2016 £'000	2015 £'000
Group		
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	97	84
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	18	6
Total audit fees	115	90
– Audit-related assurance services[1]	222	–
– Other assurance services pursuant to legislation	20	22
– Other services	–	–
Total non-audit fees	242	22

[1] Audit related assurance services relate wholly to the reporting accountant work performed in 2016 by the auditors for fundraising activities.

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on ➡ page 51. No services were provided pursuant to contingent fee arrangements.

6a Employee costs

	Group		Company	
	2016 £'000	*2015 £'000*	**2016 £'000**	*2015 £'000*
Wages and salaries	1,501	1,539	1,452	1,479
Share-based awards to directors and employees	708	840	708	840
Social security costs	278	241	275	239
Other pension costs	60	60	60	60
	2,547	2,680	2,495	2,618

Share-based awards to directors and employees are stated net of National Insurance of £0.1m (2015: £0.1m).

6b 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 £60,000 (2015: £60,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2016, contributions of £8,000 (2015: £4,000) due in respect of the current reporting period had not been paid over to the schemes.

6c Average number of people employed

	2016	*2015*
Group		
Number of employees	9	9

	2016	*2015*
Group		
Average number of people (including executive directors) employed:		
Executive directors	1	1
Administration	8	8
	9	9

Company

The average number of administration staff employed by the Company during the year, including Executive Directors was 9 (2015: 9).

Directors' salaries are shown in the Directors' Remuneration Report on ➡ pages 54 to 66, including the highest paid director.

7 Finance income

	2016 £'000	*2015 £'000*
Group		
Interest on bank deposits	56	23
Interest on long-term receivables	26	278
Net foreign exchange gain	2,265	411
	2,347	712

The continuing the weakness of the pound, has resulted in the Group's net foreign exchange gain to increase year on year. In light of the quantum of the gain in 2016, net foreign exchange gains have been reclassified from finance costs (➡ note 8) to finance income, with the 2015 comparative being restated.

8 Finance costs

	2016 £'000	*2015 £'000*
Group		
Professional fees	(676)	(358)
Revolving credit facility fees and interest	(410)	(271)
	(1,086)	(629)

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9 Other income

	2016 £'000	2015 £'000
Group		
Effective interest income on royalty financial instruments	246	213
Revaluation of derivative financial instruments (➡ *note 21*)	664	–
Sundry income	63	203
	973	416

10 Income tax expense

The effective tax rate for the year of 6.9% (2015: (25.9%)) is lower (2015: higher) than the applicable weighted average statutory rate of corporation tax in the United Kingdom of 20% (2015: 20.25%). The reconciling items are:

	2016 £'000	2015 £'000
Analysis of charge for the year		
United Kingdom corporation tax	–	–
Overseas tax	1,403	1,338
Adjustments in respect of prior years	(809)	(329)
Current tax	594	1,009
Deferred tax	1,356	(8,913)
Income tax expense/(credit)	1,950	(7,904)
Factors affecting tax charge for the year:		
Profit/(Loss) before tax	28,312	(30,480)
Tax on profit/(loss) calculated at United Kingdom corporation tax rate of 20.00% (2015: 20.25%)	5,662	(6,172)
Tax effects of:		
Items non-taxable/deductible for tax purposes:		
Non-deductible expenses	(310)	681
Non-taxable income	–	(2)
Temporary difference adjustments		
Current year losses not recognised	801	96
Deferred tax not previously recognised	(4,954)	
Adjustment in deferred tax due to change in tax rate	–	–
Other temporary difference adjustments	399	–
Other adjustments		
Withholding taxes	1,349	1,180
Effect of differences between local and United Kingdom tax rates	192	(3,046)
Prior year adjustments to current tax	(809)	(329)
Other adjustments	(380)	(312)
Income tax expense/(credit)	1,950	(7,904)

The Group's effective tax rate for the year ended 31 December 2016 was 6.9% (2015: 25.9%). The lower rate in 2016 is mainly due to the recognition of a deferred tax asset of £4.8m in relation to Australian tax losses arising on the disposal of the Group's fully-impaired Isua royalty interest. Refer to ➡ *note 15* for further detail regarding the disposal of the Isua royalty interest.

In future periods, it is expected that the Group's effective tax rate will mainly be driven by withholding taxes suffered in overseas jurisdictions.

Refer to ➡ *note 25* for information regarding the Group's deferred tax assets and liabilities.

11 Earnings/(Loss) per share

Earnings/(Loss) per ordinary share is calculated on the Group's profit after tax of £26,362,000 (2015: loss £22,576,000) and the weighted average number of shares in issue during the year of 169,016,101 (2015: 160,512,425).

Earnings/(Loss) per ordinary share excludes the issue of shares under the Group's JSOP, as the Employee Benefit Trust has waived its right to receive dividends on the 925,933 ordinary 2p shares it holds as at December 31, 2016 (December 31, 2015: 925,933).

	2016 £'000	*2015 £'000*
Net profit/(loss) attributable to shareholders		
Earnings/(Loss) – basic	26,362	(22,576)
Earnings/(Loss) – diluted	26,362	(22,576)

	2016	*2015*
Weighted average number of shares in issue		
Basic number of shares outstanding	169,016,101	160,512,425
Dilutive effect of Employee Share Option Scheme	13,385	–
Diluted number of shares outstanding	169,029,486	160,512,425

In 2015 the Group was loss making, therefore the Employee Share Option Scheme is considered anti-dilutive as including them in the diluted number of shares outstanding would decrease the loss per share.

Adjusted earnings per share

Due to the growing number of valuation and other non-cash movements being recognised in the income statement, the Group presents an adjusted earnings per share metric to better reflect the underlying performance of the Group during the year.

Adjusted earnings represents the Group's underlying operating performance from core activities. Adjusted earnings is the profit attributable to equity holders less all valuation movements, non-cash impairments and amortisation charges (which are non-cash adjustments that arise primarily due to changes in commodity prices), finance costs, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing.

	Earnings £'000	**Earnings per share p**	**Diluted earnings per share p**
Net profit attributable to shareholders			
Earnings – basic and diluted for the year ended December 31, 2016	26,362	15.60p	15.60p
Adjustment for:			
Amortisation of royalty intangible assets	2,869		
Loss on sale of mining and exploration interests	(2,449)		
Impairment of mining and exploration interests	29		
Impairment of royalty and exploration intangible assets	2,009		
Revaluation of royalty financial instruments	4,939		
Revaluation of coal royalties (Kestrel)	(17,900)		
Revaluation of foreign currency instruments	(664)		
Share-based payments and associated national insurance	803		
Tax effect of the adjustments above	496		
Adjusted earnings – basic and diluted for the year ended December 31, 2016	16,494	9.76p	9.76p

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	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net loss attributable to shareholders			
Loss – basic and diluted for the year ended December 31, 2015	(22,576)	(14.06p)	(14.06p)
Adjustment for:			
Amortisation of royalty intangible assets	2,573		
Loss on sale of mining and exploration interests	484		
Impairment of mining and exploration interests	930		
Impairment of royalty and exploration intangible assets	4,414		
Revaluation of coal royalties (Kestrel)	27,201		
Effective interest income on royalty financial instruments	(213)		
Share-based payments and associated national insurance	840		
Tax effect of the adjustments above	(9,685)		
Adjusted earnings – basic and diluted for the year ended December 31, 2015	3,968	2.47p	2.47p

In calculating the adjusted earnings per share, the weighted average number of shares in issue takes into account the dilutive effect of the Employee Share Option Scheme in those years where the Group has adjusted earnings. In years where the Group has an adjusted loss, the Employee Share Option Scheme is considered anti-dilutive as including them in the diluted number of shares outstanding would decrease the loss per share, as such they are excluded.

The weighted average number of shares in issue for the purpose of calculating basic and diluted earnings per share and basic and diluted adjusted earnings per share are as follows:

	2016	*2015*
Weighted average number of shares in issue		
Basic number of shares outstanding	169,016,101	160,512,425
Dilutive effect of Employee Share Option Scheme	13,385	–
Diluted number of shares outstanding	169,029,486	160,512,425

As the Group was loss making in 2015 the Employee Share Option Scheme was considered anti-dilutive as including them in the diluted number of shares outstanding would decrease the loss per share.

12 Dividends and dividend cover

On February 4, 2016 an interim dividend of 4.00p per share was paid to shareholders in respect of the year ended December 31, 2015. On August 5, 2016 a final dividend of 3.00p per share was paid to shareholders to make a total dividend for the year of 7.00p per share. Total dividends, paid during the year were £11.8m (2015: £11.9m).

On February 8, 2017 an interim dividend of 3.00p per share was paid to shareholders in respect of the year ended December 31, 2016. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 3.00p per share be paid to shareholders on August 9, 2017, to make a total dividend for the year of 6.00p per share. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

The proposed final dividend for 2016 will be payable to all shareholders on the Register of Members on June 30, 2017. The total estimated dividend to be paid is £5.4m. At the present time the Board has resolved not to offer a scrip dividend alternative.

Dividend cover

Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share. The Group's adjusted earnings per share for the year ended December 31, 2016, is 9.76p per share (➡ *note 11*) with dividends for the year totalling 6.00p, resulting in dividend cover of 1.6x (2015: adjusted earnings per share 2.47p, dividend cover 0.4x).

13 Property, plant and equipment

Group	Other Assets £'000	Equipment and Fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2016	1,356	276	1,632
Additions	–	–	–
Disposals	–	–	–
At December 31, 2016	1,356	276	1,632
Depreciation and impairment			
At January 1, 2016	(1,356)	(163)	(1,519)
Depreciation	–	(36)	(36)
At December 31, 2016	(1,356)	(199)	(1,555)
Carrying amount December 31, 2016	**–**	**77**	**77**

Group	Other Assets £'000	Equipment and Fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2015	1,356	276	1,632
Additions	–	–	–
Disposals	–	–	–
At December 31, 2015	1,356	276	1,632
Depreciation and impairment			
At January 1, 2015	(1,356)	(123)	(1,479)
Depreciation	–	(40)	(40)
At December 31, 2015	(1,356)	(163)	(1,519)
Carrying amount December 31, 2015	**–**	**113**	**113**

Other assets relate to the Group's Panorama and Trefi coal projects in British Columbia, Canada and the Group's talc deposit in Shetland, Scotland.

Impairment

In 2014 the Directors took a view that the Group's ability to monetise both the Trefi coal project and the Shetland talc deposit was inherently uncertain and as a result fully impaired these assets resulting in an impairment charge of £1.4m. There were no impairments during 2015 or 2016.

Company	Other Assets £'000	Equipment and Fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2016	821	276	1,097
Additions	–	–	–
At December 31, 2016	821	276	1,097
Depreciation and impairment			
At January 1, 2016	(821)	(163)	(984)
Depreciation	–	(36)	(36)
Impairment	–	–	–
At December 31, 2016	(821)	(199)	(1,020)
Carrying amount December 31, 2016	**–**	**77**	**77**

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Company	Other Assets £'000	Equipment and Fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2015	821	276	1,097
Additions	–	–	–
At December 31, 2015	821	276	1,097
Depreciation and impairment			
At January 1, 2015	(821)	(123)	(944)
Depreciation	–	(40)	(40)
Impairment	–	–	–
At December 31, 2015	(821)	(163)	(984)
Carrying amount December 31, 2015	–	113	113

14 Coal royalties (Kestrel)

	Group £'000
At January 1, 2015	117,097
Foreign currency translation	(7,247)
Loss on revaluation of coal royalties	(27,201)
At December 31, 2015	82,649
Foreign currency translation	16,336
Gain on revaluation of coal royalties	17,900
At December 31, 2016	116,885

The Group's coal royalty entitlements comprise the Kestrel and Crinum coal royalties, and derive from mining activity carried out within the Group's private land area in Queensland, Australia. Rather uniquely to this royalty, the sub-stratum land is the property of the freeholder, including the minerals contained within. The ownership of the land therefore entitles the Group to a royalty, equivalent to what the State receives on areas outside the Group's private land. This royalty is accounted for as Investment Property in accordance with IAS 40.

The coal royalty was valued during December 2016 at £116.9m (A$200.3m) (2015: £82.6m and A$167.6m) by an independent coal industry advisor, on a net present value of the pre-tax cash flow discounted at a nominal rate of 7.5% (2015: 7%). The key assumptions in the independent valuation relate to price and discount rate.

The price assumptions used in the 2016 valuation decrease from US$154/t in the short term to a long term flat nominal price of US$142/t. If the price were to increase or decrease 10 per cent over the life of the mine the valuation effect would be:

- a 10% reduction in the coal price would have resulted in the coal royalties being valued at A$170.7m (£99.6m) and a reduction in the revaluation uplift in the income statement of £16.2m; and
- a 10% increase in the coal price would have resulted in the coal royalties being valued at A$233.7m (£136.4m) and an increase in the revaluation uplift in the income statement of £18.3m.

The pre-tax nominal discount rate used for the asset is 7.50%, if the discount rate used were to increase or decrease by 1% the valuation effect would be:

- a 1% reduction in the nominal discount rate would have resulted in the coal royalties being valued at A$208.6m (£121.7m) and a reduction in the revaluation uplift in the income statement of £4.2m; and
- a 1% increase in the nominal discount rate would have resulted in the coal royalties being valued at A$192.6m (£112.4m) and an increase in the revaluation uplift in the income statement of £4.5m.

The net royalty income from this investment is currently taxed in Australia at a rate of 30%. The revaluation of the underlying Australian dollar asset is recognised in the Income Statement with the retranslation of the Group's sterling presentation currency recognised in the foreign currency translation reserve.

Were the coal royalty to be realised at the revalued amount there are £5.3m (A$9.2m) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation *(➡ note 24)*. Were the coal royalty to be carried at cost the carrying value would be £0.2m (2015: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

Refer to *➡ note 32* for additional fair value disclosures relating to Kestrel.

The shares over the entity which is the beneficial owner of the Kestrel royalty have been guaranteed as security in connection with the Group's borrowing facility *(➡ note 24)*.

15 Royalty financial instruments

The Group's royalty instruments are represented by three royalty agreements which entitle the Group to either the repayment of principal and a net smelter return ('NSR') royalty for the life of the mine or a gross revenue royalty ('GRR') where the project commences commercial production or the repayment of principal where it does not. Details of the Group's royalty financial instruments, which are held at fair value are summarised below:

	Commodity	Original Cost '000	Royalty Rate	Escalation	Classification	December 31, 2016 Carrying Value £,000	December 31, 2015 Carrying Value £,000
EVBC	Gold, Silver, Copper	C$7,500	2.50%	3% gold >US$1,100/oz	Available-for-sale equity	3,483	3,832
Jogjakarta	Iron Sands	US$4,000	2.00%	–	Available-for-sale debt	3,241	2,702
Dugbe 1	Gold	US$15,000	2.00%	2.5% >US$1,800/oz & production <50,000oz/qrt	Available-for-sale debt	6,832	–
						13,556	6,534

The Group's entitlements to cash by way of the repayment of the principal and the NSR royalty or the GRR have been classified as available-for-sale financial assets in accordance with IAS 39 and are carried at fair value in accordance with the classification of royalty arrangements criteria set out in ➡ *note 2*.

	Group £'000	Company £'000
Fair value		
At January 1, 2015	8,142	8,142
Revaluation recognised in other comprehensive income	(1,909)	(1,909)
Foreign currency translation	301	301
At December 31, 2015	6,534	6,534
Additions	10,133	–
Revaluation recognised in profit or loss	(4,939)	–
Revaluation recognised in other comprehensive income	(350)	(350)
Foreign currency translation	2,178	540
At December 31, 2016	13,556	6,724

Effective interest of £0.2m was recognised in other income *(➡ note 9)* for the year ended December 31, 2016 (2015: £0.2m). This was directly offset by cash received in the period of the same amount.

On February 23, 2016, Hummingbird Resources PLC ('Hummingbird'), the operator of the Dugbe 1 project, gave notice under the U$15.0m royalty financing arrangement with Group that a Mineral Development Agreement ('MDA') had been signed with the Liberian government. The signing of the MDA satisfied Hummingbird's obligations to repay the US$15.0m advanced by the Group, previously accounted for as a non-current receivable and imposed a 2.00% net smelter return royalty, increasing to 2.50% where the gold price is >US$1,800/oz and quarterly production is <50,000oz, over the life of the mine.

The net smelter return royalty over the Dugbe 1 project is accounted for as an available-for-sale debt financial asset as outlined in ➡ *note 2*. As at December 31, 2016, the Group's assessed the likely start date of commercial production at Dugbe 1 to be 2020, this change resulted in the royalty being valued at £6.8m and a £4.9m revaluation charge to the income statement.

On December 7, 2016, the Group sold its royalty over the Isua project for £16,000 to General Nice Limited. The Group had assessed the fair value of Isua royalty to be nil in 2014, following the appointment of administrators to the project's previous operator London Mining PLC. At the time of the sale, the Group continued to consider the likelihood of this project entering commercial production as remote.

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16 Royalty and exploration intangible assets

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, 2016	697	96,845	97,542
Additions	–	650	650
Foreign currency translation	–	17,522	17,522
At December 31, 2016	697	115,017	115,714
Amortisation and impairment			
At January 1, 2016	(697)	(25,354)	(26,051)
Amortisation charge	–	(2,869)	(2,869)
Impairment charge	–	(2,009)	(2,009)
Foreign currency translation	–	(4,738)	(4,738)
At December 31, 2016	(697)	(34,970)	(35,667)
Carrying amount December 31, 2016	–	80,047	80,047

Group	Exploration and Evaluation Costs £'000	Royalty Interests £'000	Total £'000
Gross carrying amount			
At January 1, 2015	697	59,705	60,402
Additions	–	44,971	44,971
Foreign currency translation	–	(7,831)	(7,831)
At December 31, 2015	697	96,845	97,542
Amortisation and impairment			
At January 1, 2015	(697)	(22,595)	(23,292)
Amortisation charge	–	(2,573)	(2,573)
Impairment charge	–	(4,414)	(4,414)
Foreign currency translation	–	4,228	4,228
At December 31, 2015	(697)	(25,354)	(26,051)
Carrying amount December 31, 2015	–	71,491	71,491

Company	2016 £'000	2015 £'000
Royalty interests		
At January 1 and at December 31	2,349	2,349

Exploration and evaluation costs

The exploration and evaluation costs comprise expenditure that was directly attributable to the Trefi coal project in British Columbia, Canada. Due to the inherent uncertainty that the Trefi coal project will be developed, the Group fully impaired it in 2014.

Acquisition of royalty interests

On March 31, 2016, in satisfaction of the outstanding principal of £0.7m, owed by Atrum Coal NL, the Group accepted a 0.10% gross revenue royalty over the Groundhog project in British Columbia. The promissory note arose from the 2014 sale of the Group's Panorama Coal tenements, which included the Groundhog project.

On March 11, 2015, the Group completed its acquisition of the Narrabri royalty for £45.0m. The Narrabri royalty is a 1% gross revenue royalty over all coal produced from the Narrabri mine located in New South Wales, Australia, owned and operated by Whitehaven Coal Limited.

Under the terms of the Maracás Menchen royalty sale agreement, a further US$3.0m (£2.4m) of cash is payable when the project reaches certain annualised production milestones. As set out in ➡ *notes 18 and 26*, the Directors consider it highly probable that the first of these milestones will be achieved in the next eighteen months which would require the Group to pay US$1.5m. As a result the Directors have recognised a non-current liability for the deferred consideration, together with an asset under deferred acquisition costs.

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Amortisation of royalty interests

The Group's royalty intangible assets are amortised on a straight-line basis, upon the commencement of production at the underlying mining operation, over the life of mine.

Three of the underlying mining operations of the Group's royalty intangibles assets were in production during 2016, and were amortised on the following basis:

Royalty interest	*Carrying Value December 31, 2016 A$'000*	*Carrying Value December 31, 2015 A$'000*	*Estimated life of mine*	*Remaining life of mine*
Narrabri	80,754	84,794	22 years	20 years
Maracás Menchen	22,318	23,145	29 years	27 years
Four Mile	2,968	3,339	10 years	8 years

Amortisation of the Group's remaining royalty interests will commence once they begin commercial production. As at December 31, 2016, the shares over the entity which is the beneficial owner of the Narrabri royalty have been guaranteed as security in connection with the Group's borrowing facility (➡ *note 24*).

Impairments of royalty intangible assets

As described in ➡ *note 3.6 and 3.7*, at each reporting date the Group's royalty intangible assets are reviewed for any impairment indicators. Consideration is given to the presence or occurrence of adverse operational developments at the underlying mines, together with any significant declines in commodity prices. Where impairment indicators exist, a full impairment review is carried out to determine whether the discounted future expected cash flows (calculated on a value-in use basis) exceed cost. ➡ *note 2* outlines the impairment methodology applied.

Amapá

Production at Amapá has been suspended since 2013 following a major port incident. The mine's operator, Zamin Ferrous Limited, had previously indicated that attempts were being made to restructure its finances in order to fund the rebuilding of the port facilities, however, in 2016 the Directors understand that Zamin has filed for bankruptcy protection in Brazil. As a result the Directors have the assessed the timing of Amapá returning to commercial production as being indeterminable and have recognised an impairment charge of £2.0m at the year end (2015: £2.8m). Following the impairment charges recognised during the year and taking into account movements in foreign exchange, the residual carrying value of the Amapá royalty was £nil as at December 31, 2016 (2015: £1.8m).

Ring of Fire

Following the sale of the Ring of Fire chromite assets by Cliffs Natural Resources Inc to Noront Resources Ltd in April 2015, the Directors reassessed the timeline to production in light of the new operator needing to complete a comprehensive preliminary economic analysis for development options for the project. The revision to the anticipated date of the mine entering commercial production resulted in the Group recognising an impairment charge of £1.6m during the year ended December 31, 2015. No additional impairment has been recognised during the current year, as such the residual carrying value of the Ring of Fire royalty, after movement in foreign exchange, was £3.7m as at December 31, 2016 (2015: £3.1m).

17 Mining and exploration interests

	Group £'000	*Company £'000*
Fair value		
At January 1, 2015	9,896	6,190
Mining and exploration interests received in lieu of payment	51	–
Disposals	(2,206)	(113)
Revaluation recognised in other comprehensive income	2,766	2,182
Foreign currency translation	391	–
At December 31, 2015	10,898	8,259
Mining and exploration interests received in lieu of payment	47	–
Disposals	(3,431)	(3,326)
Revaluation recognised in other comprehensive income	9,534	8,928
Foreign currency translation	14	–
At December 31, 2016	17,062	13,861

The current strategy of the Group is to obtain royalties by other means, and as such, these assets, which have historically been acquired with a view to negotiating royalty acquisitions, have been gradually disposed of as they are now non-core to the Group's primary business. The fair values of listed securities are based on quoted market prices. Unquoted investments 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 2*.

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An impairment charge (representing the recognition of losses previously deferred to equity) is recognised in the income statement when the absolute decline in value below cost of any individual investment is considered 'significant' or 'prolonged' in accordance with the Group's impairment policy. Following continued declines in mining equity markets, the Group recognised an impairment charge of £29,000 for the year ended December 31, 2016 (December 31, 2015: £0.9m).

For the year ended December 31, 2016, the Group realised £3.4m in cash (December 31, 2015: £1.7m) through its disposal of a number of its mining and exploration interests from which management no longer considered royalty opportunities to exist. These disposals resulted in a gain of £2.4m for the year ended December 31, 2016 (December 31, 2015: loss of £0.5m).

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

	2016		2015	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	14,070	13,680	8,405	8,112
Unquoted investments	2,992	181	2,493	147
	17,062	13,861	10,898	8,259
Number of investments	10	8	10	8

18 Deferred costs

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2016	1,013	–	1,013
Additions	155	–	155
Foreign currency translation	202	–	202
Carrying amount at December 31, 2016	1,370	–	1,370

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2015	1,335	127	1,462
Additions	1,013	382	1,395
Released to income during the year	(1,254)	(254)	(1,508)
Transferred to royalty intangible assets	(81)	–	(81)
Offset against borrowings	–	(255)	(255)
Carrying amount at December 31, 2015	1,013	–	1,013

Company	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2016	–	–	–
Additions	155	–	155
Carrying amount at December 31, 2016	155	–	155

Company	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2015	1,254	127	1,381
Released to income during the year	(1,254)	(127)	(1,381)
Carrying amount at December 31, 2015	–	–	–

Deferred acquisition costs

As at December 31, 2016, deferred acquisition costs represent the deferred consideration payable by the Group in relation to its acquisition of the Maracás Menchen vanadium royalty in 2014. Under the terms of the royalty sale agreement, the Group is required to pay an additional US$1.5m (£1.2m) once production reaches an annualised rate over a quarter of 9,500t. Following the latest production guidance issued by the operator of the Maracás Menchen mine, Largo Resources Ltd, the Directors consider it probable that this production milestone will be achieved within the next eighteen months and as such have recognised both an asset and a corresponding liability (➡ refer to note 26).

In addition to the deferred acquisition costs relating to the Group's acquisition of the Maracás Menchen vanadium royalty, the Group had incurred £0.2m in costs associated with the acquisition of the C$43.5m Denison Mines Inc financing agreement and associated streaming agreement completed on February 13, 2017 (➡ refer to note 34).

Deferred financing costs

Deferred financing costs represent the costs associated with entering into the US$30.0m, three year secured revolving credit facility that have been deferred and will be amortised over the term of the facility. Upon drawing on the facility in 2015, these costs have been offset against borrowings (➡ refer to note 23).

19 Investments in subsidiaries

The Group's full listing of subsidiaries is provided in ➡ note 33. The Company's investment in subsidiaries as December 31, 2016 and December 31, 2015 is as follows:

	£'000
Company	
Cost	
At January 1, 2016	70,736
Return of capital from subsidiaries	(2)
At December 31, 2016	70,734
Impairment of investment in subsidiary	
At January 1, 2016	(14,141)
Impairment of investment in subsidiaries	(50)
At December 31, 2016	(14,191)
Carrying amount December 31, 2016	56,543

	£'000
Company	
Cost	
At January 1, 2015	51,114
Capital injection into subsidiaries	23,712
Return of capital from subsidiaries	(4,090)
At December 31, 2015	70,736
Impairment of investment in subsidiary	
At January 1, 2015	(14,141)
Impairment of investment in subsidiaries	–
At December 31, 2015	(14,141)
Carrying amount December 31, 2015	56,595

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20 Trade and other receivables

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Current				
Income tax receivable	373	–	1,056	329
Prepayments	101	87	108	95
Royalty receivables	11,257	70	2,902	117
Other receivables	359	356	1,040	70
Deposits with subsidiaries	–	8,038	–	863
	12,090	8,551	5,106	1,474
Non-current				
Other receivables	–	–	10,132	–
Amounts due from subsidiaries	–	39,303	–	46,518
	–	39,303	10,132	46,518

Current trade and other receivables

Trade and other receivables principally comprise amounts relating to royalties receivable for the final quarter in each year. The significant increase in royalty receivables as at December 31, 2016 is the result of the Kestrel royalty for Q4 2016 totalling A$15.2m (£8.9m) in comparison to the Q4 2015 royalty of A$3.8m (£1.9m).

The Directors consider that the carrying amount of trade and other receivables is approximately their fair value.

Non-current other receivables

The non-current other receivables of £10.1m as at December 31, 2015 represented the US$15.0m in advances made to Hummingbird Resources PLC under a royalty financing agreement entered into in 2012. Under the agreement the advances remained repayable until Hummingbird entered into a Mineral Development Agreement with the Liberian Government. As described in ➡ *note 15*, the Mineral Development Agreement was signed in February 2016 satisfying Hummingbird's obligations to repay the US$15.0m advanced by the Group, in exchange or a 2.00% net smelter return royalty, increasing to 2.50% where the gold price is greater than US$1,800/oz and quarterly production is less than 50,000oz, over the life of the mine. This royalty is accounted for as an available-for-sale debt financial asset and classified as a royalty financial instruments.

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 Derivative financial instruments

In 2016, the Group entered into foreign exchange forward contracts to manage its exposure to foreign exchange risk associated with its Australian dollar denominated royalty income. These foreign exchange forward contracts are accounted for as financial assets or liabilities carried at fair value through profit or loss in accordance with ➡ *note 3.8(c)*. The fair value of the foreign exchange forward contracts as at December 31 is as follows:

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Financial assets carried at fair value through profit or loss				
Held for trading derivatives – Foreign currency forward contracts:				
Fair value as at January 01	–	–	–	–
Revaluation gain included in profit or loss (➡ *note 9*)	664	–	–	–
Foreign currency translation	47	–	–	–
Fair value as at December 31	711	–	–	–

22 Cash and cash equivalents

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

	2016 Group £'000	2016 Company £'000	2015 Group £'000	2015 Company £'000
Cash at bank and on hand	5,196	789	5,708	410
Trading deposits with brokers	135	135	–	–
Cash and cash equivalents	5,331	924	5,708	410

23 Net debt

➡ *See note 3.8(a) and note 3.8(g)* for the Group's accounting policy on cash and debt.

Net debt is a measure of the Group's financial position. The Group uses net debt to monitor the sources and uses of financial resources, the availability of capital to invest or return to shareholders, and the resilience of the balance sheet. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group and Company's net (debt)/cash and cash equivalents position after offsetting the revolving credit facility against cash and cash equivalents is as follows:

	2016 Group £'000	**2016** Company £'000	*2015* Group £'000	*2015* Company £'000
Revolving credit facility	(6,300)	(3,100)	(7,527)	–
Cash and cash equivalents	5,331	924	5,708	410
Net (debt)/cash and cash equivalents	(969)	(2,176)	(1,819)	410

Movement in net debt

	Cash and cash equivalents £'000	Medium and long-term borrowings £'000	Net debt £'000
At January 1, 2015	8,769	–	8,769
Cash flow	(3,930)	7,527	(11,457)
Currency movements	869	–	869
At December 31, 2015	5,708	7,527	(1,819)
Cash flow	162	(1,256)	1,418
Currency movements	(540)	29	(569)
At December 31, 2016	5,330	6,300	(970)

24 Borrowings

	2016 Group £'000	**2016** Company £'000	*2015* Group £'000	*2015* Company £'000
Secured borrowing at amortised cost				
Revolving credit facility	6,300	3,100	7,527	–
Deferred borrowing costs	(133)	–	(255)	–
	6,167	3,100	7,272	–
Amount due for settlement within 12 months	–	–	–	–
Amount due for settlement after 12 months	6,300	3,100	7,527	–

The Group's borrowings relate to the partial draw-down of the three-year revolving credit facility maturing in February 2018, which is available at LIBOR plus 250bps. Deferred borrowing costs relate to the establishment fees associated with the facility and will be amortised over its three year term. As at December 31, 2016, the Group had utilised US$7.8m (£6.3m) of the US$30.0m (£24.3m) available under the facility.

The Group's revolving credit facility is secured by way of a floating charge over the Group's assets and is subject to a number of financial covenants, all of which have been met during the year ended December 31, 2016.

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25 Deferred tax

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

Group	Coal royalties: Revaluation of coal royalty £'000	Coal royalties: Effects of Tax losses £'000	Available-for sale-investments: Revaluation of royalty instruments £'000	Available-for sale-investments: Revaluation of mining interests £'000	Accrual of royalty receivable £'000	Other tax losses £'000	Total £'000
At January 1, 2015	34,615	(943)	1,206	(522)	30	(1,785)	32,601
Charge/(credit) to profit or loss	(8,190)	(469)	–	350	537	(1,141)	(8,913)
Reclassification from current to deferred tax asset	–	–	–	–	–	–	–
Charge/(credit) to other comprehensive income	–	–	(382)	276	–	–	(106)
Exchange differences	(2,146)	56	–	(1)	–	14	(2,077)
Effect of change in tax rate:	–	–	–	–	–	–	
– income statement	–	–	–	–	–	–	–
– equity	–	–	(57)	4	–	–	(53)
At December 31, 2015	24,279	(1,356)	767	107	567	(2,912)	21,452
Charge/(credit) to profit or loss	5,510	–	(1,583)	(19)	1,874	(4,426)	1,356
Reclassification from current to deferred tax asset	–	–	–	–	–	–	–
Charge/(credit) to other comprehensive income	–	–	(66)	92	–	–	26
Exchange differences	4,754	(249)	–	(16)	226	–	4,715
Effect of change in tax rate:	–	–	–	–	–	–	
– income statement	–	–	–	–	–	–	–
– equity	–	–	(38)	–	–	–	(38)
At December 31, 2016	34,543	(1,605)	(920)	164	2,667	(7,338)	27,511

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Group		
Deferred tax liabilities	(36,637)	(24,546)
Deferred tax assets	9,126	3,094
	(27,511)	(21,452)

As at December 31, 2016, the Group has unused tax losses of £10.7m (2015: £13.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses which may be carried forward indefinitely.

The Group has the following balances in respect of which no deferred tax asset has been recognised:

	2016: Tax losses – trading £'000	**2016: Tax losses – capital £'000**	**2016: Other temporary differences**	**2016: Total £'000**	2015: Tax losses – trading £'000	2015: Tax losses – capital £'000	2015: Other temporary differences	2015: Total £'000
Expiry date								
Within one year	–	–	–	–	–	–	–	–
Greater than one year, less than five years	–	–	–	–	–	–	–	–
Greater than five years	–	–	–	–	–	–	–	–
No expiry date	18,786	34,946	5,823	59,555	24,539	37,230	6,547	68,316
	18,786	34,946	5,823	59,555	24,539	37,230	6,547	68,316

Temporary differences associated with investments in subsidiaries, joint ventures and associates 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: Revaluation of royalty instruments £'000	Available-for sale-investments: Revaluation of mining interests £'000	Total £'000
At January 1, 2015	1,206	(5)	1,201
Charge to equity for the year	(440)	5	(435)
At December 31, 2015	766	–	766
Charge to equity for the year	(104)	–	(104)
At December 31, 2016	662	–	662

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Company		
Deferred tax liabilities	662	766
Deferred tax assets	–	–
	662	766

26 Trade and other payables

	2016 Group £'000	**2016 Company £'000**	2015 Group £'000	2015 Company £'000
Current				
Other taxation and social security payables	64	59	61	56
Trade payables	187	185	31	28
Other payables	361	175	277	176
Accruals and deferred income	745	671	801	759
	1,357	1,090	1,170	1,019

The average credit period taken for trade purchases is 34 days (2015: 19 days). The Directors consider that the carrying amount of trade and other payables approximates their fair value. All amounts are considered short-term and none are past due.

	2016 Group £'000	**2016 Company £'000**	2015 Group £'000	2015 Company £'000
Non-current				
Deferred consideration	1,215	–	1,013	–
Other taxation and social security payables	276	276	180	180
	1,491	276	1,193	180

On June 10, 2014, the Group acquired a 2% net smelter return royalty interest on all mineral products sold from the area of the Maracás Menchen project to which the royalty interest relates in exchange for US$22.0m and 500,000 warrants, which entitle the holder to acquire one Anglo Pacific ordinary share at a strike price of £2.50, which are exercisable over five years, and a further US$3.0m cash when the project reaches the following annualised production thresholds:

- US$1.5m cash when production reaches an annualised rate over a quarter of 9,500t; and
- A further US$1.5m cash when production reaches an annualised rate over a quarter of 12,000t.

Following the latest production guidance issued by the operator, Largo Resources Ltd, the Directors consider it probable that an annualised rate over a quarter of 9,500t will be achieved. As such a contingent liability has been recognised for the US$1.5m (£1.2m) deferred consideration that will become payable once this criteria has been satisfied. A corresponding asset has been recognised under deferred acquisition costs (➡ note 18).

Non-current other taxation and social security payables relates to employer national insurance due on vesting of the certain share-based payments.

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27 Share capital and share premium

Issued share capital

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Group and Company					
Ordinary shares of 2p each at January 1, 2016 and December 31, 2016	**169,942,034**	**3,399**	**49,211**	**29,134**	**81,744**

Own shares

Included in the Company's issued share capital are shares held by the Anglo Pacific Group Employee Benefit Trust ('EBT') in accordance with the Group's JSOP as follows:

	2016		2015	
	Number of shares	**£'000**	Number of shares	£'000
Own shares				
Own shares held by the Anglo Pacific Group Employee Benefit Trust	925,933	(2,601)	925,933	(2,601)
Total	**925,933**	**(2,601)**	**925,933**	**(2,601)**

As the EBT has waived its right to receive dividends, the Company's shares held by the EBT are excluded from the weighted average number of shares in issue for the purposes of calculating earnings per share in ➡ *note 11*.

28 Share-based payments

The Group operates three equity-settled share-based compensation plans as follows:

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

(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 TSR 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:

	2016		2015	
	Options	**Weighted average exercise price (£)**	Options	Weighted average exercise price (£)
Outstanding at January 1	157,812	1.0275	44,222	2.1205
Granted during the year	–	–	133,212	0.8257
Exercised during the year	–	–	–	–
Surrendered during the year	–	–	(19,622)	3.0577
Forfeited during the year	(23,831)	0.8392	–	–
Outstanding at December 31	133,981	1.0275	157,812	1.0275

Out of the 133,981 outstanding options (2015: 157,812), nil options (2015: nil) were exercisable.

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

		Options	
Expiry date	Exercise price in £ per share	**2016**	2015
2024	1.6258	24,600	24,600
2025	0.9221	37,954	48,798
2025	0.7700	71,427	84,414
		133,981	157,812
Weighted average remaining contractual life		8.82	9.84

No awards were made under the CSOP during 2016. The weighted average fair value of options granted during 2015 determined using the Black-Scholes valuation model was £0.472 per option granted in May 2015 and £0.394 per option granted in October 2015. The significant inputs into the model were weighted average share price of £0.922 and £0.77 at the grant date in May and October respectively, exercise price shown above, volatility of 40%, expected option life of three years and an annual risk-free interest rate of 1.5% for both grants.

In accordance with the terms of the CSOP, an employee forfeited 23,831 options upon their resignation in 2016.

(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.

No shares were awarded under the JSOP during 2015 or 2016. A total of 154,660 shares were surrendered in 2015 as a result of performance criteria not being satisfied in accordance with the terms of the JSOP, as a result there are no outstanding awards under this plan.

(c) Value Creation Plan

Following the approval at the 2014 AGM, the Group implements a new long-term incentive arrangement for the executive directors and selected senior management. The VCP was designed by the Remuneration Committee to incentivise the executive directors and senior management to drive growth in shareholder return over a five year measurement period. At the 2016 AGM, shareholders approved the extension of the measurement period from five to seven years.

Under the terms of the VCP, no value would accrue to the participants unless growth in the Group's total shareholder return over the measurement period is at least equal to 7% per annum. Subject to such threshold growth, participants would become entitled to receive nil or nominal cost options over the ordinary shares of the Company, subject to a cap, set by reference to a share of a pool value equal to 10% of the growth in the Company's total shareholder return over the measurement period or, if less, 50% of the growth in the Company's total shareholder return over the measurement period in excess of the threshold growth.

Options granted under the VCP will comprise three equal tranches, the first tranche exercisable as from the time of the grant of the options and the other tranches exercisable as from one and two years thereafter respectively. Subject to appropriate adjustments in accordance with the terms of the VCP, the maximum number of shares set under the option grants will not be capable of exceeding such number equating to 7.5% of the Company's issued share capital as at the end of the measurement period.

VCP awards outstanding at December 31, 2016 and December 31, 2015 are as follows:

Expiry date	***Units 2016***	*Units 2015*
Outstanding at January 1	66,880	88,000
Forfeited during the year	–	(21,120)
Outstanding at December 31	66,880	66,880
Weighted average remaining contractual life	4.50	3.50

No awards were made under the VCP during 2015 or 2016. In accordance with the terms of the VCP, Mr. Potter forfeited his awards upon his resignation on May 31, 2015.

At the 2016 AGM, the shareholders approved an amendment to the VCP extending the performance period from 5 years to 7 years, resulting in the weighted average remaining contractual life increasing by 2 years to 4.5 years.

Refer to ➡ *note 6a* for the total expense recognised in the income statement for awards under the Group's CSOP, JSOP and VCP granted to Directors and employees.

29 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, 2016, this reserve remains unavailable for distribution.

	Group £'000	***Company £'000***
At January 1, 2016 and December 31, 2016	632	632

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30 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:

	2016 £'000	*2015 £'000*
Group		
Within one year	300	300
In the second to fifth years inclusive	526	830
After five years	–	–
	826	1,130

Capital commitments

At the year end the Group had capital commitments of £nil (2015: £nil) in respect of purchases of quoted investments.

31 Related party transactions

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

	2016 £'000	*2015 £'000*
Net financing of related entities	(2,530)	6,552
Management fee	1,632	1,825
Amounts owed by related parties at year end	47,341	47,381

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

Remuneration of key management personnel

The remuneration of the key management personnel 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 54 to 66*.

	2016 £'000	*2015 £'000*
Short-term employee benefits	1,275	1,487
Post-employment benefits	50	50
Share-based payment	791	734
	2,116	2,271

Directors' transactions

The Group received £59,533.94 from Audley Capital Advisors LLP, a company which Mr J.A. Treger, Chief Executive Officer, is both a director and shareholder, for the subletting of office space during the year ended December 31, 2016 (2015: £47,654.51). During the year ended December 31, 2015 the Group made payments of £5,590.87 to Audley Capital Advisors LLP, for the reimbursement of travel related expenditure and IT recharges, no such payments were made in 2016. At December 31, 2016 a total of £27,952.16 was owing from Audley Capital Advisors LLP (2015: £nil). No amounts were owing to Audley Capital Advisors LLP as at December 31, 2016 or 2015.

32 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 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. The Group's financial risk management should be read in conjunction with the principal risks outlined on ➡ *pages 18 to 23* of the Strategic Report.

Financial instruments

The Group and Company held the following investments in financial instruments (this includes investment properties):

	2016		2015	
	Group £'000	Company £'000	Group £'000	Company £'000
Investment property (held at fair value)				
Coal royalties (Kestrel)	116,885	–	82,649	–
Available-for-sale				
Royalty financial instruments	13,556	6,724	6,534	6,534
Mining and exploration interests	17,062	13,861	10,898	8,259
Fair value through profit or loss				
Derivative financial instruments[1]	711	–	–	–
Loans and receivables				
Trade and other receivables[2]	11,616	47,767	14,073	47,568
Cash at bank and in hand	5,331	924	5,708	410
Financial liabilities				
Trade and other payables[3]	932	856	832	787
Borrowings[4]	6,300	3,100	7,272	–
Deferred consideration[5]	1,215	–	1,013	–

[1] Derivative financial instruments include the Group's foreign exchange forward contracts, as set out in ➡ *note 21*.

[2] Trade and other receivables include royalty receivables and other non-current receivables only, as set out in ➡ *note 20*.

[3] Trade and other payables include trade payables and accruals only, as set out in ➡ *note 26*.

[4] Borrowings include the revolving credit facility only, as set out in ➡ *note 24*.

[5] Other payables include the deferred consideration only, as set out in ➡ *note 26*.

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

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 December 31, 2016 the Group had £6.3m in borrowings (2015: £7.5m) and access to a further £18.0m in undrawn funds from its revolving credit facility.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayments periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate %	1-5 years £'000	Total £'000
December 31, 2016			
Interest bearing revolving credit facility	2.76	6,300	6,300
		6,300	6,300
December 31, 2015			
Interest bearing revolving credit facility	2.95	7,527	7,527
		7,527	7,527

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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 and total £16.9m at December 31, 2016 (£19.8m at December 31, 2015).

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. In certain cases the Group has the right to audit the reported royalty income.

The Group's credit risk on royalty interests held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in ➡ *note 15* where the future contractual right to cash flow from these instruments is reflected in their fair value.

The credit risk on bank deposits is mitigated by banking with household name financial institutions in reputable jurisdictions. The Group has no significant concentration of credit risk, with exposure spread over a large number of currencies and counterparties.

The Group's credit risk on foreign exchange forward contracts is mitigated by entering into these agreements with large financial institutions. The Group limits its exposure to credit risk, together with that of the contracting financial institution by restricting the settlement date to no more than a year from the contract date. In addition the Group limits the quantum of the forward contracts to no more than an average 50% of forecast royalty revenue expected to be received by the date of settlement.

Share price risk

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

A 10% increase or decrease in the fair value of our mining and exploration interests (listed and unlisted) would increase/decrease the mining and exploration interests balance (and investment revaluation reserve in equity) by £1.7m at December 31, 2016 (£1.1m at December 31, 2015). We note that if a 10% decrease were to occur then a further assessment would be required to determine whether the decrease was considered to be 'significant' with any resulting impairment recognised in the income statement.

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. This is expected to be a less significant part of the Group's strategy going forward.

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.

Other price risk

The royalty portfolio exposes the Group to other price risk through fluctuations in commodity prices, particularly the prices of coking coal, iron ore, gold and uranium. As the Directors obtain independent commodity price forecasts, the generation of which takes into account fluctuations in prices, limited analysis of the impact of fluctuations on the valuations of the royalties has been undertaken in ➡ *note 14* and ➡ *note 15*.

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. In light of the continued weakness in the pound against the Australian dollar, the Group implemented a hedging policy whereby foreign exchange forward contracts can be entered into with a maximum exposure of 60% of forecast Australian dollar denominated royalty revenue expected to be received during a period not exceeding twelve months from contract date to settlement. Refer to ➡ *note 20* for further details on the fair value of the foreign exchange forward contracts outstanding at December 31, 2016. The Group has no other hedging programs in place.

	2016						2015					
Group	***GBP £'000***	***AUD £'000***	***CAD £'000***	***USD £'000***	***NOK £'000***	***EUR £'000***	*GBP £'000*	*AUD £'000*	*CAD £'000*	*USD £'000*	*NOK £'000*	*EUR £'000*
Financial assets	7,903	148,511	1,347	7,354	1	45	5,919	93,271	3,389	17,187	1	95
Financial liabilities	7,163	1	1	1,215	–	67	6,036	1	1	3,040	–	39
Net exposure	740	148,510	1,346	6,139	1	(22)	(117)	93,270	3,388	14,147	1	56

Foreign exchange sensitivities

With the exception of the cash balances, the majority of the financial instruments not denominated in GBP are held in entities with the same functional currency and for the purpose of this sensitivity analysis, the impact of changing exchange rates on the translation of foreign subsidiaries into the Group's presentation currency have been excluded.

In terms of the cash balance, the significant sensitivities are as follows:

- A +/- 10% change in the GBP: AUD rate would increase/decrease profit after tax and equity by £114k (2015: £13k);
- A +/- 10% change in the GBP:CAD rate would increase/decrease profit after tax and equity by £117k (2015: £309k);
- A +/- 10% change in the GBP: USD rate would increase/decrease profit after tax and equity by £82k (2015: £87k).

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.

Capital management and procedures

The Group's capital management objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to realise the full value of its assets and to enhance shareholder value in the company and returns to shareholders by acquiring further royalty assets.

The Directors continue to monitor the capital requirements of the Group by reference to expected future cash flows. Capital for the reporting periods presented is summarised in the consolidated statement of changes in equity.

The optimal capital structure for the Group is to fund its business via equity. In certain circumstances the Directors will tolerate a level of gearing. The targeted debt capacity will be 1.5-2 times free cash flow, although a higher ratio can be tolerated for shorter periods when there is a reasonable expectation of a recovery in free cash flow.

Fair value hierarchy

The following tables present financial assets and liabilities measured at fair value in the balance sheet in accordance with the fair value hierarchy. This hierarchy aggregates financial assets and liabilities into three levels based on the significance of the 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 table presents the Group's assets and liabilities that are measured at fair value at December 31, 2016:

					2016
Group	*Notes*	***Level 1 £'000***	***Level 2 £'000***	***Level 3 £'000***	***Total £'000***
Assets					
Coal royalties (Kestrel)	*(a)*	–	–	116,885	116,885
Royalty financial instruments	*(b)*	–	–	13,556	13,556
Mining and exploration interests – quoted	*(c)*	14,070	–	–	14,070
Mining and exploration interests – unquoted	*(d)*	–	2,992	–	2,992
Financial derivative instruments	*(e)*	–	711	–	711
Net fair value		14,070	3,703	130,441	148,214

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2015:

					2015
Group	*Notes*	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Assets					
Coal royalties (Kestrel)	*(a)*	–	–	82,649	82,649
Royalty financial instruments	*(b)*	–	–	6,534	6,534
Mining and exploration interests – quoted	*(c)*	8,405	–	–	8,405
Mining and exploration interests – unquoted	*(d)*	–	2,493	–	2,493
Net fair value		8,405	2,493	89,183	100,081

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The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2016:

Company	Notes	Level 1 £'000	Level 2 £'000	Level 3 £'000	2016 Total £'000
Assets					
Royalty financial instruments	(a)	–	–	6,724	6,724
Mining and exploration interests – quoted	(b)	13,680	–	–	13,680
Mining and exploration interests – unquoted	(c)	–	181	–	181
Net fair value		13,680	181	6,724	20,585

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2015:

Company	Notes	Level 1 £'000	Level 2 £'000	Level 3 £'000	2015 Total £'000
Assets					
Royalty financial instruments	(a)	–	–	6,534	6,534
Mining and exploration interests – quoted	(b)	8,112	–	–	8,112
Mining and exploration interests – unquoted	(c)	–	147	–	147
Net fair value		8,112	147	6,534	14,793

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 of royalty financial instruments gives more prominence to the probability of production by applying a risk weighting to the discounted net present value outcome in order to fully reflect the risk that the operation never comes into production rather than factoring this risk into the discount rate applied to the future cash flow.

(a) Coal royalties (Investment Property)

The Group's coal royalties derive from its ownership of certain sub-stratum land in Queensland, Australia. In accordance with IAS 40, this land is revalued at each reporting date on the basis of future expected income discounted at 7.5% (2015: 7.0%) by an independent valuation consultant. Refer to ➡ *note 14* for details of the key inputs into the valuation, together with a sensitivity analysis for fluctuations in the price assumptions and discount rate. All unobservable inputs are obtained from third parties.

(b) Royalty instruments

At the reporting date, the royalty financial instruments are valued based on the net present value of pre-tax cash flows discounted at a rate between 7% and 13%. The discount rate of each royalty arrangement is derived using a capital asset pricing model specific to the underlying project, making reference to the risk free rate of return expected on an investment with the same time horizon as the expected mine life, together with the country risk associated with the location of the operation.

For those royalty financial instrument not in production, the outcome of this net present value calculation is then risk weighted to reflect management's current assessment of the overall likelihood and timing of each project coming into production and royalty income arising. This assessment is impacted by news flow relating to the underlying operation in the period, in conjunction with management's assessment of the economic viability of the project based on commodity price projections.

The table below outlines the discount rate and risk weighting applied in the valuation of the Group's royalty financial instruments:

		December 31, 2016		December 31, 2015	
	Classification	**Discount Rate**	**Risk Weighting**	Discount Rate	Risk Weighting
EVBC	Available-for-sale equity	6%	100%	9%	100%
Jogjakarta	Available-for-sale debt	8%	100%	8%	100%
Dugbe 1	Available-for-sale debt	13%	75%	–	–

The Dugbe 1 royalty financial instrument was previously classified as a non-current receivable, as detailed in ➡ *note 15*.

The Group has reviewed the impact on the carrying value of its royalty financial instruments, and does not consider a +/- 1% change in the discount rate or a +/- 10% change in the underlying commodity prices to have a material impact.

(c) Mining and exploration interests – quoted

All the quoted mining and exploration interests have been issued by publicly traded companies on well established security markets. Fair values for these securities have been determined by reference to their quoted bid prices at the reporting date.

(d) Mining and exploration interests – unquoted

All the unquoted mining and exploration interests are initially recognised using cost as the best approximation of fair value. The Group notes any trading activity in the unquoted instruments and will value its holding accordingly. At present the Group holds these investments with a view to generating future royalties and there is no present intention to sell. The vast majority of these are in investments which the Group anticipates a realistic possibility of a future listing.

(e) Derivative financial instruments

The derivative financial instruments consist of the foreign exchange forward contracts entered into to hedge the Group's Australian dollar denominated royalty income. At the reporting date the foreign exchange forward contracts are valued based on the net present value of the discounted future cash flows estimated based on forward exchange rates and contract forward rates, discounted at a rate that reflect the credit risk of various counterparties.

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, 2016.

	Royalty financial instruments £'000	***Coal royalties (Kestrel) £'000***	***Total £'000***
At January 1, 2016	6,534	82,649	89,183
Additions	10,133	–	10,133
Revaluation gains or losses recognised in:			
Other comprehensive income	(350)	–	(350)
Income statement	(4,939)	17,900	12,961
Foreign currency translation	2,178	16,336	18,514
At December 31, 2016	13,556	116,885	130,441

The following table presents the changes in Level 3 instruments for the year ended December 31, 2015.

	Royalty financial instruments £'000	*Coal royalties (Kestrel) £'000*	*Total £'000*
At January 1, 2015	8,142	117,097	125,239
Revaluation gains or losses recognised in:			
Other comprehensive income	(1,909)	–	(1,909)
Income statement	–	(27,201)	(27,201)
Foreign currency translation	301	(7,247)	(6,946)
At December 31, 2015	6,534	82,649	89,183

There have been no transfers into or out of Level 3 in any of the years.

The Group measures its entitlement to the royalty income and any optionality embedded within the royalty instruments using discounted cash flow models. In determining the discount rate to be applied, management considers 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.

33 Free cash flow

The structure of a number of the Group's royalty financing arrangement, such as the Denison transaction completed in February 2017, result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. As the Group considers dividend cover based on the free cash flow generated by its assets, management have determined that free cash flow per share is a key performance indicator, going forward.

Free cash flow per share is calculated by dividend net cash generated from operating activities, proceeds from the disposal of non-core assets, less finance costs divided by the weighted average number of shares in issue.

	2016 £'000	***Free cash flow per share p***
Net cash generated from operating activities		
Net cash generated from operating activities for the year ended December 31, 2016	10,316	
Adjustment for:		
Proceeds on disposal of mining and exploration interests	3,431	
Finance income – excluding foreign exchange gains/losses	82	
Finance costs	(1,086)	
Proceeds from royalty financial instruments	246	
Other royalty related repayments/(advances)	352	
Sundry income	63	
Free cash flow for the year ended December 31, 2016	13,403	7.93p

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	2015 £'000	Free cash flow per share p
Net cash generated from operating activities		
Net cash generated from operating activities for the year ended December 31, 2015	28	(14.06p)
Adjustment for:		
Proceeds on disposal of mining and exploration interests	1,722	
Finance income - excluding foreign exchange gains/losses	301	
Finance costs	(629)	
Proceeds from royalty financial instruments	213	
Other royalty related repayments/(advances)	2,868	
Sundry income	203	
Free cash flow for the year ended December 31, 2016	4,706	2.93p

The weighted average number of shares in issue for the purpose of calculating the free cash flow per shares is as follows:

	2016	2015
Weighted average number of shares in issue	169,016,101	160,512,425

34 Events occurring after year end

Revolving credit facility refinancing

On February 8, 2017, the Group amended and extended the terms of its US$30.0m revolving credit facility with Barclays Bank PLC to include an accordion facility with Investec Bank PLC of US$10.0m and an overall maturity date of 2021. Forming part of the agreement to amended and extend the facility, on February 10, 2017, the Group issued 294,695 warrants to Investec Bank PLC. These warrants entitle the Investec Bank PLC to subscribe in cash for ordinary shares at the subscription price of £1.58 per ordinary share (subject to any adjustment events in accordance with the warrant instrument). The rights to subscribe for ordinary shares conferred by the warrants may only be exercised within three years from the date of the grant of the warrants and in accordance with the warrant instrument

McClean Lake Mill – financing and streaming agreement

On February 13, 2017, the Group completed a C$43.5m financing and streaming agreement with Denison Mines Inc ('Denison'). The financing agreement is structured as a 13 year loan of C$40.8m with an interest rate of 10 per cent per annum payable to the Group. The streaming agreement which entitles the Group to receive Denison's portion of toll milling proceeds from the McClean Lake Mill after the first 215Mlbs of throughput was acquired for C$2.7m.

The Group funded the Denison financing and streaming agreements in part by the placing of 10,960,000 new ordinary shares of 2p each at a placing price of 125p per share raising gross proceeds of £13.7m (C$22.4m). The new shares were admitted to trading on February 6, 2017.

The remaining C$21.1m was funded by the Group's own cash resources (C$8.8m) and a partial utilisation totalling C$12.3m of the Group's amended and extended US$30.0m revolving credit facility with Barclays Bank PLC and Investec Bank PLC which now offers the Group a US$10.0m accordion feature.

Jogjakarta deed of variation

On February 6, 2017, the Group entered into a deed of variation with Indo Mines Limited ('Indo'), the operator of the Jogjakarta project over which the Group has a 2.0% gross revenue royalty structured as a US$4.0m interest bearing debenture, refer to ➡ *note 15*. Under the terms of the deed of variation, the Group has agreed to defer 70% of the interest due in the period September 01, 2016 to March 31, 2017 until June 30, 2017 to assist Indo in managing their cash flow position.

35 Subsidiaries

The following tables outline the Group's subsidiaries, as defined in Regulation 7 of the UK Companies Act 2006. All subsidiaries are included in the Group consolidation.

Company and country of incorporation/operation	*Principal activities*	*Class of shares held*	*Proportion of class held at December 31, 2016 %*	*Group interest at December 31, 2015 %*
Australia[1]				
Alkormy Pty Ltd	Investments	Ordinary A$1.00	100%	100%
APG Aus No 1 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 2 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 3 Pty Ltd	Owner of uranium royalties	Ordinary A$1.00	100%	100%
APG Aus No 4 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 5 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 6 Pty Ltd	Owner of vanadium royalties	Ordinary A$1.00	100%	100%
APG Aus No 7 Pty Ltd	Owner of coal royalties	Ordinary A$1.00	100%	100%
Argo Royalties Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Gordon Resources Ltd	Owner of coal royalties	Ordinary A$0.20	100%	100%
HydroCarbon Holdings Pty Ltd	Dormant	Ordinary A$1.00	100%	100%
Indian Ocean Resources Pty Ltd	Investments	Ordinary A$0.25	100%	100%
Indian Ocean Ventures Pty Ltd	Dormant	Ordinary A$0.20	100%	100%
Starmont Holdings Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Starmont Ventures Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Woodford Wells Pty Ltd	Dormant	Ordinary A$0.25	100%	100%

[1] The registered office of all of the entities listed above is, 6 Price Street, Subiaco, Western Australia 6008

Canada[2]				
Advance Royalty Corporation	Owner of uranium royalties	Ordinary C$0.01	100%	100%
Albany River Royalty Corporation	Owner of chromite royalties	Ordinary C$1.00	100%	100%
Panorama Coal Corporation	Owner of coal royalties	Ordinary C$0.01	100%	100%
Polaris Royalty Corporation	Intermediate holding company	Ordinary C$1.00	100%	100%
Trefi Coal Corporation	Owner of coal tenures	Ordinary C$0.01	100%	100%

[2] The registered office of all of the entities listed above is, 1720 Queens Avenue, West Vancouver, British Columbia, Canada V7V 2X7

England[3]				
Anglo Pacific Cygnus Ltd	Investments	Ordinary £1.00	100%	100%
Centaurus Royalties Ltd	Investments	Ordinary £1.00	100%	100%
Southern Cross Royalties Ltd	Investments	Ordinary £1.00	100%	100%

[3] The registered office of all of the entities listed above is, 1 Savile Row, London, England W1S 3JR

Guernsey[4]				
Anglo Pacific Group Employee Benefit Trust	Administering Group incentive plans		100%	100%

[4] The registered office of the entity listed above is, Frances House, Sir William Place, St Peter Port GY1 4HQ

Ireland[5]				
Anglo Pacific Finance Ltd	Treasury	Ordinary £1.00	100%	100%

[5] The registered office of the entity listed above is, Atlantic Avenue, Westpark Business Campus, Shannon, Co Clare

Scotland[6]				
Shetland Talc Ltd	Mineral exploration	Ordinary £1.00	100%	100%

[6] The registered office of the entity listed above is, Grant Thornton, 95 Bothwell Street, Glasgow, Scotland G2 7JZ

OTHER INFORMATION

Shareholder statistics

(a) Size of Holding (at March 24, 2017)

Category	Number of Shareholders	%	Number of Shares	%
UK and Canada				
1 – 1,000	590	34.22	308,847	0.17
1,001 – 5,000	659	38.23	1,537,873	0.85
5,001 – 10,000	156	9.05	1,150,179	0.64
10,001 – and over	319	18.50	177,905,135	98.34
	1,724	100.00	180,902,034	100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at March 24, 2017 was 60.75%.

Corporate details

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Please contact the respective registrar if you have any queries about your shareholding.

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Peel Hunt
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London EC2Y 5ET

Forward-looking statements

Performance measures

Throughout the Strategic Report, we use a number of financial measures to assess our performance. The measures are defined on ➡ *inside front cover*.

Third party information

As a royalty holder, the Group often has limited, if any, access to non-public scientific and technical information in respect of the properties underlying its portfolio of royalties, or such information is subject to confidentiality provisions. As such, in preparing this Annual Report, the Group has relied upon the public disclosures of the owners and operators of the properties underlying its portfolio of royalties, as available at the date of this Annual Report.

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 suchforward-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.

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 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 'Principal Risks and Uncertainties' section herein. 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 'Risk' 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.

US Employment Retirement Income Security Act

Fiduciaries of (i) US employee benefit plans that are subject to Title I of the US Employment Retirement Income Security Act of 1974 (ERISA), (ii) individual retirement accounts, Keogh and other plans that are subject to Section 4975 of the US Internal Revenue Code of 1986, as amended (the Internal Revenue Code), and (iii) entities whose underlying assets are deemed to be ERISA 'plan assets' by reason of investments made in such entities by such employee benefit plans, individual retirement accounts, Keogh and other plans (collectively referred to as Benefit Plan Investors) should consider whether holding the Company's ordinary shares will constitute a violation of their fiduciary obligations under ERISA or a prohibited transaction under ERISA or the Internal Revenue Code. Shareholders should be aware that the assets of the Company may be or become treated as 'plan assets' that are subject to ERISA fiduciary requirements and/or the prohibited transaction rules of ERISA and the Internal Revenue Code. The Company's ordinary shares are subject to transfer restrictions and provisions that are intended to mitigate the risk of, among other things, the assets of the Company being deemed to be 'plan assets' under ERISA. Shareholders who believe these provisions may be applicable to them should review these restrictions which are set forth in the Company's Articles of Association and should consult their own counsel regarding the potential implications of ERISA, the prohibited transaction provisions of the Internal Revenue Code or any similar law in the context of an investment in the Company and the investment of the Company's assets.

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on Amadeus Primo Silk FSC® certified paper.
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made using ECF pulp, and manufactured
according to ISO 9001 and ISO 14001.

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