

# GROWING A GLOBAL NATURAL RESOURCES ROYALTY COMPANY

**2018**

Annual Report & Accounts  
ANGLO PACIFIC GROUP PLC

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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:

### Portfolio contribution

Portfolio contribution represents the funds received or receivable from the Group's underlying royalty related assets which is taken into account by the Board when determining dividend levels.

Portfolio contribution is royalty related revenue (refer to [note 6](#)) plus royalties received or receivable from royalty financial instruments carried at fair value through profit or loss ('FVTPL') and principal repayment received under the Denison financing agreement (refer to [note 22](#)). Refer to [note 36](#) to the financial statements for portfolio contribution.

### 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

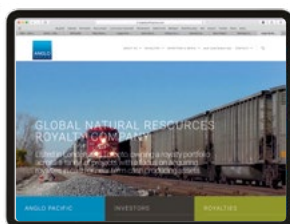
Adjusted earnings represents the Group's underlying operating performance from core activities. Adjusted earnings is the profit/(loss) attributable to equity holders, plus royalties received from financing instruments carried at fair value through profit or loss, less all valuation movements, and non-cash impairments, amortisation charges, share based payments, finance costs, any associated deferred tax and any profit or loss on non-core asset disposals. Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share. Refer to [note 13](#) 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 14](#) 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 and any cash considered as repayment of principal, less finance costs, by the weighted average number of shares in issue. Refer to [note 35](#) to the financial statements for free cash flow per share.



FOR MORE INFO VISIT  
[www.anglopacificgroup.com](http://www.anglopacificgroup.com)

**THE GLOBAL NATURAL RESOURCES ROYALTY COMPANY**

# OUR AIM IS TO BE THE LEADING INTERNATIONAL ROYALTY AND STREAMING COMPANY, WITH A DIVERSIFIED PORTFOLIO FOCUSED ON BULK COMMODITIES, ENERGY STORAGE RELATED MINERALS AND BASE METALS

Anglo Pacific Group PLC ('Anglo Pacific', the 'Company' or the 'Group') is the only listed company on the London Stock Exchange focused on royalties in the natural resources sector.

Our strategy is to accelerate our rate of growth by investing in natural resources royalties and metal streams, focusing primarily on high-quality, lower polluting products from operations that are run in an ethical and responsible manner, to generate stable, diversified, long-term cash flows.

It is an objective of the Company to pay a significant portion of our income to shareholders as dividends.

## OUR INVESTMENT CRITERIA FOR DELIVERING GROWTH...

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HIGH-QUALITY  
AND LOW-COST  
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ATTRACTIVE  
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PRODUCTION  
AND  
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UPSIDE  
POTENTIAL

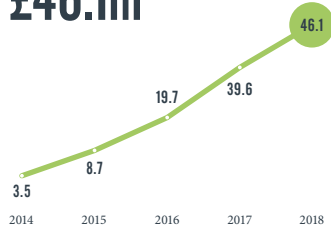
GROUP OVERVIEW

# ANGLO PACIFIC AT A GLANCE

## KPIs

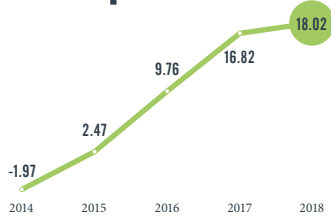
### ROYALTY RELATED REVENUE

**£46.1m**



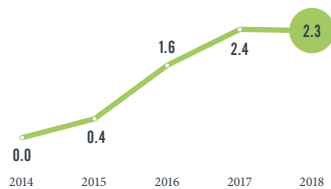
### ADJUSTED EARNINGS PER SHARE

**18.02p**



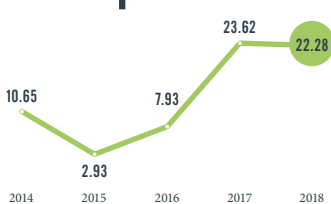
### DIVIDEND COVER

**2.3x**



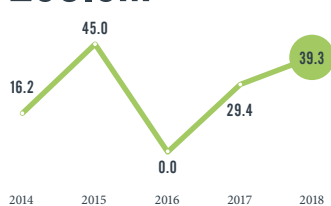
### FREE CASH FLOW PER SHARE

**22.28p**



### ROYALTY ASSETS ACQUIRED

**£39.3m**



## KEY HIGHLIGHTS 2018

### PRIMARY LISTING

**LONDON STOCK EXCHANGE (LSE: APF)**

### SECONDARY LISTING

**TORONTO STOCK EXCHANGE (TSX: APY)**

### ASSETS IN PRODUCTION *by value*

**OVER 92% OF OUR PORTFOLIO BY VALUE, ACROSS 5 COMMODITIES IS IN PRODUCTION**

### PRODUCTION POTENTIAL

**SIGNIFICANT, ORGANIC GROWTH IN THE CURRENT PORTFOLIO FROM KESTREL, NARRABRI AND SALAMANCA**

### GLOBAL ROYALTY ASSETS

**14 PRINCIPAL ROYALTY AND STREAMING RELATED ASSETS ACROSS 5 CONTINENTS**

## SHAREHOLDER RETURNS

**FTSE 350 MINING INDEX VS. ANGLO PACIFIC GROUP 2008-2018**  
(Rebased to 100)



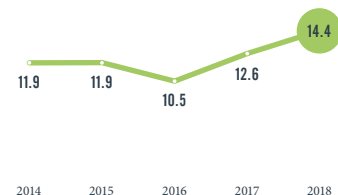
### DIVIDEND PER SHARE

**8.00p**

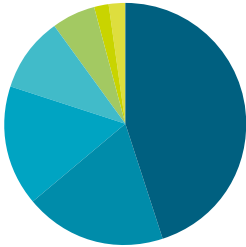


### DIVIDENDS

**£14.4m**



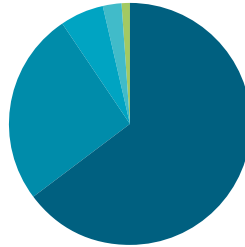
## DIVERSIFIED PORTFOLIO OF ROYALTIES



**COMMODITY EXPOSURE**  
by asset value at 31 December 2018

55% of the royalty portfolio is now non coking coal, reducing the Group's reliance on Kestrel

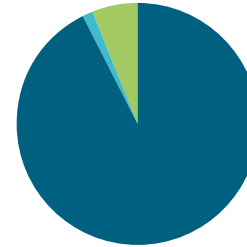
Coking coal	45%
Iron ore	19%
Thermal coal	16%
Uranium	10%
Vanadium	6%
Gold	2%
Other	2%



**GEOGRAPHIC EXPOSURE**  
by asset value at 31 December 2018

99.1% of the portfolio is in established natural resources jurisdictions

Australia	64.8%
Canada	25.8%
Brazil	6.0%
Spain	2.5%
Other	0.9%



**STAGE OF PRODUCTION**  
by asset value at 31 December 2018

92.6% of the portfolio is producing royalties

Producing	92.6%
Development	1.4%
Early-stage	6.0%

## NATURAL RESOURCES ROYALTIES EXPLAINED

**A natural resources royalty is a non-operating interest in a 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 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

NSR royalties entitle the 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.

### INNOVATIVE STRUCTURES

Our primary focus is on royalty and streaming transactions, however, we will also review alternative structures that deliver superior long-term cash flows. An example would be the Denison financing arrangement executed in 2017 which was structured as a long-term loan with a separate stream element, deriving income from a tolling agreement on the McClean Lake uranium mill, which processes ore from the world class Cigar Lake uranium operation in Canada. We will always look for ways of gaining exposure to tier one natural resource projects and sometimes this will involve creative thinking and structuring to support our main objective of acquiring royalties and streams.

## GROUP OVERVIEW

## OUR PORTFOLIO

# 14 PRINCIPAL ROYALTY AND STREAMING RELATED ASSETS OVER FIVE CONTINENTS

## 7 PRODUCING ... pages 32-43

ROYALTY	COMMODITY	OPERATOR	LOCATION	ROYALTY RATE AND TYPE	BALANCE SHEET CLASSIFICATION
KESTREL	COKING COAL	KESTREL COAL PTY LTD	AUSTRALIA	7 – 15% GRR <sup>1</sup>	INVESTMENT PROPERTY
MARACÁS MENCHEN	VANADIUM	LARGO RESOURCES	BRAZIL	2% NSR	ROYALTY INTANGIBLE
NARRABRI	THERMAL & PCI COAL	WHITEHAVEN COAL	AUSTRALIA	1% GRR	ROYALTY INTANGIBLE
McCLEAN LAKE MILL	URANIUM	ORANO	CANADA	TOLLING REVENUE	LOAN & ROYALTY FINANCIAL INSTRUMENT
LABRADOR IRON ORE ROYALTY CORPORATION ('LIORC')	IRON ORE & IRON ORE PELLETS	IRON ORE COMPANY OF CANADA ('IOC') / RIO TINTO	CANADA	INDIRECT INTEREST IN 7% GRR	ROYALTY FINANCIAL INSTRUMENT
EL VALLE-BOINÁS / CARLÉS ('EVBC')	GOLD, COPPER & SILVER	ORVANA MINERALS	SPAIN	2.5 – 3% NSR <sup>2</sup>	ROYALTY FINANCIAL INSTRUMENT
FOUR MILE	URANIUM	QUASAR RESOURCES	AUSTRALIA	1% NSR	ROYALTY INTANGIBLE

## 3 DEVELOPMENT ... page 45

ROYALTY	COMMODITY	OPERATOR	LOCATION	ROYALTY RATE AND TYPE	BALANCE SHEET CLASSIFICATION
SALAMANCA	URANIUM	BERKELEY ENERGIA	SPAIN	1% NSR	ROYALTY INTANGIBLE
GROUNDHOG	ANTHRACITE	ATRUM COAL	CANADA	1% GRR OR US\$1.00/t	ROYALTY INTANGIBLE
PIAUI	NICKEL & COBALT	BRAZILIAN NICKEL	BRAZIL	1% GRR	ROYALTY FINANCIAL INSTRUMENT

## 4 EARLY-STAGE ... pages 46-47

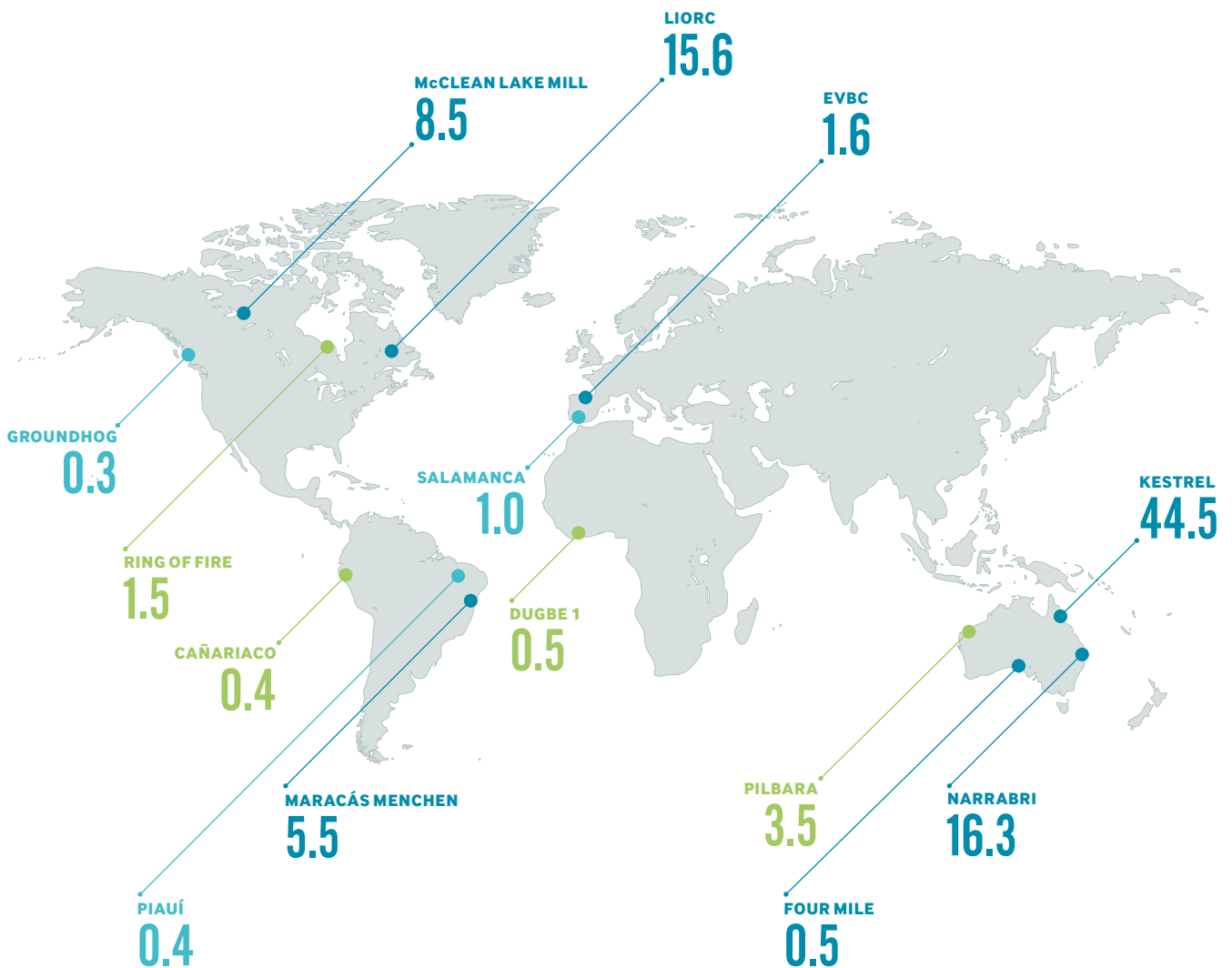
ROYALTY	COMMODITY	OPERATOR	LOCATION	ROYALTY RATE AND TYPE	BALANCE SHEET CLASSIFICATION
PILBARA	IRON ORE	BHP	AUSTRALIA	1.5% GRR	ROYALTY INTANGIBLE
CAÑARIACO	COPPER, GOLD & SILVER	CANDENTE COPPER	PERU	0.5% NSR	ROYALTY INTANGIBLE
RING OF FIRE	CHROMITE	NORONT RESOURCES	CANADA	1% NSR	ROYALTY INTANGIBLE
DUGBE 1	GOLD	HUMMINGBIRD RESOURCES	LIBERIA	2 – 2.5% NSR <sup>3</sup>	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.

# ANGLO PACIFIC HAS AN INCREASINGLY DIVERSIFIED PORTFOLIO, THROUGH A RANGE OF COMMODITY AND GEOGRAPHIC EXPOSURE



## % OF PORTFOLIO BY ASSET VALUE

at 31 December 2018

## GROUP OVERVIEW

## CHAIRMAN'S STATEMENT

# ANOTHER RECORD YEAR OF REVENUE FOR ANGLO PACIFIC RESULTING IN HIGHER DIVIDENDS FOR OUR SHAREHOLDERS

KEY RESULTS IN 2018

**+16%**

Our royalty related revenue increased by 16% from £39.6m to £46.1m

**+21%**

Operating profit increased from £30.6m to £37.1m

**15.97p**

Basic earnings per share 15.97p (2017: 5.88p)

**18.02p**

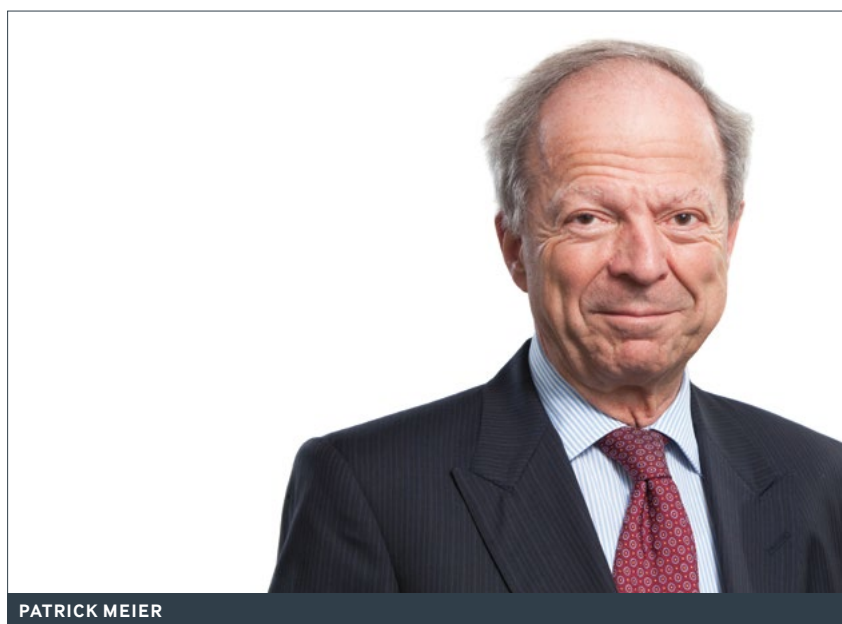
Adjusted earnings per share 18.02p (2017: 16.82p)

**£36.9m**

Cash flow from operations decreased from £37.3m to £36.9m

**22.3p**

Free cash flow per share 22.3p (2017: 23.6p)



PATRICK MEIER

**2018 has been another strong year for Anglo Pacific with record revenue flowing through to earnings and cash flow. We expect 2019 to be an even stronger year for the Group, certainly in terms of volume growth, following the new owner of Kestrel announcing plans to increase production by 40% in 2019. Taking the above into account, we have recommended a 14% increase in the dividend to 8p per share for the year. We enter 2019 in a very strong financial position with a renewed focus on growing our royalty portfolio and remain confident that our offering will continue to be appealing in what remains a very capital constrained sector.**

It is perhaps timely to reflect on the mining industry, which is the focus of our investments. The recent tragic and fatal collapse of a tailings dam in Brazil is a stark reminder of the complex and challenging nature of mining and the need for the highest standards in respect of safety and the environment. The scale of the incident will, rightly, result in enhanced scrutiny on operators from regulatory bodies,

governments, NGOs, lenders and investors in relation to safety and the use of best practice techniques, particularly when operating in close proximity to communities.

Such issues are a top priority for Anglo Pacific when undertaking due diligence, as outlined in our own discussion on principal risks later in this report. We take comfort from our track record thus far in the environmental, social and governance ('ESG') credentials of the operators we have supported. We will continue to do our utmost to be a force for positive action as we make investment decisions and work with the operators of the assets in our portfolio.

It's easy to forget the substantial positive contribution made by mining to society as a whole. The metals and minerals extracted are essential for our everyday existence in the developed world and also help the developing world advance and lift people out of poverty. As an industry, mining needs to do a better job at educating on, and communicating the benefits of the extractive sector. As an investor and believer in the sector, we will do our part as best we can.



**PERFORMANCE IN 2018**

The Group saw its total portfolio contribution increase by 16% to £49.4m, buoyed by resilient commodity prices and a strong contribution from our most recent acquisitions. The Company executed £39.3m of royalty related acquisitions in 2018 which added £2m to income in the second half. The acquisitions were financed by drawing on the Group's borrowing facility, with the Group returning to a net cash position post year end. In addition, we took the opportunity to upsize and extend our borrowing facility on more favourable pricing terms, which now, when combined with existing cash resources, provides for ~£78m (~US\$100m) of liquidity to finance growth opportunities.

The higher commodity prices and revenues during the year translated directly into higher profits and cash generation. Operating profit increased to £37.1m from £30.6m in 2017.

Basic earnings per share were 15.97p compared with 5.88p in 2017. Stripping out non-cash items, we present an adjusted earnings measure (refer to [note 13](#) to the accounts) which, we believe, more closely reflects the performance within management's control. On this basis adjusted earnings per share were 18.02p (2017: 16.82p).

**DIVIDENDS**

In light of the continued growth in our income, strong dividend cover and the prospect for further growth in 2019 we have recommended a 25% increase in the final dividend to 3.125p which, if approved by shareholders at the 2019 AGM, would result in total dividends for 2018 of 8p per share, a 14% increase on the 7p paid in 2017. We feel that this level of dividend rewards the continued support of our shareholders whilst allowing us to employ cash in growth opportunities. As we operate in a cyclical and often volatile sector, we have kept the quarterly dividend level of 1.625p unchanged and we will assess the total dividend level for 2019 when we announce our Q4 2019 trading update.

This implies dividend cover of around 2.5x, which is approximately the level we are targeting for 2019. Our intention is to continue to reinvest the bulk of our retained income in growth at this favourable stage of the cycle.

**CORPORATE CULTURE AND GOVERNANCE**

Anglo Pacific seeks to maintain the highest standards in all areas of its business. I believe this starts at the top and the Board sees it as a key part of its responsibility to set the right guidelines for the Group to operate to the highest ethical standards. We hold an annual strategy day and in 2018 included sessions on strategy, ESG, risk and board effectiveness. We work with industry experts where appropriate who bring an objective and impartial insight to how the Group approaches these areas.

While we acknowledge that we are not directly responsible for the operation of the underlying assets in our portfolio, we are committed to making the pursuit of best practice in ESG a high priority.

**BOARD**

We were pleased to announce the appointment of Vanessa Dennett to our Board in November, following an extensive search process. Vanessa brings with her a wealth of transaction experience in the mining industry having held senior roles within Anglo American plc. Her commercial experience in negotiating and structuring transactions, investment process and corporate governance complements the finance and operational expertise of the Board. Vanessa has already made positive contributions to the Board and has proved a very helpful sounding board to our executive team and we look forward to her continued participation in the coming years.

The Directors possess different skills and, I believe, operate effectively in bringing a diversity of approach and experience to the overall activities of the Board and committees in determining strategy and providing guidance and oversight to management. As the Group develops, we will continue to evaluate the composition of the Board and refresh when appropriate.

**STRATEGIC REPORT**

Our 2018 strategic report, from [pages 8 to 54](#) was reviewed and approved by the Board on 26 March 2019.

**MARKET BACKGROUND**

Against a background of increasing signs of a global slowdown, concerns surrounding China's debt burden and the US China trade war, along with rising US treasury yields, it was perhaps not surprising to see equity values fall at the end of 2018. Although we believe that small and mid-cap mining companies were underrated before this bearish sentiment, it suggests that the availability of capital to finance new mining projects will become even more scarce and the cost will increase accordingly.

This should provide Anglo Pacific with opportunities to add attractive assets to its portfolio, especially as we, in turn, are not necessarily dependent on the equity markets to raise capital to finance such opportunities given our access to liquidity and the prospect for significant organic growth in 2019.

**OUTLOOK**

We expect 2019 to produce healthy organic growth from our royalty portfolio. This should, subject to prevailing commodity prices, result in another strong year of earnings and cash generation.

We believe there will be continued demand for royalty and alternative financing in the mining sector in 2019, given the shortage and rising cost of capital facing the sector. Anglo Pacific is firmly focused on growth and will continue to add to our portfolio of royalties.

2019 should be a busy year and I have no doubt that the dedicated, hardworking and experienced team led by Julian Treger is well placed to deliver our growth targets. I would like to thank the Board, the executive team and staff for their continued diligence and hard work.

**N.P.H. MEIER**

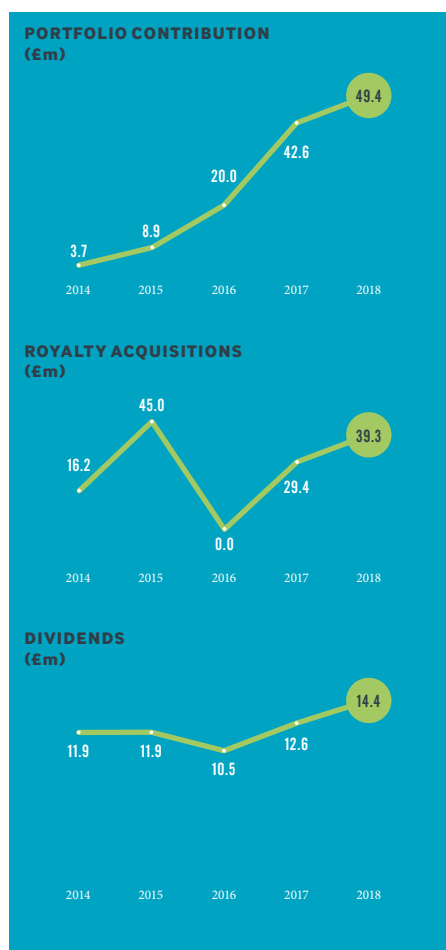
Chairman

26 March 2019

STRATEGIC REPORT

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## ANGLO PACIFIC CONTINUED TO DELIVER ON ITS STRATEGY IN 2018 WITH £39.3m IN FURTHER ACQUISITIONS



JULIAN TREGER

**Anglo Pacific continued to deliver on its strategy in 2018. Our portfolio generated a record contribution of £49.4m, representing a 16% increase on 2017. This is very pleasing especially as the consensus at the beginning of the year was forecasting a decline.**

The business and financial reviews on [pages 31 to 54](#) outline in detail the performance of our business over the past 12 months. I would like to highlight that Maracás Menchen, the vanadium royalty which we acquired in 2014, is now our second largest royalty by revenue having generated £5.9m in royalties during 2018 compared to £2.0m in 2017.

We expect further organic growth to come in 2019, driven by plans for a 40% increase in volumes from Kestrel along with a full year of revenue from our investment in LIORC. The accelerated volumes expected from Kestrel should have a positive impact on free cash flow, but will also bring forward the point at which mining will leave the Group's private land. As such, the imperative is now firmly on reinvesting this cash flow to replace Kestrel's income in the medium-term, and this is our firm focus for the year ahead.

#### **TRACK RECORD AND EXPERIENCED TEAM**

We have demonstrated our ability to successfully identify accretive royalty related assets over the past five years, having acquired royalties over the Narrabri and Maracás mines, together with an indirect interest in the royalty over the Iron Ore Company of Canada (IOC) mines through our investment in LIORC. In addition we have gained exposure to the Cigar Lake operation through a toll milling agreement. We have also added some longer-term growth opportunities to the portfolio through our investment in the Piauí and Cañariaco royalties.

The investment of ~£130m into the Group's portfolio over the past five years could, subject to commodity prices, generate a sustainable £15m of annual revenue before development upside. This is a good start,

but we feel now is the time to accelerate our rate of growth, and are in a strong financial position to do so, with ~£78m (~US\$100m) of liquidity available to us.

The success of these investments has been achieved through the application of our investment criteria (detailed on [page 18](#)) which aims to ensure that our new royalties are over projects which should continue to operate throughout the cycle. More recently we have also targeted high-quality, lower polluting products in the belief that these should command more of a premium over time. It is gratifying to see this belief realised from the returns on our investments in LIORC (iron ore pellet), Narrabri (low ash, high energy thermal coal) and Maracás Menchen (vanadium).

Executing the Group's strategy and applying our investment criteria is our very experienced senior management team, which has remained largely unchanged over the past five years and whose skill set covers all of our key diligence areas namely geology, corporate finance, structuring and tax. The skills of the management team are augmented by those of our Board, who bring a variety of further operational, M&A, corporate finance and corporate governance experience to the Group.

The combined breadth and depth of the senior management team and Board's knowledge and experience has allowed the Group to assess a wide range of potential transactions across multiple jurisdictions and commodities. Given our growth ambitions, we are allocating more resources to our investment team in order to develop our pipeline and execute on deals in the year ahead.

Our people are our key assets and staff related expenses make up 64% of the Group's total cost base. We operate in a very scalable business and it is interesting to note that our costs are virtually identical to those in 2014 even though our income has increased by ~12.5 times over that period.

#### **LIORC INVESTMENT**

The highlight of our acquisition strategy in 2018 was the purchase of our 4.29% stake in Labrador Iron Ore Royalty Corporation (LIORC), a publicly quoted royalty pass-through vehicle listed in Toronto. We increased our exposure to iron ore as we believe the industry dynamics have improved well beyond the general market perception and prices will be stronger for longer. Further, LIORC is focused at the high-quality end of the iron ore market and enjoys a favourable premium for its product. We also expected LIORC to produce yields of around ten percent which is very respectable for a mine in a premier jurisdiction operated by a major like Rio Tinto.

We are pleased to report that in 2018 the income we received from LIORC exceeded our initial expectations and that the current market value of the investment is significantly above our cost.

#### **ENVIRONMENTAL, SOCIAL & GOVERNANCE**

Although Anglo Pacific is not an operator, our role as a financier and supporter of the mining sector has put us in a position to appraise hundreds of royalty transactions each year and allowed us to see the full spectrum of ESG practices within the industry.

We have seen the mining industry be at the forefront of technological innovation through developments such as driverless trucks and trains. It has produced the commodities necessary to manufacture many products and gadgets today considered to be indispensable, together with providing the energy required to power the modern world. Many mining operations also uplift the communities in which they are located by providing employment, infrastructure, long-term development opportunities and increased prosperity.

## STRATEGIC REPORT

**CHIEF EXECUTIVE OFFICER'S STATEMENT***continued*

# GIVEN OUR TRACK RECORD TO DATE, WE ARE CONFIDENT THAT WE CAN DELIVER ON OUR GROWTH AMBITIONS

The industry must communicate these benefits more effectively, and investment into the sector must be encouraged in order to provide those minerals and commodities which will continue to be needed. Projects and operations involving higher-quality, cleaner products which are operated to the highest possible standards of environmental and social responsibility are likely to attract capital in the first instance, and it is these projects which Anglo Pacific has looked to support in the recent past.

There is no doubt that the world will transition to more sustainable forms of energy generation but, in the short to medium-term, a quicker solution to a cleaner world is the use of higher-quality, lower polluting commodities; be it their chemical properties or the way in which they are extracted, operated and rehabilitated.

Given our exposure to such a diverse range of projects, and our track record of investing in those which would clearly fit in with the above criteria, we see a role for Anglo Pacific in being a conduit for investors who might otherwise not have a mandate to invest in the underlying mining projects directly. This is an initiative which we hope to be thought leaders in and explore in further detail during 2019. We will, of course, continue to hold ourselves accountable to such standards in our own investment activity.

**KESTREL**

The change in ownership of Kestrel during the year was a significant event for Anglo Pacific as it remains our dominant source of revenue. A consortium of EMR Capital, a well-known mining financier based in Australia, and Adaro Energy, a leading Indonesian producer of coal with over 26 years of experience in operating coal mines, completed their acquisition of the operation in Q3 2018. We discuss this further from a risk perspective on [page 22](#) of this report.

The price which the consortium paid, US\$2.25bn, was 50% higher than some commentators had been predicting. This signalled that the new owners would be keen to significantly increase production in the short-term. Indeed, Adaro suggested that they could, over a period of time, double production at Kestrel.

Having taken over operational control during Q3 2018, the new owners have begun work on their expansion plans. They have now stated that they are forecasting a 40% uplift in production volumes for 2019, which is far in excess of the levels which were previously achieved by Rio Tinto. This would be quite timely for Anglo Pacific as it coincides with a period in which virtually all mining will be taking place within the Group's private royalty land, suggesting that there could be a material uplift in royalty income commencing in 2019, subject to commodity prices remaining stable.

We have actively engaged with Kestrel's new operations team to better understand their plans for expanding production, and have undertaken a site visit to see for ourselves how they plan to achieve this and, although this seems on paper to be a stretch target, it is encouraging to see that the operating team are motivated to achieve this. We have also

met with representatives from Adaro in Indonesia and look forward to a constructive and cordial working relationship with them going forward.

With the anticipated increase in production and our continued belief that the market for cleaner coal, such as that produced at Kestrel, will remain strong for the foreseeable future it is clear that Kestrel will remain the Group's largest source of royalty income. It is worth noting however, that over the past five years, according to analysts who follow our Company, the proportion of our net asset value (NAV) attributed to Kestrel has fallen from 72% to 48% demonstrating our success in diversifying our asset base year by year and reducing our reliance on Kestrel.

**MARKET BACKGROUND**

Given our track record to date, we are confident that we can deliver on our growth ambitions. The mining sector continues to suffer from a scarcity of capital, particularly in the small to mid-cap segment, which is an area where we have seen a lot of deal flow in the past.

Conventional bank debt remains hard to come by for junior developers, and US dollar denominated debt has become more expensive following a series of increases in the US bank rate imposed by the Fed during 2018, as part of their reduction in quantitative easing.

Rising US interest rates have also impacted on the equity markets as the US 10-year treasury yield increased noticeably during 2018 and exceeded US inflation for the first time since the financial crisis. With the risk-free rate increasing, the premium required to invest elsewhere has also risen, resulting in the price of equities coming under pressure as the rate of return on safe haven investments rose.

The equity markets have also experienced a fundamental change over the past few years, with the growth of index funds leading to capital allocation being concentrated toward the largest companies. In the past we would have seen mining funds raise significant amounts of capital to invest in the sector. These funds had the expertise, discipline, patience and understanding needed to select and support new mining projects. The popularity of indexation is one factor which has caused this to change, with capital flowing to index funds, which by their nature tend to be passive and liquidity driven, often following algorithms rather than using industry expertise to evaluate and back investment decisions.

For mining, this has meant that any capital in the sector is predominantly being invested in the likes of Rio Tinto or BHP. This would not ordinarily be a problem if the majors were using this capital to invest in growth, which in the past would have led to investments and M&A at the junior end of the market. However, the majors now appear to be ex-growth, scarred by their acquisition sprees towards the end of the last decade. As such, equity capital flowing into the majors is now being distributed back to their shareholders through special dividends and share buy backs, which means in many instances capital is ultimately leaving the sector.

Given the scarcity of conventional debt and equity, and with mezzanine private equity financing solutions often being prohibitively expensive or dilutive we would expect to see the demand for royalty financing to remain robust in the near-term, and our pipeline reflects this.

With a strong balance sheet, significant free cash flow generation and access to some ~£78m (~US\$100m) of liquidity we are now in a position whereby we can act quickly and opportunistically should circumstances demand.

#### OUTLOOK

2019 will be an interesting year for the global economy, with the threat of a slowdown in GDP growth in the US and potential recession in parts of Europe, the sustainability of Chinese growth given its debt levels and, of course, the ongoing uncertainty in relation to Brexit.

Despite the uncertainty facing the global economy, the outlook for the year ahead is positive for Anglo Pacific. We reported record income in 2018 and, absent significant volatility in commodity prices, we expect 2019 to show further organic growth from the portfolio.

With our dividend well covered, we expect to generate significant cash flow over the course of the year and with ample liquidity available, we are in a strong financial position to add to the growth that Anglo Pacific has delivered over the last five years.

#### J.A. TREGER

Chief Executive Officer

26 March 2019

## STRATEGIC REPORT

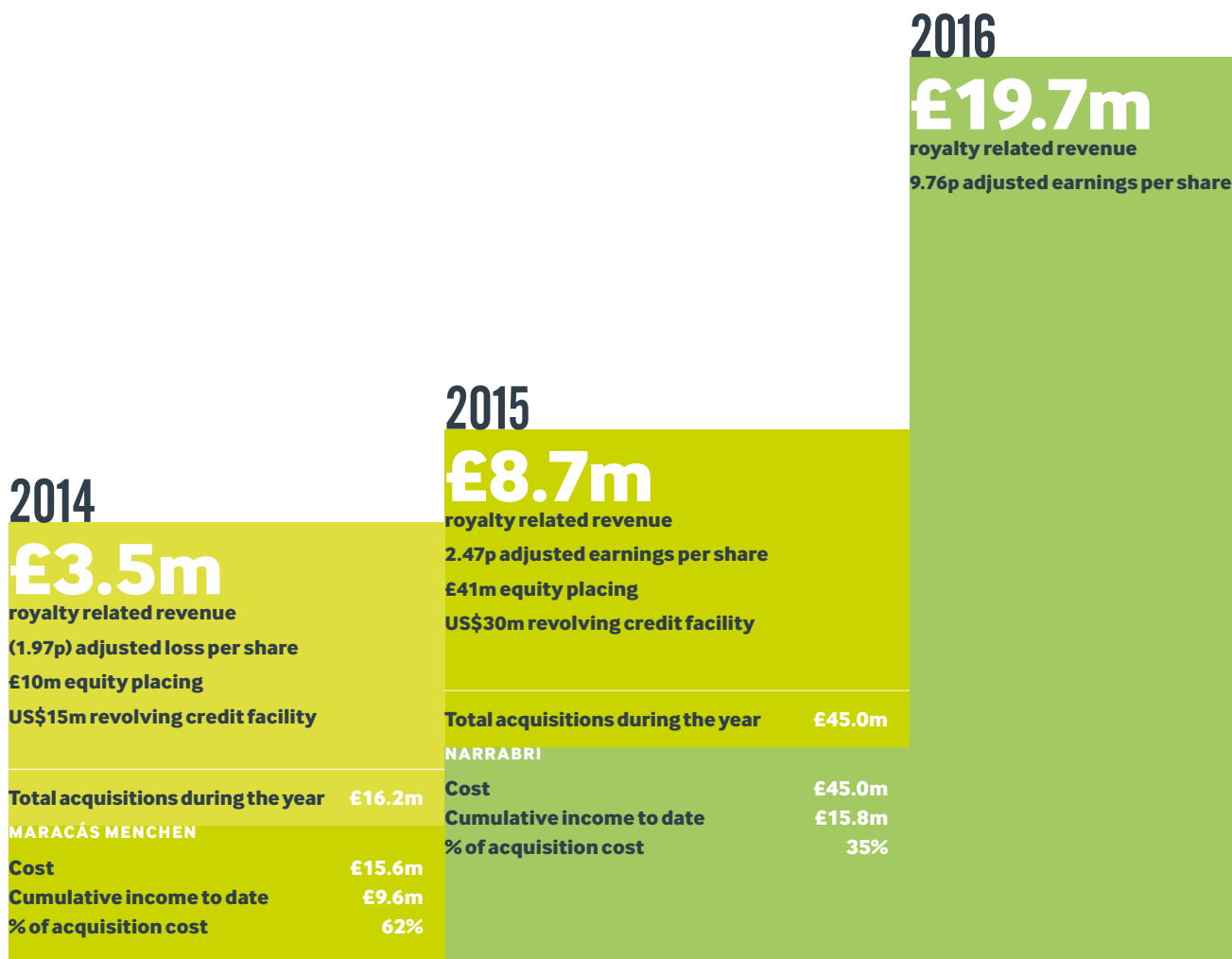
## 5 YEARS OF GROWTH

# WE HAVE DEMONSTRATED OUR ABILITY TO SUCCESSFULLY IDENTIFY AND ACQUIRE ACCRETIVE ROYALTY RELATED ASSETS OVER THE PAST FIVE YEARS, INCREASING THE SIZE AND DIVERSIFICATION OF OUR PORTFOLIO

We have deployed ~£130m into acquisitions and returned ~£56m to shareholders as dividends over the last five years.

**J.A. TREGER**

Chief Executive Officer



2018

**£46.1m**

royalty related revenue

18.02p adjusted earnings per share

US\$60m revolving credit facility + US\$30m accordion

2017

**£39.6m**

royalty related revenue

16.82p adjusted earnings per share

£13m equity placing

US\$30m revolving credit facility + US\$10m accordion

Total acquisitions during the year	£39.3m
<b>LIORC</b>	
Cost	£38.4m
Cumulative income to date	£1.9m*
% of acquisition cost	5%

Total acquisitions during the year	£29.4m
<b>MCCLEAN LAKE</b>	
Cost	£28.3m
Cumulative income to date	£8.2m
% of acquisition cost	29%

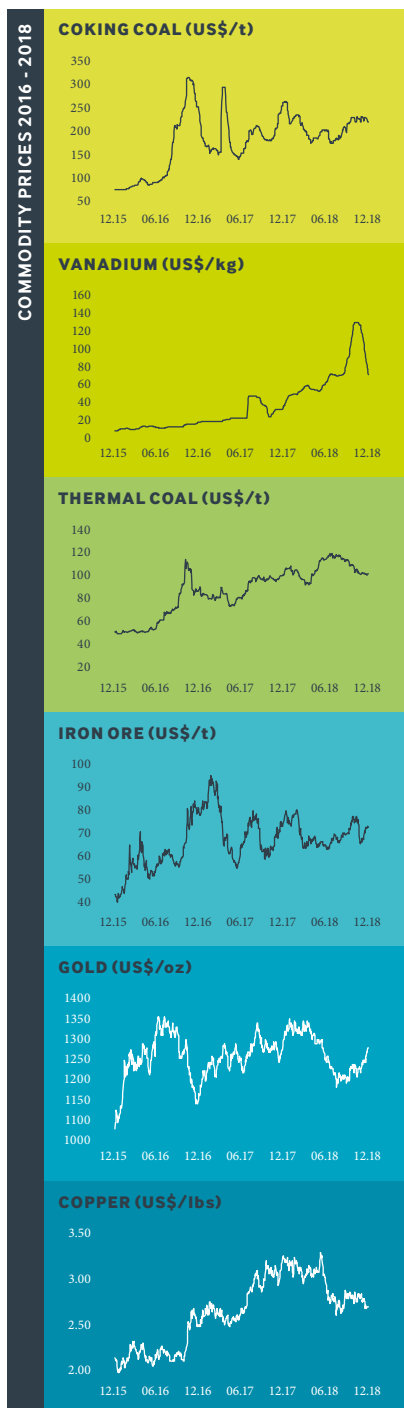
\* cumulative income from LIORC represents income received in H2 2018 following completion



## STRATEGIC REPORT

## MARKET OVERVIEW

# THE RISE OF INDEXATION MONEY IS HAVING A FURTHER IMPACT ON AN ALREADY CAPITAL CONSTRAINED SECTOR



## Stabilisation

Prices over the past two years have resulted in balance sheet stabilisation

**Prices over the past two years have resulted in balance sheet stabilisation and an increase in shareholder returns.**

**It is becoming more evident that indexation capital is now really beginning to impact equity markets** in general and the mining sector in particular. In the past, dedicated mining funds could raise capital and use their considerable expertise to support those projects which had strong commercial fundamentals. It appears that it has become much more difficult for such funds to raise new finance as capital is being diverted to index funds that, by their very nature, track and invest in the larger end of the market. This is reflected by the lack of equity capital market activity in the last year where there have been very few notable fundraisings for mining companies.

**This diversion from active fund management to algorithm trading** is becoming more prevalent in capital markets and it is increasingly difficult for smaller companies to access this pool of capital. Unfortunately, for most of the non-precious metal companies in the mining industry, this has led to capital flowing to those organisations that are ex-growth and returning capital. This capital, it would appear, is not being reinvested in the sector and therefore ultimately results in net capital outflows which is impacting on future growth and supply. This should present opportunities for royalty and streaming companies to fill some of the gap.

### CAPITAL CONSTRAINED SECTOR

**Reflecting this rise in indexation, capital remained scarce throughout 2018.**

The positive momentum in commodity prices at the beginning of 2018 looked to create a more favourable outlook for equity support in the sector. However, the slowdown in the Chinese economy, not helped by a trade war with the US, impacted on sentiment once again for the mining sector.

**Although the total number of IPOs in the sector was up in 2018, the value of those IPOs was down by ~20%, and significantly more for secondary raisings which raised ~60% less value.** Most of the activity in the market came out of Australia, heavily front loaded to the beginning of 2018 – as noted above, the market lost momentum quite quickly in H1 2018.

**The noticeable outlier in the year was the TSX,** where there were no IPOs in 2018, although it did raise the largest amount for secondary equity issuances, but the value of such raisings was down on the previous year. The decline in Canadian support for mining companies was perhaps impacted by the channelling of resources towards other 'hot' sectors such as marijuana and cryptocurrencies. This demand gap from traditional sources of capital was too large to be taken on by royalty and streaming companies and investment suffered as a consequence. Any capital which was raised was subject to higher cost as the interest rate environment in the US pushed up the risk-free rate of return.



## US\$3.2bn

in royalty or stream transactions

### ROYALTY AND STREAMING ACTIVITY IN 2018

**The mining industry had US\$119bn of financing transactions in 2018, a 7% decrease on 2017.** Of this total amount, a significant portion was from asset sales rather than from the more conventional forms of financing (equity and bank loans). Equity raises were at their lowest levels since 2014.

**Of the above US\$119bn of financing transactions entered into in 2018, US\$3.2bn came from royalty or stream transactions.** The largest transaction in the industry was the Voisey's Bay cobalt stream by the joint venture of Wheaton Precious and Cobalt 27 for ~US\$700m. Of the remaining transactions, the majority were in relation to precious metals.

**Royalty and streaming finance, in our view, works best when it is invested alongside equity or debt.** Without equity support there is too much of an investment gap for our industry to plug which perhaps explains why the portion of financing from this source was around 2.5% of the overall financing solution for the natural resources sector in 2018.

### M&A ACTIVITY SET TO RISE IN 2019

**Towards the end of 2018 and at the beginning of 2019 we have seen large scale M&A returning to the sector,** particularly in the precious metals space. This was led by Barrick Gold with the acquisition of Randgold Resources and the attempted takeover of Newmont Mining. Although the takeover of Newmont is unlikely to proceed, the M&A will now take the form of a joint venture involving selected operations in Nevada.

**It would appear that elsewhere in the sector,** ongoing trade tension between the US and China has been creating too much volatility and uncertainty to allow for clear decision making in board rooms for M&A in the base metals and bulk materials sector.

**Despite this, the EY Global Capital Confidence Barometer** revealed that 58% of mining executives intended to pursue M&A in 2019 compared with 46% across all sectors. The same executives felt that the M&A environment would improve in the year ahead.

**Recent activity in M&A does suggest that, given global economic uncertainty,** management teams consider M&A to represent a less risky means of achieving growth versus higher-risk capital investments in their own development projects. The perceived under-rating of the mining sector in general will likely support M&A activity as it can be cheaper to buy projects rather than build them.

**Overall, our view is that the industry continued to underinvest in growth opportunities** throughout 2018 and that this will impact prices further in the future. Higher commodity prices have not resulted in a supply response in many commodities, reflecting a lack of participation from those who have historically supported development projects in the past.

## Opportunities

For Anglo Pacific we continue to see good opportunities to deploy capital

### OUTLOOK

**Balance sheet repair amongst the bigger players in the mining sector is now largely complete** and the focus, for the time being, has switched to shareholder returns rather than growth, certainly outside of the precious metals space.

**At present, many boards are not prepared to allocate capital to development projects given the uncertainty surrounding the global economy** and China in particular.

This should in time lead to higher commodity prices as a lack of investment in new projects will limit new supply to the market. In a sector which continues to be underrated, the attraction of share buy backs at a discount to NAV represents a more de-risked way of generating shareholder returns than investing in development assets. Recent history is littered with examples of development projects being besieged by unexpected technical issues and capex blowouts which have impacted shareholder value and management reputation.

**For Anglo Pacific we continue to see good opportunities to deploy capital** but are mindful of the limit to which our capital can finance projects through to production. We are exploring opportunities at each stage of the project life from development through to construction and into ramp up.

**A rekindling of M&A in the sector should help** as royalties and streams can form part of the financing solution for some of these transactions, either at the point of transaction or to de-lever shortly after.

**Conventional sources of capital are scarce,** but we are believers in the long-term need for high-quality mining projects which are operated to the highest standards of social and environmental practice. Ultimately, quality should command more of a premium and we will continue to look to partner with such operators to bring these projects forward.

STRATEGIC REPORT

# OUR BUSINESS MODEL

We seek to create long-term value for all stakeholders by generating superior cash returns from a diverse and growing portfolio of royalty and streaming investments, and other innovative structures in the natural resources sector.



# HOW WE CREATE VALUE FOR OUR SHAREHOLDERS

Our track record demonstrates how management has created value to date by adhering to exacting investment criteria and conducting rigorous due diligence. We adopt a strong focus on operations producing high-quality, lower polluting products which are operated ethically and responsibly. We will look to leverage this experience and our reputation in the market to execute our strategy over the coming years.

## GENERATING LONG-TERM CASH RETURNS

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 time horizons. 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.

## LOWER RISK THROUGH TOP-LINE, REVENUE PARTICIPATION

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

## LOWER VOLATILITY THROUGH COMMODITY AND GEOGRAPHIC DIVERSIFICATION

The Group is building a diversified portfolio of royalties across a variety of different commodities and geographic locations. This diversification 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 returns and dividend payments.

## EXPOSURE TO INCREASES IN MINERAL RESERVES AND PRODUCTION

Royalty holders generally benefit from improvements made to the scale of a project. 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 project'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 of the royalty holder to contribute to the cost of expanding or optimising the operation.

## EXPOSURE TO COMMODITY PRICES

Royalties and streams provide exposure to underlying commodity prices. Anglo Pacific offers the opportunity for investors to gain exposure to commodities which do not have a liquid Exchange Traded Fund (ETF) without having to invest in the underlying operation.

# HOW WE CREATE VALUE FOR OUR COUNTERPARTIES

An investment by Anglo Pacific, after conducting thorough due diligence, can be seen as an endorsement of the project, which can provide other stakeholders with greater confidence and possibly result in a re-rating for the operator.

## WE SERVE AS A PARTNER TO THE OPERATORS

Royalties and streams reduce the upfront capital financing 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.

## AN ALTERNATIVE FORM OF FINANCING TO CONVENTIONAL DEBT AND EQUITY

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. Royalties and streams are not dilutive, unlike the issuance of new equity. In addition, royalties and streams are not regarded as debt nor do they encumber assets.

## PRIMARY ROYALTIES

### ALTERNATIVE FORM OF FINANCE TO CONVENTIONAL DEBT PROVIDING GREATER FLEXIBILITY AND WHICH DOES NOT IMPACT ON CREDIT RATINGS

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 operator's exposure to upside in the prices of their core commodities.

## SECONDARY ROYALTIES

### SOURCE OF LIQUIDITY FOR HOLDERS OF EXISTING ROYALTIES

The value of a royalty is realised over the duration of the project's 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.

## INNOVATIVE STRUCTURES

Our primary focus is on royalty and streaming transactions, however, we will also review alternative structures that deliver superior long-term cash flows. An example would be the Denison financing arrangement executed in 2017 which was structured as a long-term loan with a separate stream element, deriving income from a tolling agreement on the McClean Lake uranium mill, which processes ore from the world class Cigar Lake uranium operation in Canada. We will always look for ways of gaining exposure to tier one natural resource projects and sometimes this will involve creative thinking and structuring to support our main objective of acquiring royalties and streams.

STRATEGIC REPORT  
**OUR STRATEGY**

Our strategy is to accelerate our rate of growth by investing in natural resources royalties and metal streams, focusing primarily on high-quality, lower polluting products from operations that are run in an ethical and responsible manner, to generate stable, diversified, long-term cash flows.



AIM	STRATEGY	CRITERIA	OUTCOME
<p>Our aim is to be the leading international royalty and streaming company, with a diversified portfolio focused on base metals, energy storage related minerals and bulk commodities.</p>	<p>Our strategy is to accelerate our rate of growth by investing in natural resources royalties and metal streams, focusing primarily on high-quality, lower polluting products from operations that are run in an ethical and responsible manner, to generate stable, diversified, long-term cash flows.</p>	<p>Achieving our strategy through acquisitions which satisfy these criteria</p> <ul style="list-style-type: none"> <li>• High-quality and low-cost assets</li> <li>• Attractive returns</li> <li>• Strong operational management teams</li> <li>• Long-life assets</li> <li>• Diversification of royalty portfolio</li> <li>• Established natural resources jurisdictions</li> <li>• Strong ESG credentials</li> <li>• Production and exploration upside potential</li> </ul>	<p>Executing our strategy will result in additional cash producing assets, and a stronger portfolio with long-term upside potential and an ability to pay dividends to our shareholders.</p>



**CRITERIA**  
**HOW WE DELIVER GROWTH**  
 SEE PAGES 31, 34, 36, 38, 40, 42 & 44

## OUR STRATEGY IN ACTION

### LABRADOR IRON ORE ROYALTY CORPORATION (LIORC)

# TRANSACTION CONSISTENT WITH ANGLO PACIFIC'S INVESTMENT CRITERIA

LIORC was immediately accretive to earnings and cash flow per share.

<b>STAGE</b>	<b>PRODUCING</b>
<b>COMMODITY</b>	<b>IRON ORE &amp; IRON ORE PELLETS</b>
<b>OPERATOR</b>	<b>IRON ORE COMPANY OF CANADA ('IOC') / RIO TINTO</b>
<b>LOCATION</b>	<b>CANADA</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>INDIRECT INTEREST IN 7% GRR</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY FINANCIAL INSTRUMENT</b>

## STRUCTURE

LIORC is a flow-through vehicle for the revenue it earns, primarily from its 7% GRR and C\$0.10 per tonne commission on all iron ore products produced, sold and shipped by Iron Ore Company of Canada ('IOC').

Given LIORC's primary sources of revenue, we consider our 4.29% equity interest in LIORC to be akin to a part ownership of the royalty.



## MEETING OUR INVESTMENT CRITERIA

### ATTRACTIVE RETURNS

Annualising the dividends of £1.9m received since the acquisition was completed in H2 2018, implies a yield of 10%

### OPERATED BY MINING MAJOR RIO TINTO IN CANADA, AN ESTABLISHED MINING JURISDICTION

The IOC mines have been producing for over 50 years, demonstrating its ability to operate through the cycle

### LOW-COST, LONG MINE LIFE WITH EXTENSION POTENTIAL

IOC is well positioned on the iron ore industry cost curve

Reserves sufficient to support a 25-year mine life at planned IOC production rates

IOC has sufficient mineral inventory to support future expansion options

### PREMIUM PRODUCT WITH LOW ALUMINA, SILICA AND PHOSPHORUS CONTENT

High-quality product with low levels of impurities meeting Chinese environmental policies and attracting a price premium

Rio Tinto and IOC have extensive ESG credentials, both being long-established operators

### DIVERSIFIES PORTFOLIO

The investment in LIORC is immediately cash generative, and diversifies royalty related revenue

High-quality iron ore as well as higher margin pellet products

Increases the number of producing assets to seven across seven commodities in four continents

## ENVIRONMENTAL, SOCIAL & GOVERNANCE

# OUR APPROACH

While Anglo Pacific does not control any of the assets in which it has an interest, we are committed to supporting and financing responsible mining, promoting a cleaner future by reducing our coal exposure, investing in lower-risk jurisdictions in projects with higher-quality, less-polluting commodities and with partners that operate to the highest possible standards of environmental and social responsibility.

## INVESTING RESPONSIBLY

We believe that responsible investment and long-term success go hand-in-hand. Our strategic and operational decisions are informed and guided by best international ESG practices for the mining industry as well as our internal due diligence processes.

DUE DILIGENCE	THIRD-PARTY OPERATOR COMPLIANCE	ADOPTING A LEADERSHIP ROLE	HIGH-QUALITY, LESS-POLLUTING PORTFOLIO
<p><b>OUR APPROACH</b></p> <p>As we make investments, we think it is important to take an informed and critical approach to what we invest in. Our bespoke due diligence process allows us to fully investigate, assess and benchmark each potential investment against a stringent list of criteria.</p>	<p><b>OUR APPROACH</b></p> <p>To be a responsible investor, it is important that we understand our partners' approach to ESG and compliance processes.</p>	<p><b>OUR APPROACH</b></p> <p>We want to be at the forefront of change. As a natural resources royalty and streaming business, we look to encourage and promote best practice.</p>	<p><b>OUR APPROACH</b></p> <p>We pride ourselves on developing a diversified portfolio, focusing on higher-quality, less-polluting projects and commodities.</p>
<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• Conducting a robust due diligence process</li> <li>• Benchmarking against our own rigorous criteria as well as best practice in the industry</li> <li>• We have policies and procedures in place to ensure that all Directors, officers and employees do not offer, give or receive bribes or inducements whether directly or indirectly</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• Engaging with operators to understand and monitor their processes to ensure they are in line with best industry practices</li> <li>• Monitoring and auditing our current portfolio on an ongoing basis</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• Participating in thought-leadership and roundtable discussions with sector participants, our peers and the companies we invest in</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• Using our stringent investment criteria, we look to invest in higher-quality, less-polluting projects and commodities</li> </ul>

# OUR FOCUS

The Group seeks to address environmental, social and governance issues by investing and acting responsibly. As a listed Company on both the London and Toronto stock exchanges, we strive to make a positive long-term impact. This includes operating to the highest ethical and ESG standards, reducing our carbon footprint and promoting diversity within the business.

## ACTING RESPONSIBLY

We operate solely within one office in London and have 10 employees, so in terms of our own environmental impact, the Company’s carbon footprint is relatively small. However, it is important that we do what we can to reduce it. We also pride ourselves on maintaining high standards of conduct in all areas of our business.

BUSINESS ETHICS AND COMPLIANCE	EMPLOYMENT PRACTICES	ENVIRONMENTAL RESPONSIBILITY	COMMUNITY IMPACT
<p><b>OUR APPROACH</b></p> <p>We are committed to adhere to high ethical standards of conduct and ensure such standards also apply to our investments.</p>	<p><b>OUR APPROACH</b></p> <p>As a small highly qualified team, we want to make sure our workplace is safe, inclusive, diverse and that we support our people.</p>	<p><b>OUR APPROACH</b></p> <p>We are committed to minimising the impact of our activities on the environment.</p>	<p><b>OUR APPROACH</b></p> <p>We are hoping to work in partnership with charities and local communities in and around our London office.</p>
<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• Maintaining high ethical standards and code of conduct</li> <li>• Reviewing, updating and promoting internal compliance policies and statements</li> <li>• Encouraging employees to report any potential or apparent misconduct in accordance with the Group's internal whistle-blowing policy</li> <li>• We have policies and procedures in place to ensure that all Directors, officers and employees do not offer, give or receive bribes or inducements whether directly or indirectly</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• We undertake office risk assessments and review our health and safety policies annually</li> <li>• Implementing policies and best practice which promote diversity, support mental health and wellness and provide flexible working</li> <li>• We have nominated a member of the Board to take responsibility for employment relations</li> <li>• As at 31 December 2018, 50% of the Group's employees 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</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• We are a relatively small organisation with 10 employees, which mean that any emission sources within our operational and financial control, such as business travel, purchase of electricity, heat or cooling, are not material in their impact</li> <li>• We are working towards a more energy efficient office and making improvements to our waste and recycling practices</li> <li>• We monitor the Group's business travel and where possible we encourage the use of video conferencing and other remote technologies</li> </ul>	<p><b>OUR RESPONSE</b></p> <ul style="list-style-type: none"> <li>• We already support a number of our employees who engage in pro bono community work and plan to extend this program to the whole team</li> </ul>



## STRATEGIC REPORT

**PRINCIPAL RISKS AND UNCERTAINTIES**

We seek to ensure that our investors understand our business model and how an investment in Anglo Pacific is different from investing in an operating company.

**BACKGROUND**

Risk assessment and management are integral to every aspect of the Group's business model and how it executes on its strategy. We seek to ensure that our investors understand our business model and how an investment in Anglo Pacific is different from investing in an operating company, albeit we address operating risk closely through our due diligence procedures. The Board is responsible for identifying, understanding and managing these risks. The Audit Committee is then tasked with overseeing how risk is being managed on a regular basis.

**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 the Group remains debt free and retains access to its US\$60m revolving credit facility. 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.

**INTERACTION WITH STRATEGY**

Risk is often perceived purely as a negative and associated with loss or prevention. In fact, for Anglo Pacific, the acceptance of a certain level of risk is part and parcel of its business model and is necessary in order to generate investment returns and can often present opportunities for growth. It is the point at which the Board determines to accept a higher or lower appetite for risk that is important in the context of the Group's risk framework i.e. the Board should anticipate or acknowledge that an event has occurred which has altered the previously held position on risk.

There will always be certain risks inherent in our business model which have to be tolerated. For example, the potential impact of climate change threatens most businesses. For mining operations, the risk of flood, rising sea levels at ports and other extreme and volatile weather in remote locations could adversely impact on the ability of a mine to operate effectively. Whilst this may be more relevant to the future, the Group has a certain number of long-life and development royalties which could potentially be impacted if climate change is not addressed over the coming decades.

The Group's risk framework is designed to identify when the risk environment changes and there could be an impact on the Group's business model or strategy, in addition to providing the basis for continuous and robust monitoring and management of risk.

**RISK IN ACTION – OPERATOR DEPENDENCE / CHANGE OF CONTROL**

The key risk which the Group faced during 2018 was the change in control of Kestrel, the Group's principal royalty.

Although the Group had limited interaction with the then operator, Rio Tinto, management and many stakeholders took comfort from the fact that the Group's cornerstone royalty was operated by a world-renowned Anglo-Australian multi-billion-dollar public company who frequently published their performance and intentions for the operation.

We will discuss below why the change of control at Kestrel is now considered by Anglo Pacific to have presented an opportunity rather than a threat, but this does highlight a recent example of a previously recognised principal risk occurring and the way in which the risk tolerance inherent in the ownership of the royalty played out.

A significant part of our diligence process focuses on counterparty risk. For Anglo Pacific this includes looking at the experience and track record of management as much as looking at the capital structure.

We normally target long-life royalties, often with the potential to have a mine life spanning several decades. As such, it is highly unlikely that any one management team will remain in situ. Although it is likely that a management team will remain in place for a period post investment, there always remains a risk that key staff could leave or that the operation will be sold to a new owner who might have a different skill set or ambition for the mine.

Sometimes it is possible to build change of control protection into royalty documents but at other times it is not and this risk must be tolerated by the Board. In such instances, we will seek to mitigate or accept such risk by ensuring that the project has excellent technical credentials, is well placed on the cost curve and is in reputable jurisdictions. We are also proactive in engaging with management when possible and try to undertake a site visit at least once every other year.

A change of control was increasingly likely at Kestrel given Rio Tinto's general coal divestment plans and a renewed focus on their iron ore operations. It appeared that Kestrel had become non-core for Rio Tinto. Any sale of Kestrel was always likely to result in a bidding war given its high-quality sought-after product, its production track record, recent investment and its location in Australia.



Furthermore, we took comfort from the fact that the Australian government is very protective of their natural resources and have strict foreign ownership rules. In conclusion, it was always probable, but not certain, that the asset would pass to a credible new owner who would uphold their obligations to all stakeholders, including Anglo Pacific as royalty holders.

We were encouraged, therefore, to learn that a joint venture between EMR Capital (a well-known Australian natural resources fund) and Adaro Energy (a significant global coal operator and producer based in Indonesia) had paid US\$2.25bn to acquire the operation in August 2018, a price which was some 50% higher than many commentators had expected to be achieved. This price implied that the new owners had identified significant potential to increase production and efficiency in order to justify this price.

The Group immediately sought to establish a relationship with the new owners and ensure that the royalty and information rights were acknowledged and upheld, whilst seeking to gain an understanding of their plans for the near-term. Our relationship has started very positively. All of the information which we received previously has come on time, along with the monthly payments, and we were welcomed to site in February 2019 where we were granted access to key personnel and given information which we requested in order to better estimate the timing and value of future production.

It was pleasing to see the announcement by Adaro Energy in February 2019 that they are targeting a 40% increase in volumes from Kestrel in 2019. With a new, focused, experienced and motivated ownership structure it appears that change of ownership provides Anglo Pacific with a catalyst for growth through accelerated cash flow and goes to support our observation that sometimes, for investment companies, risk can present opportunities rather than representing something negative.

#### BREXIT AND TRADE WARS

There is no doubt that the global economy faces many challenges and uncertainties. Although Anglo Pacific is a UK domiciled plc, the impact of Brexit on the business operating as normal is limited. None of our material royalty contracts originate within the EU or are governed by European law, our borrowing facility is under English law and we have no material employment or other contracts in EU countries. Our income from EVBC is paid from a Spanish operation, but its rate of withholding tax is determined by a tax treaty between both countries and not through an EU treaty. We do not have operations in the EU, other than our treasury function which operates in Ireland, but its main activity is providing finance to jurisdictions outside of the EU.

The one area which could impact the Group is in relation to our shareholders and whether Brexit would have any adverse consequences in the way in which they manage and operate their funds. This could lead to pressure to sell down positions or failure to attract new subscriptions which might make raising new equity more challenging for the Company should it need to. This risk is somewhat mitigated in the short-term by the Group's ability to draw down on its borrowing facilities to finance growth opportunities but should a more structural change happen in the UK fund industry then there could be an impact on how we finance further growth. However, in the meantime, there should be no material impact on how we continue to operate the business.

The trade wars going on between the US and China do, however, have the potential to impact more on the Group's prospects as it could affect commodity prices as we have observed in the case of copper. Anglo Pacific accepts commodity price risk as part of its business model, as this is what our shareholders invest in us for, and the only mitigant here is to continue to diversify our portfolio by commodity and geography as we have been doing. We are not alone in facing the risk posed by trade wars, although we are perhaps in a better position to handle the short-term impact as we do not have the cost base associated with mining operations.

#### ACTIVITY DURING 2018

The Board considered risk formally on two occasions during 2018, in line with its policy. This occurred at the time of the Group's AGM in May and at the annual strategy session in November.

The discussion focused mainly on the following areas:

**Demand for royalties:** in light of a dearth of royalty financings over the past 12 months, in line with the scarcity of capital inflows into the sector generally, the Board considered whether this represents a structural change in the market or the Company's business model. The Board concluded that the pipeline remained robust and that further opportunities are likely to present themselves considering the increase in the cost of capital across the wider sector. Not only is this capital becoming more expensive, but it is also becoming scarcer and this should put Anglo Pacific in a strong position to service this gap given its access to liquidity of its own.

**Operator dependence:** this was especially relevant considering the change of control at Kestrel but also due to operational issues which occurred and over which the Group has no influence such as the underperformance at Narrabri and the permitting issues facing Berkeley Energia at Salamanca. The Board concluded that this remains a principal risk for the Group and that more action needed to be taken to engage with operational management and undertake site visits. To this extent, the Company has since been to site at Kestrel and Narrabri, and met with the management of Berkeley Energia on several occasions during 2018.

## STRATEGIC REPORT

**PRINCIPAL RISKS AND UNCERTAINTIES**

continued

**Stakeholder support:** under this broad category, the Board considered a wide range of issues which could impact on the Group such as coal sentiment (prohibitive to some stakeholders, despite quality/differentiation of product), ethical investing and the risk of scale being ever more important to shareholders (i.e. the ability to either acquire a meaningful stake through available liquidity or to sensibly exit a position without impacting on the share price). Stakeholder support is very fluid and is not something which can easily be managed as market forces and best practice determine market standards. This will be framed by reputational issues in being seen to associate with the mining industry. Ultimately, the Board believes in the future of the mining sector that it finances and believes that the need for premium, lower-polluting, ethically run

operations will be vital to both the developed and developing world. We have aligned our portfolio to premium products from mines which are responsibly operated and will continue to focus on these projects. The Group will need the support of all stakeholders to achieve its ultimate ambitions of building a world class portfolio of natural resources royalties and streams, and backing projects whose products will continue to be needed to either power the world in an environmentally responsible way or to facilitate technological invention.

Overall, it was concluded that the risks which were identified as principal in the 2017 Annual Report had not changed, but the way in which they might impact on the business has. Some changes to the risk register have been made and these are outlined in the **table below**.

The Group's template for recording its principal risks has remained the same as in previous years and is briefly **described on page 25**.

The template focuses on a 'prediction vs control' concept. This acknowledges that the impact of market events (in the top right quadrant) on the Group's prospects, both pre and post-acquisition, are both difficult to predict and, once occurred, are difficult to control. It is risks that fall into this category which are primarily outside of management's ability to either manage or mitigate, other than by monitoring.

Some risks which are easier to predict (i.e. operational and financial) can still be difficult to control, whilst the risks in the bottom two quadrants can be more effectively managed.

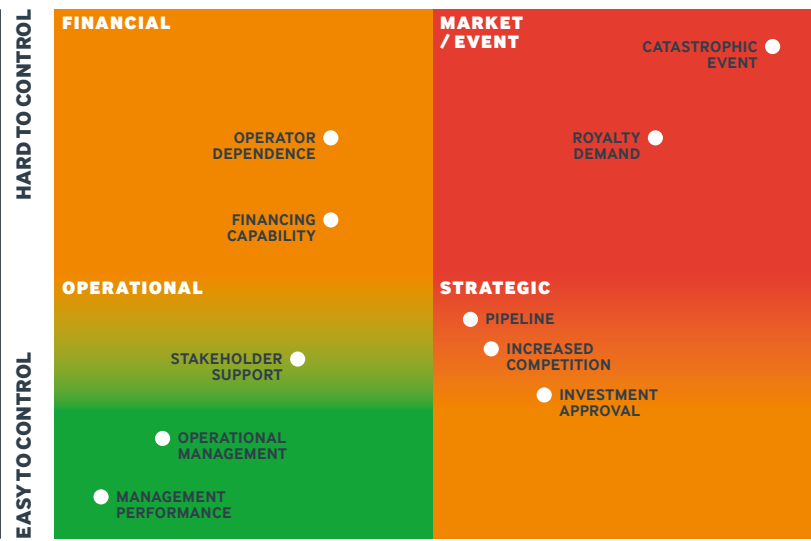
2018 Rank	Risk	Risk Category	Examples	2017 Rank
1	<b>CATASTROPHIC EVENT</b>	Market	<ul style="list-style-type: none"> <li>Prolonged disruption to mining at key royalties (incident such as the recent tailings dam collapse in Brazil)</li> <li>Material change in mining legislation / nationalisation</li> </ul>	1
2	<b>DEMAND FOR ROYALTIES</b>	Market	<ul style="list-style-type: none"> <li>Continued price recovery followed by equity demand</li> </ul>	2
3	<b>OPERATOR DEPENDENCE</b>	Financial	<ul style="list-style-type: none"> <li>Honouring royalty obligations</li> <li>Change of control and smooth transition</li> <li>Remaining focused on maximising the returns of the project</li> </ul>	5
4	<b>STAKEHOLDER SUPPORT</b>	Operational	<ul style="list-style-type: none"> <li>Reputational profile of mining industry</li> <li>Changing attitudes towards coal</li> <li>Need for liquidity / subscale</li> </ul>	10
5	<b>INCREASED COMPETITION</b>	Strategic	<ul style="list-style-type: none"> <li>Some precious metal royalty companies considering branching out into other commodities</li> </ul>	8
6	<b>PIPELINE / SUPPLY</b>	Strategic	<ul style="list-style-type: none"> <li>Lack of suitable opportunities</li> <li>Ineffective marketing</li> </ul>	7
7	<b>INVESTMENT APPROVAL</b>	Strategic	<ul style="list-style-type: none"> <li>Incorrect valuation judgement on jurisdiction / commodity / price / counterparty / tax</li> </ul>	3
8	<b>FINANCING CAPABILITY</b>	Financial	<ul style="list-style-type: none"> <li>Ability to finance acquisitions</li> <li>Dependence on equity raising</li> </ul>	9
9	<b>OPERATIONAL MANAGEMENT</b>	Operational	<ul style="list-style-type: none"> <li>Monitoring performance of portfolio</li> <li>Internal controls / cost controls / FX</li> </ul>	4
10	<b>MANAGEMENT PERFORMANCE</b>	Operational	<ul style="list-style-type: none"> <li>Focused and motivated to deliver strategy</li> </ul>	6

The **table opposite** demonstrates how there will always be a level of risk tolerated by the Board in executing the Group's strategy. It also identifies techniques which management should be looking to implement when addressing risks which have some element to either control or predict.

**CONCLUSION**

Monitoring risk is an ongoing process and not an annual exercise. In order to better govern this, the Board determined it appropriate that the risk matrix above be reviewed by the Board on a quarterly basis, with a more fulsome discussion on strategy and risk to occur twice a year. This, it is intended, should allow reporting against the green and amber risks along with a discussion where there have been changes in the market circumstances in the red quadrant.

**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.**



	EASY TO PREDICT	HARD TO PREDICT	
Risk	Characteristics	Management / mitigation	2019 Action points
MARKET / EVENT	<ul style="list-style-type: none"> <li>Difficult to predict outside of the short-term</li> <li>Tend to be driven by market forces or extreme localised events</li> </ul>	Limited ability to manage or mitigate other than through on-going <b>monitoring</b>	Remain vigilant in monitoring the market
FINANCIAL	<ul style="list-style-type: none"> <li>Easier to predict through regular cash flow projections, pipeline review and operator updates</li> <li>Harder to control as dependent on counterparties</li> </ul>	<p><b>Increasing control</b> is important, with regular dialogue with lenders and shareholders (both existing and potential) considered important in anticipating the availability of finance</p> <p>Dialogue with counterparties is also equally important to discover any early warning signs of underperformance</p>	Continue to focus on operator performance and promote the business with existing lenders / equity investors and seek alternative means of financing
STRATEGIC	<ul style="list-style-type: none"> <li>Easier to control as the Board can influence strategic direction based on market conditions</li> <li>Deal-flow is harder to predict</li> </ul>	<b>Increasing prediction</b> of strategic risks (deal-flow) is a core focus. The Group increased its marketing initiatives significantly in 2018	Use the Group's strengthened balance sheet to increase deal-flow during 2019
OPERATIONAL	<ul style="list-style-type: none"> <li>Risks for which good governance and internal controls should limit any financial or reputational loss</li> </ul>	Board Committees, along with the internal controls, are designed to <b>mitigate and prevent</b> loss due to operational events or mismanagement	Zero-tolerance for risk escalation i.e. ensure that operational risk remains in the 'green quadrant'

## STRATEGIC REPORT

## PRINCIPAL RISKS AND UNCERTAINTIES

continued

	Risk	Possible cause	Mitigation	Management comment and actions
MARKET AND EVENT	<b>CATASTROPHIC EVENT</b>  <b>IMPACT: HIGH</b>  <i>A significant event which causes revenue to halt from one of the Group's key income producing royalties would have a profound impact on the Group's prospects.</i>	<ul style="list-style-type: none"> <li>• Mine collapse</li> <li>• Environmental disaster</li> <li>• Natural disaster</li> <li>• Destruction of infrastructure</li> <li>• Resource nationalisation</li> <li>• Resource contamination</li> <li>• Failure by royalty counterparty to make payments</li> <li>• Climate change</li> </ul>	<b>MONITOR</b>  These risks, by their nature, are difficult to predict or influence. The Board monitors its portfolio and underlying performance regularly.	<b>LIKELIHOOD: REMOTE</b>  By continuing to focus on investing in well-established mining jurisdictions with stable political and geological history, along with investing in good operations and management, the Group can reduce the likelihood of the occurrence of this risk.  We undertake a thorough assessment and full diligence of environmental and ethical risk as part of our investment process.
	<b>LACK OF DEMAND FOR ROYALTIES</b>  <b>IMPACT: HIGH</b>  <i>In order to execute its strategy, the Group needs to acquire further royalties and streams to ultimately replace the income from Kestrel.</i>  <i>Demand for royalties and streams can change depending on macroeconomic conditions at any point in the cycle.</i>	<ul style="list-style-type: none"> <li>• Improvement in commodity prices</li> <li>• Inflows into mining funds</li> <li>• Availability of debt</li> <li>• Demand for commodities</li> <li>• Global GDP growth</li> </ul>	<b>MONITOR</b>  The Group monitors the market closely and pays close attention to trends and commentary.  Secondary royalties are less sensitive to market conditions and are generally available through the cycle.	<b>LIKELIHOOD: MEDIUM / LOW</b>  Demand for royalties and streams can never be predicted, but demand is usually greater when the underlying market conditions are challenging for small/mid-sized operators.  Capital remains scarce in the sector and whatever capital there is has increased in cost during 2018. This should result in a more favourable financing environment for Anglo Pacific in 2019.
STRATEGIC	<b>PIPELINE / SUPPLY</b>  <b>IMPACT: HIGH</b>  <i>The Group needs to be working several potential deals at any one point which requires constant replenishment of opportunities in its deal pipeline.</i>	<ul style="list-style-type: none"> <li>• Ineffective marketing / PR</li> <li>• Insufficiently networked</li> <li>• Size / financing credibility</li> </ul>	<b>INCREASE DEAL-FLOW</b>  The Group devotes a considerable amount of management time to marketing and attending trade shows and conferences with a view to identifying opportunities in addition to generating new ideas from desk research and industry discussions.	<b>LIKELIHOOD: MEDIUM / LOW</b>  The Group has a significant global network of brokers, advisors and consultants who constantly bring deal-flow. In addition, our significant management and Board industry expertise and network enables us to identify opportunities internally.  The Group is confident that it has not lost out on in considering any material deals which it would have undertaken during 2018, and is invited to participate in bidding processes on a regular basis.
	<b>INVESTMENT APPROVAL</b>  <b>IMPACT: MEDIUM</b>  <i>Anglo Pacific's success will depend on the performance of the royalty related assets acquired matching or exceeding expectations at the point of acquisition.</i>  <i>The governance and due diligence process adopted by the Group when looking at each unique investment is key to reduce the risk of making a bad investment.</i>	Misjudging the following: <ul style="list-style-type: none"> <li>• Geology &amp; technical process</li> <li>• Long-term commodity price assumptions</li> <li>• Country risk</li> <li>• ESG issues</li> <li>• Time to production</li> <li>• Counterparty covenants</li> <li>• Economic viability (project or counterparty)</li> <li>• Tax regime</li> </ul>	<b>THOROUGH DUE DILIGENCE</b>  The Group has considerable in-house technical, financial and tax expertise to identify potential fatal flaws and uses consultants to assist with due diligence.  The Board also has significant mining, financial and investment experience and constructively challenges management on the due diligence process.	<b>LIKELIHOOD: MEDIUM / LOW</b>  The current management team has demonstrated a track record of successful investments to date.  The Board was strengthened during the year by the appointment of Vanessa Dennett who brings a wealth of experience of M&A diligence and process.  Anglo Pacific has strict and exacting investment criteria.

STRATEGIC

Risk	Possible cause	Mitigation	Management comment and actions
<p><b>INCREASED COMPETITION</b></p> <p><b>IMPACT: MEDIUM</b></p> <p><i>Anglo Pacific does not compete with the well-established precious metals royalty companies, instead focusing on the base and bulk sector.</i></p> <p><i>Competition can always arise, and Anglo Pacific is not complacent in driving the growth of its business.</i></p>	<ul style="list-style-type: none"> <li>Recovery in the mining sector</li> <li>Inflows into private equity funds</li> <li>Low bond yields entice life assurance / pension funds</li> <li>Change of focus by precious metal peers</li> </ul>	<p><b>CONTINUE TO SCALE</b></p> <p>Anglo Pacific has considerable first mover advantage in a capital-intensive business model, with a highly cash generative portfolio to leverage and facilitate growth.</p> <p>It also has considerable contacts throughout the sector to generate deal-flow along with expertise in terms of appraising and valuing royalty transactions.</p>	<p><b>LIKELIHOOD: MEDIUM / LOW</b></p> <p>Some direct competition exists but this has not had a material impact on our growth to date.</p> <p>With a focus on non-precious metals and being a permanent capital vehicle, management considers itself well placed to be an attractive partner for small/ medium-sized operators.</p>

OPERATIONAL

<p><b>STAKEHOLDER SUPPORT</b></p> <p><b>IMPACT: MEDIUM / LOW</b></p> <p><i>Anglo Pacific needs to be well supported by all stakeholders including:</i></p> <ul style="list-style-type: none"> <li>Shareholders</li> <li>Lending banks</li> <li>Brokers</li> <li>Analysts</li> <li>Employees</li> <li>Media</li> </ul>	<ul style="list-style-type: none"> <li>Reputational consequences of mining disasters / poor standards of social responsibility</li> <li>Underperformance</li> <li>Deviation from strategy</li> <li>Alterations to dividend</li> <li>Excessive risk-taking</li> <li>Poor communications</li> </ul>	<p><b>CLOSE DIALOGUE WITH STAKEHOLDERS</b></p> <p>Anglo Pacific keeps in close contact with all stakeholders.</p> <p>We spend a considerable amount of time working with our bankers, brokers and analysts, explaining our strategy, progress and development plans which gives us a gauge for what the likely market reaction to our plans will be.</p> <p>We remain close to lenders and brokers to anticipate demand for any increase in debt / equity capacity.</p>	<p><b>LIKELIHOOD: MEDIUM / LOW</b></p> <p>We regularly conduct roadshows to see major shareholders, engage with retail investors through private client broker networks and often visit potential new investors, both in Europe and North America.</p> <p>We actively encourage participation at our AGM, which gives shareholders of all sizes the opportunity to ask questions to our entire Board and management.</p> <p>Some events or changes in investment mandates might curtail the ability of institutions to invest in the sector. At Anglo Pacific we do not agree that all mining activity is detrimental, and will continue to differentiate between high-quality products operated in a responsible manner.</p>
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<p><b>OPERATIONAL MANAGEMENT</b></p> <p><b>IMPACT: LOW</b></p> <p><i>Inadequate attention to detail in managing the business</i></p>	<ul style="list-style-type: none"> <li>Monitoring accuracy of royalty payments</li> <li>Monitoring newsflow impacting counter-parties</li> <li>Insufficient interaction with counterparties</li> <li>Lax cost control</li> <li>Managing risky investment processes</li> <li>Appropriateness and functioning of internal controls</li> <li>Leadership</li> </ul>	<p><b>MAINTAINING HIGH STANDARDS</b></p> <p>The Group undertakes a thorough budgeting process each year which highlights the reasons for variances.</p> <p>Costs are reported against budget on a monthly basis to identify timely instances of any unexpected expenditure.</p> <p>Management is focused on close monitoring of the royalty portfolio.</p> <p>Management performance is monitored by the Board.</p>	<p><b>LIKELIHOOD: LOW</b></p> <p>Management are committed to the highest standards of internal control, in running the Company to the standards which would be expected of a FTSE listed organisation in order to maximise shareholder returns.</p>
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## STRATEGIC REPORT

**PRINCIPAL RISKS AND UNCERTAINTIES**

continued

	Risk	Possible cause	Mitigation	Management comment and actions
<b>OPERATIONAL</b>	<p><b>MANAGEMENT PERFORMANCE</b></p> <p><b>IMPACT: LOW</b></p> <p><i>Ensuring that management is performing to the standards expected of them for the benefit of all stakeholders.</i></p>	<ul style="list-style-type: none"> <li>• Underperformance</li> <li>• Unmotivated</li> <li>• Uncommitted</li> <li>• Lack of focus</li> </ul>	<p><b>PERFORMANCE REVIEW</b></p> <p>The Remuneration Committee undertakes a thorough review of performance each year, with any rewards being granted strictly upon demonstrated meeting of pre-agreed objectives.</p> <p>In addition, the Board undertakes an annual self-assessment to identify any skills gaps or the way in which the Board works together.</p>	<p><b>LIKELIHOOD: LOW</b></p> <p>Anglo Pacific is a small organisation in terms of headcount where everybody has to perform to the highest standards.</p> <p>Any underperformance would be readily evident and dealt with by the CEO and Board promptly.</p>
	<p><b>COMMODITY AND OTHER PRICING RISK</b></p> <p><b>IMPACT: HIGH</b></p> <p><i>The Group's results are determined by other pricing inputs which could result in unrealised losses at each reporting date.</i></p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• The Group has a portfolio of certain publicly quoted equity investments which are marked to market at each reporting date</li> </ul>	<p>The Group uses independent third-party consensus prices at each reporting date in assessing for impairment.</p> <p>The Group's equity portfolio has largely been divested, meaning any future impairment should be much less material to the Group.</p>	<p><b>LIKELIHOOD: HIGH</b></p> <p>The Group is exposed to commodity prices and a significant decrease in commodity prices is likely to result in further impairment charges.</p> <p>At this stage the Board does not hedge against specific commodity risk, and will continue to review this position in light of commodity prices.</p>
<b>FINANCIAL</b>	<p><b>FINANCING CAPABILITY</b></p> <p><b>IMPACT: MEDIUM / HIGH</b></p> <p><i>The Group is dependent on access to capital in order to finance its growth ambitions. Certain of the Group's assets are pledged as security for the Group's borrowing facility – failure to comply with the terms of the borrowing facility could result in the loss of control of key assets.</i></p>	<ul style="list-style-type: none"> <li>• Sudden adverse change in equity market conditions</li> <li>• The Group's cost of capital makes executing accretive deals more challenging</li> <li>• Production issues or significant price volatility could adversely impact on the Group's borrowing capacity</li> <li>• Execution risk through inadequate immediate access to finance</li> <li>• Sudden adverse events result in a loss of income and impacts on the banking covenants</li> </ul>	<p><b>HIGH-QUALITY DEAL-FLOW</b></p> <p>It is management's view that high-quality, accretive deals should always be capable of being financed. We regularly meet with advisors, shareholders and lenders to discuss the types of deals we are looking at to gauge their support.</p> <p>We will look to finance non-income producing royalties primarily from our internal resources. This does leave the Group exposed to unexpected loss of revenue to repay borrowings. We run regular forecasts and sensitivity analysis to ensure that we are not over leveraged and in compliance with our banking covenants.</p>	<p><b>LIKELIHOOD: MEDIUM</b></p> <p>We took advantage of our record year of revenue in 2018 to refinance our borrowing facility to capture more of the Group's debt capacity.</p> <p>As part of this refinancing we brought a third bank, Scotia Bank, into the syndicate who bring considerable knowledge and experience of the Canadian royalty financing sector to the syndicate.</p> <p>With access to ~£78m (~US\$100m) of liquidity we are well placed to finance growth opportunities from our balance sheet in 2019.</p>



## FINANCIAL

Risk	Possible cause	Mitigation	Management comment and actions
<p><b>OPERATOR DEPENDENCE</b></p> <p><b>IMPACT: MEDIUM</b></p> <p><i>The Group is dependent on the operators of the mines over which it has royalties to continue to honour royalty contracts and make timely and accurate royalty payments, and to continue to operate and finance their business in a sensible and responsible manner.</i></p>	<ul style="list-style-type: none"> <li>Market conditions</li> <li>Poor ESG record</li> <li>Overleveraging</li> <li>Inaccurate royalty calculations</li> <li>Non-payment / disputes</li> <li>Change in dividend policy by LIORC</li> </ul>	<p><b>DIVERSIFY DEPENDENCE</b></p> <p>The best way the Group can mitigate dependence on any one operator is to continue to expand and diversify its royalty portfolio to ensure that it has a well-balanced source of income.</p> <p>The Group has audit rights over certain of its royalties which it generally exercises on the identification of any unexpected royalty outcome.</p> <p>The Group tries to insert change of control clauses into its new royalty agreements to help ensure its exposure is to counterparties of good reputation.</p>	<p><b>LIKELIHOOD: MEDIUM</b></p> <p>The Group has a good relationship with most of the underlying operators.</p> <p>Site visits conducted over the past 12 months include Kestrel and Narrabri, two of the top three sources of the Group's revenue, and will target other visits in the next 12 months.</p>
<p><b>FOREIGN EXCHANGE RISK</b></p> <p><b>IMPACT: MEDIUM / LOW</b></p> <p><i>That foreign exchange movements adversely impact on the Group's cash flow projections.</i></p>	<ul style="list-style-type: none"> <li>Cash flow risk associated with dollar derived income and costs (including dividend) largely payable in GBP</li> <li>Translation risk of having a presentational currency in GBP but assets denominated in other currencies</li> <li>Financing risk when raising equity in GBP to fund dollar denominated acquisitions</li> <li>Continued uncertainty arising from Brexit</li> </ul>	<p>The Board approved a currency hedging policy which looks to enter into forward contracts sufficient to acquire the majority of the GBP required to meet the Group's dividend and overhead cost.</p> <p>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.</p>	<p><b>LIKELIHOOD: MEDIUM</b></p> <p>Commodity price risk is the primary risk and the objective is to keep foreign exchange as a secondary risk.</p>
<p><b>CREDIT RISK</b></p> <p><b>IMPACT: LOW</b></p> <p><i>That there is a risk of default by those owing the Group money or those institutions holding the Group's cash reserves.</i></p>	<ul style="list-style-type: none"> <li>Royalty payment default</li> <li>Bank collapse</li> </ul>	<p>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.</p>	<p><b>LIKELIHOOD: LOW</b></p> <p>The risk of counterparty default is assessed when entering into new royalty agreements. The Directors are of the view that the 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.</p>
<p><b>INTEREST RATE RISK</b></p> <p><b>IMPACT: LOW</b></p> <p><i>That an increase in interest rates could adversely impact on the Group's prospects.</i></p>	<ul style="list-style-type: none"> <li>The Group is exposed to the US and UK LIBOR rate as part of its bank facility</li> </ul>	<p>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.</p>	<p><b>LIKELIHOOD: LOW</b></p> <p>Although interest rates, particularly in the US, have risen over the past 12 months, further expectations for rate increases have reduced somewhat. The Group can borrow in a multitude of currencies and take advantage of lower rates accordingly.</p>

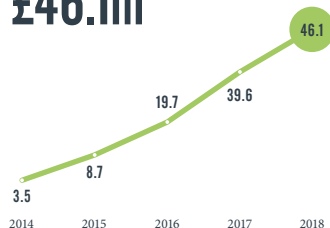
STRATEGIC REPORT

# KEY PERFORMANCE INDICATORS

Measuring our progress

## ROYALTY RELATED REVENUE

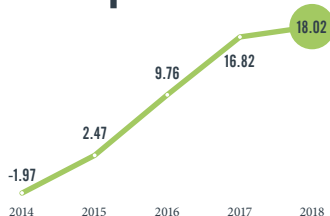
**£46.1m**



Royalty related revenue reflects the revenue from the Group's underlying royalty and streaming assets on an accruals basis, including the interest earned on royalty financing arrangements and the dividend income received from the Group's investment in LIORC (refer to [note 2\(c\)](#) for further details).

## ADJUSTED EARNINGS PER SHARE

**18.02p**



Adjusted earnings per share excludes any non-cash valuation movements, impairments, amortisation and share-based payment expenses.

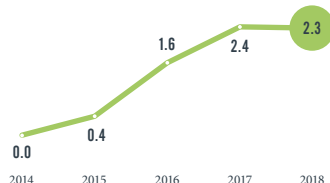
It also adjusts for any profits or losses which are realised from the sale of equity instruments within the mining and exploration interests.

Valuation and other non-cash movements such as these are not considered by management in assessing the level of profit and cash generation available for distribution to shareholders. As such, an adjusted earnings measure is used which reflects the underlying contribution from the Group's royalties during the year.

Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share (refer to [note 13](#) for further details).

## DIVIDEND COVER

**2.3x**

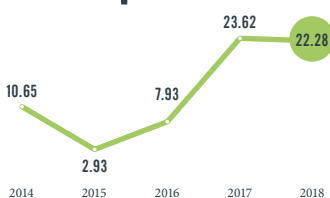


It is a policy of the Group to pay a significant portion of its royalty income as dividends. Just as important as maintaining the dividend is maintaining the quality of the dividend. Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share (refer to [note 14](#) 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

**22.28p**

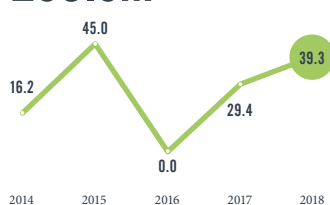


The structure of a number of the Group's royalty financing arrangements, such as the Denison transaction completed in February 2017, result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. Management have determined that free cash flow per share is a key performance indicator, as the Board considers the free cash flows generated by its assets when recommending dividends.

Free cash flow per share is calculated by dividing net cash generated from operating activities, plus proceeds from the disposal of non-core assets and any cash considered as repayment of principal, less finance costs by the weighted average number of shares in issue (refer to [note 35](#) for further details).

## ROYALTY ASSETS ACQUIRED

**£39.3m**



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



**HOW WE DELIVER GROWTH****HIGH-QUALITY AND  
LOW-COST ASSETS**

The Group is 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.

**Lowest quartile**

The Kestrel and Narrabri mines, over which the Group holds royalties, operate in the lowest quartile on the cost curve in comparison to similar mines

MORE DETAILS ON PAGES 32 & 37



## STRATEGIC REPORT

**BUSINESS REVIEW****KESTREL**

STAGE	PRODUCING
COMMODITY	COKING COAL
OPERATOR	KESTREL COAL PTY LTD
LOCATION	AUSTRALIA
ROYALTY RATE & TYPE	7 – 15% GRR
BALANCE SHEET CLASSIFICATION	INVESTMENT PROPERTY



# WE SEE THE CHANGE OF OWNERSHIP AT KESTREL AS A POSITIVE EVENT FOR ANGLO PACIFIC

**WHAT WE OWN**

Kestrel is an underground coal mine located in the Bowen Basin, Queensland, Australia. The Group owns 50% of certain sub-stratum lands which, under Queensland law, entitle it to coal royalty receipts from the Kestrel mine. The vast majority of sales from the operation are to Japan and South Korea with ~2% going into the Chinese market.

The royalty rate to which the Group is entitled is prescribed by the Queensland Mineral Resources Regulations. These regulations currently stipulate that the basis of calculation is a three-tiered fixed percentage of the invoiced value of the coal 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 BALANCE	7%
		12.5%
MORE THAN A\$150	FIRST A\$100	7%
	NEXT A\$50	12.5%
	BALANCE	15%

**CHANGE OF OWNERSHIP**

As was widely reported and commented on during the course of 2018, Rio Tinto sold its interest in the Kestrel mine to a joint venture between EMR Capital (an Australian private equity firm) and Adaro Energy (a major blue-chip coal mine operator based in Indonesia). The sale completed in August 2018.

The total consideration paid by the new owners was US\$2.25bn, which Anglo Pacific considers a ringing endorsement of the quality of the operation and the potential for significant volume growth at Kestrel, as recently indicated by Adaro. Such acceleration would, in our view, likely shorten the number of years of significant volumes from within the Group's private royalty land to around four years. We would then expect a further period of two years where there would be a meaningful contribution before mining eventually begins to leave the Group's private royalty land.

We have enjoyed a very good start to our relationship with the new owners and operator, which included being welcomed to site in February 2019 to see for ourselves the progress and plans being made for the operation.

We see the change of ownership at Kestrel as a positive event for Anglo Pacific.

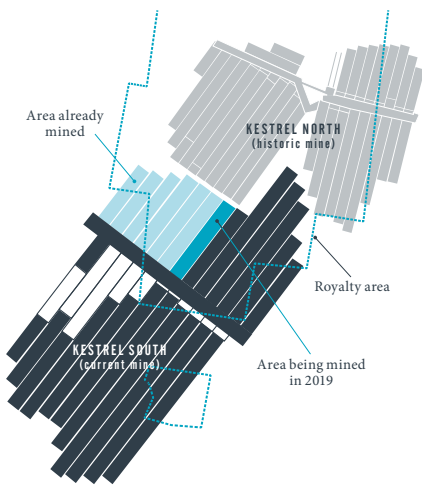
**PERFORMANCE**

The Group received record royalty income from Kestrel in 2018, for the second year in a row. Total revenue in 2018 was £32.6m, a 13.5% increase on the previous record of £28.8m in 2017. This increase is all the more impressive given that it was achieved from the same level of annual production (~4.8Mt) within the Group's private royalty land and was also impacted by a stronger pound when reporting the revenue in sterling.

The increase in revenue in 2018 was a result of higher coking coal prices, which has a compounding benefit on the weighted average royalty rate, given the ratchet outlined above. At the beginning of 2018, the consensus for premium hard coking coal prices in 2018 was US\$150/t on average, whereas actual contract prices averaged US\$207.50/t. This pricing is not necessarily the pricing achieved from Kestrel which is at a slight discount to the premium hard coking coal price, but is indicative of the increases we have seen.

The coking coal price remained resilient due to a combination of weather-related events and industrial action in Australia impacting on supply along with an ever-increasing demand for premium coking coal for use by the steel industry.

**KESTREL MINE PLAN, SHOWING AREA BEING MINED COMPARED TO PRIVATE LAND BOUNDARY**



**OUTLOOK**

The outlook for 2019 remains positive, both in terms of volume and price. The December 2018 consensus price for coking coal in 2019 is US\$177.80/t on average. This is a significant increase (+34%) on the price expectation for 2019 at the beginning of 2018.

Of more significance was the announcement by Adaro Energy, a 48% joint venture partner in the Kestrel operation, in their Q4 2018 trading update on 11 February 2019 that the operation is targeting a ~40% increase in volume in 2019, driven by improved efficiencies. This would increase volumes from Kestrel to ~6.7Mt in 2019, of which the vast majority of mining would be from within Anglo Pacific’s private royalty land.

Although Anglo Pacific does not operate the mine, should these volumes be achieved, then, subject to prevailing coal prices, this would lead to a significant increase in revenue from Kestrel for the third year in a row.

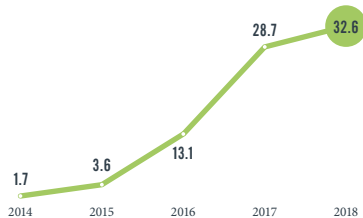
**VALUATION**

The Kestrel royalty was independently valued at A\$198.2m (£109.8m) and accounts for 41% of the Group’s total assets as at 31 December 2018 (2017: A\$180.2m; £104.3m; 41%). Having generated £32.6m of income from Kestrel during the year, the increase in valuation of £5.5m means that resource depletion has been more than compensated for by the uplift in forecast private royalty tonnage for 2019, as provided by the operator, together with an upward revision in forward price assumptions, with the consensus suggesting that the long-term price for coal has increased by 34% compared to the pricing assumptions used at the end of 2017 as discussed above.

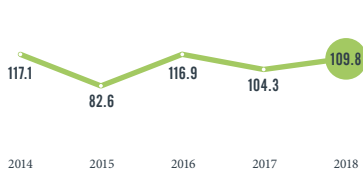
The independent valuation of Kestrel was undertaken by a Competent Person in accordance with the Valmin Code (AusIMM, 2005), which provides guidelines for the preparation of independent expert valuation reports. The Group monitors the accuracy of this valuation by comparing the actual cash received to that forecasted. The value of the land is calculated by reference to the discounted expected royalty income from mining activity, as described in *note 16*.

As the asset has a nominal cost base, the carrying value almost entirely 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 £76.9m (2017: £75.2m).

**KESTREL ROYALTY RELATED REVENUE (£m)**



**COAL ROYALTY VALUATION (£m)**



**HOW WE DELIVER GROWTH**

## **ATTRACTIVE RETURNS**

The Group acquires royalties and streams at costs of capital which reflect the Group's views of appropriate returns. Given the lack of capital flowing into the sector, this cost of capital is increasing.



The £38m acquisition of a 4.29% equity stake in LIORC, completed in H2 2018, generated £1.9m in royalty related revenue implying an annualised yield of ~10%

STRATEGIC REPORT  
**BUSINESS REVIEW**  
*continued*

## MARACÁS MENCHEN

STAGE	PRODUCING
COMMODITY	VANADIUM
OPERATOR	LARGO RESOURCES
LOCATION	BRAZIL
ROYALTY RATE & TYPE	2% NSR
BALANCE SHEET CLASSIFICATION	ROYALTY INTANGIBLE



THE PROJECT IS LOCATED 250KM SOUTH-WEST OF THE CITY OF SALVADOR, THE CAPITAL OF BAHIA STATE, BRAZIL

# MARACÁS GENERATED YET ANOTHER YEAR OF RECORD REVENUE RESULTING IN ROYALTY INCOME OF £5.9m FOR ANGLO PACIFIC

### 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 covers an area in excess of the current permits which offers the Group the potential for exploration upside. Maracás Menchen is 99.97% owned and operated by TSX listed Largo Resources Limited ('Largo').

### PERFORMANCE

Maracás generated yet another year of record revenue for Anglo Pacific Group. Royalty related revenue of £5.9m was almost triple the amount earned in 2017, predominantly due to significantly higher vanadium (V<sub>2</sub>O<sub>5</sub>) prices. In addition, Largo recorded a 6% increase in production during the year to 9,830t.

The V<sub>2</sub>O<sub>5</sub> price was a standout performer in the commodity sector in 2018, increasing from ~US\$8.50/lbs at the beginning of the year to ~US\$26.00/lbs at the end of 2018. The price peaked around US\$34.00/lbs in late 2018, although it has subsequently retreated to around US\$18.00/lbs as at January 2019.

The reason for the increase in price during 2018 was twofold. Firstly, the impact of vanadium operation closures in 2015 and 2016, mainly at Evraz Highveld in South Africa, resulting in a considerable amount of stock flooding the market. It has taken some time for this to work its way through the system, but it appeared that the supply demand balance shifted back towards the operators at the end of 2017. Furthermore, considerable by-product supply from China was taken offline in 2017 due to safety and environmental shut downs. This coincided with new steel usage regulations in China, stipulating that a higher rebar standard needed to apply to steel usage in the construction industry following infrastructure collapses in the past few years. V<sub>2</sub>O<sub>5</sub> is one such strengthening agent and Chinese steel producers suddenly needed to increase stock levels.

The second driver of vanadium pricing is its new found use in large scale energy storage equipment. This gives the product a second use. Largo has confirmed that its vanadium is suitable for such technology.

The result of the sudden increase in vanadium prices during 2018 has had a profound impact on Largo's balance sheet, especially as it expects its cash operating costs to be US\$3.46-US\$3.65/lbs.

The considerable operating margin generated by Largo has led to a rapid deleveraging. Largo had total borrowings of C\$276m at the end of 2016, prior to the increase in vanadium price. With the significant cash generated over the last two years, it currently has C\$45m of remaining debt. This is good news for Anglo Pacific as Largo is very well capitalised and is in a position to invest in further capacity increases should it chose to do so.

### OUTLOOK

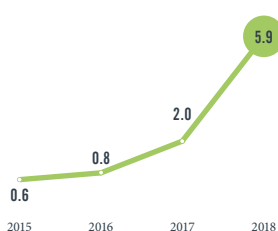
Largo is anticipating production of 10,000 - 11,000 tonnes of V<sub>2</sub>O<sub>5</sub> in 2019. This should result in some volume growth to come in 2019, but would be under the threshold required for the next deferred consideration milestone of 12,000 tonnes on any annualised quarterly production level.

As mentioned above, the price of V<sub>2</sub>O<sub>5</sub> has come off the high levels it was trading at in H2 2018 and is now around US\$18.00/lbs. Although lower than the recent price, this is still some 40% higher than the pricing at this stage last year. Should the recent pricing prove to be temporary or seasonal then there could still be price driven growth in 2019, especially as most commentators still consider there to be structural supply deficit in the market.

### 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.

MARACÁS ROYALTY RELATED REVENUE (€m)





## **HOW WE DELIVER GROWTH**

# **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.



### **Record year**

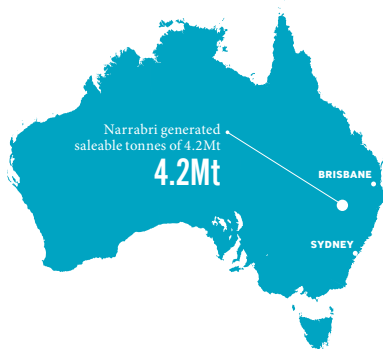
The operator of the Maracás Menchen mine, Largo Resources Limited, have overseen a record year of production from the mine while at the same time deleveraging their balance sheet ready for the next stage of growth



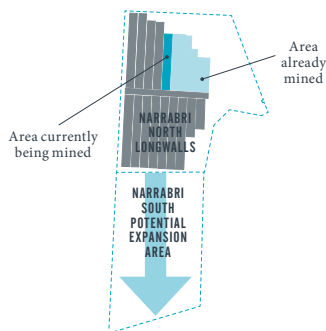
STRATEGIC REPORT  
**BUSINESS REVIEW**  
*continued*

## NARRABRI

STAGE	PRODUCING
COMMODITY	THERMAL & PCI COAL
OPERATOR	WHITEHAVEN COAL
LOCATION	AUSTRALIA
ROYALTY RATE & TYPE	1% GRR
BALANCE SHEET CLASSIFICATION	ROYALTY INTANGIBLE



**NARRABRI MINE PLAN, SHOWING SOUTH POTENTIAL EXPANSION AREA**



**NARRABRI ROYALTY RELATED REVENUE (€m)**



### 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 increase production over the short and medium term, following Whitehaven's approval to expand production to 11Mt per annum. 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 performance from Narrabri in 2018 was once again impacted by ongoing geotechnical issues associated with an isolated fault in the coal body requiring Whitehaven to perform step around procedures which is causing reduced volumes from the operation at present. It has also experienced some delays in retreating the longwall given its increased size and the impact which this is having on the mine roof.

Whitehaven has been working hard to address these ongoing issues and it was pleasing to see that it achieved a very strong level of ROM production in the final quarter of 2018 of 2.3Mt, 42% higher than the immediately preceding quarter which was impacted by a longwall changeover.

Overall, sales volumes were 2.6Mt lower at 4.2Mt in 2018, although some of this decrease can be attributed to higher stock levels at the end of 2018 which should come through as cash in Q1 2019 – stock levels were 86% higher than at the start of the year.

Some of this decrease was made up for by higher coal prices in the period. The consensus estimates for spot thermal coal prices in 2018 was US\$79.57/t at the beginning of the year, whereas Whitehaven achieved average thermal coal prices of US\$106/t during 2018. But overall, the significantly lower sales volumes resulted in royalty income of €3.5m in 2018 compared to €4.9m in 2017.

Whitehaven saw healthy demand for their higher calorific value coals during 2018, which supported the price during the year. Although most of its sales go elsewhere, the price was strongly impacted by events in China, where power generation increased during 2018, met by both thermal coal and renewable sources.

However, increases in domestic supply in China were modest due to ongoing difficulties experienced by producers in receiving regulatory approvals given the higher safety and environmental checks being enforced. This led to an increase in demand from the seaborne market to fill the gap.

### OUTLOOK

Whitehaven has guided for FY 2019 (year to 30 June 2019) production of 5.6 - 6.0Mt. In its December 2018 quarterly production update, Whitehaven announced that it has formed a team to work on the Narrabri Stage 3 project which includes the conversion of the southern exploration licence to a mining lease and it expects to submit such an application to the Department of Planning and Environment during 2020. This project has the potential to significantly increase production at Narrabri and in turn the royalties paid to Anglo Pacific, as the project falls within the Group's royalty area.

We were welcomed on site by Whitehaven in February 2019 and were pleased to see the wider longwall panels and support infrastructure for ourselves.

Whitehaven continues to see good demand for higher quality coal, which should continue to support the price achieved of late. The premium being achieved by the 6,000 kcal/kg is becoming more notable and Whitehaven believes that this is now beginning to reflect a structural change in end user requirements for better quality coal.

New demand from recently commissioned coal power plants in south-east Asia is estimated to have required some additional 40Mt in 2018 and this will continue in 2019. Although thermal coal is being phased out in some developed economies, it seems that it will continue to be a major source of power generation in the Asian market for some time to come. The short-term outlook for thermal coal prices thus appears to be positive.

### 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 reflect any valuation uplift for any excess between the fair value and amortised cost. Its carrying value does however reflect the impact of translation from Australian dollars to pounds. Royalty intangible assets are amortised when commercial production commences, on a straight-line basis over the expected life of the mine.



## HOW WE DELIVER GROWTH

# 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. Four of the royalties in the Group's existing portfolio are over mines that have potential reserves and resources of 10 years or more.



# 10+

The Group's Narrabri, Maracás Menchen, LIORC, and Ring of Fire royalty assets all have potential reserves and resources in excess of 10 years



STRATEGIC REPORT  
**BUSINESS REVIEW**  
*continued***LABRADOR  
IRON ORE ROYALTY  
CORPORATION  
(LIORC)**

<b>STAGE</b>	<b>PRODUCING</b>
<b>COMMODITY</b>	<b>IRON ORE &amp; IRON ORE PELLETS</b>
<b>OPERATOR</b>	<b>IRON ORE COMPANY OF CANADA ('IOC')/ RIO TINTO</b>
<b>LOCATION</b>	<b>CANADA</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>INDIRECT INTEREST IN 7% GRR</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY FINANCIAL INSTRUMENT</b>



**LONG-LIFE OPERATION WITH RESERVES  
SUFFICIENT FOR ~25 YEARS AT THE  
CURRENT RATE OF PRODUCTION**

**WHAT WE OWN**

Anglo Pacific completed its acquisition of a 4.29% equity stake in Labrador Iron Ore Royalty Corporation (LIORC) during the second half of 2018, investing £38m. LIORC is a Toronto listed company which holds both a royalty and equity interest in the Labrador Iron Ore (IOC) project. This entitles the company to revenue from its 7% gross revenue royalty (along with a small commission) on revenue from the operation, along with dividend income from its equity stake.

LIORC is effectively a pass-through vehicle in so much that it has a limited mandate other than to pass through its net cash to shareholders by way of dividend, subject to retaining sufficient working capital. This dividend is paid on a quarterly basis and includes a base level and a special dividend, the latter fluctuating depending on the level of distributions received from the underlying iron ore operation. Given the restricted investment mandate available to LIORC

**ANGLO PACIFIC ACQUIRED  
AN INDIRECT INTEREST  
IN THE IOC ROYALTY FOR  
£38m DURING 2018**

management, Anglo Pacific considers its equity shareholding in LIORC to effectively be a part ownership of the IOC royalty and, for accounting purposes, accounts for this dividend income as royalty related revenue.

**UNDERLYING OPERATION**

As the investment in LIORC is considered to be a part ownership of the royalty, an understanding of the underlying operation and product is important and this was a key focus of our diligence when considering making this investment during H2 2018.

IOC is one of Canada's top iron ore producers, operated by Rio Tinto, and is among the top five producers of seaborne iron ore pellets in the world. It is a long-life operation with reserves sufficient for ~25 years at the current rate of production. The operation extracts ~55Mt of crude ore annually and processes this into concentrate and pellets before transporting this on rail to port at Sept-Iles in Newfoundland. All of the infrastructure is owned by the operation, another key attraction of this investment.

IOC produces a high-quality iron ore pellet which is highly sought after due to its efficient use in steel mills. Its quality is supported by its low levels of impurities, noticeably low in phosphorus, alumina and sulphur. These attributes are very desirable, particularly in Asia.

In 2017, IOC had sales volumes of 19.0Mt of which 55% was pellet and 45% concentrate. The operation is very profitable, with Rio achieving a 41% margin on sales of US\$1.9bn in 2017. The operation paid total dividends of C\$510m, ~62.5% of its EBITDA. LIORC has a 15.1% shareholding, and earned C\$77m in dividends in 2017.

**PERFORMANCE**

The Group earned royalty related revenue of £1.9m in 2018 from its investment in LIORC in H2 2018. Two of the dividends we received contained a special dividend element, meaning the dividend in respect of H2 2018 was C\$1.15 per share. The dividend in respect of Q4 2018 was C\$0.60 per share which, on an annualised basis, would imply a yield of ~10%, exceeding the Group's initial expectations.

The dividend in H2 2018 could have been higher had it not been for LIORC withholding a higher level of cash in the business than we would have expected. This was in conjunction with comments by LIORC's management during 2018 where they were looking for shareholder approval to amend their articles of association in order to invest in other royalties. LIORC recently announced that the directors will not proceed with a shareholder vote in relation to the amendment of its articles of incorporation. We consider to be a favourable position for our investment. As such, the dividend in Q1 2019 could contain some of the excess cash retained in H2 2018.

**OUTLOOK**

The outlook for 2019 is positive for LIORC and pellet premia in general, although under very regrettable circumstances.

It is likely that there will be reduced iron ore production from Brazil following the Vale incident in January 2019, which could take as much as 11Mt of pellet volumes off the market in the short-term. This is equivalent to the annual output from IOC, and should support prices throughout 2019.

With a full year of revenue to come in 2019, the potential for additional cash to be distributed from LIORC and the outlook for pellet premia being highly positive, the Group should record significant growth in revenue during 2019 from this asset.

**VALUATION**

The investment in LIORC is classified as a royalty financial instrument. It is carried at fair value by reference to the quoted bid price of LIORC at the reporting date.

On initial recognition, the Group made the irrevocable election to designate its investment in LIORC as fair value through other comprehensive income (FVTOCI). As a result all fair value movements accumulate in the investment revaluation reserve, within 'Other Reserves'.

**HOW WE DELIVER GROWTH**

# 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 bulk materials, base metals and energy commodities.



**9** commodities

The Group's portfolio of 14 royalty assets, provides exposure to 9 commodities across 5 continents

MORE DETAILS ON PAGES 04 & 05

STRATEGIC REPORT  
**BUSINESS REVIEW**  
*continued*

## McCLEAN LAKE MILL

STAGE	PRODUCING
COMMODITY	URANIUM
OPERATOR	ORANO
LOCATION	CANADA
ROYALTY RATE & TYPE	TOLLING REVENUE
BALANCE SHEET CLASSIFICATION	LOAN & ROYALTY FINANCIAL INSTRUMENT

# THE GROUP HAS RECEIVED **£8.3m** IN PRINCIPAL AND **INTEREST REPAYMENTS** **SINCE ACQUIRING** **McCLEAN LAKE IN 2017**

### WHAT WE OWN

In February 2017, Anglo Pacific provided Denison Mines Inc (Denison) with a C\$40.8m 13-year interest bearing loan at a rate of 10%pa. The interest payments are payable from the cash flows which Denison receives from the toll revenue generated from its 22.5% interest in the McClean Lake mill, operated by Orano Group (previously Aрева). The mill processes all ore currently produced from the nearby, world class, Cigar Lake uranium mine, operated by Cameco, and pays a \$/lbs toll rate for use of the mill. In any period where the cash flow from the toll revenue exceeds the interest payment, the balance is received by Anglo Pacific as a repayment of principal. In any period where the cash flows are less than the interest, the interest will capitalise and be repaid out of cash flows in the following period. Any amounts outstanding at maturity are due and payable regardless of the cash generated from the toll.

In addition to the loan, the Group also entered into a financial transaction with Denison to purchase the entire share of its toll receipts received from Cigar Lake for C\$2.7m. This allows for potential mine life extension at Cigar Lake.

### PERFORMANCE

The cash flow received by Denison under the toll arrangement should produce a regular and predictable flow of cash, owing to the world class deposit and blue-chip operator supplying the mill. Receipts from the financing arrangement in 2018 were £3.3m compared to £3.2m earned in respect of 2017 (the cash received of £5.0m during 2017 included an amount of £1.8m relating to H2 2016).

The outlook for 2019 is expected to remain in line with the C\$0.5m which we receive on a monthly basis. However, we note some rumours about the threat of industrial action by the workers at the mill which would have the potential to disrupt the operation and our income accordingly. We will keep this under review as the year unfolds.

The income from the toll revenue is based on a \$/lbs of throughput and therefore it is not directly impacted by movements in the uranium price. As such, the Group's cash flows will not alter with uranium price fluctuations. The risk to the Group's cash flow from this asset could arise if uranium prices fall to a level where the operation providing the throughput to the mill became uneconomic and shut down. The Group does not currently consider this to be a likely outcome in the case of Cigar Lake.

### VALUATION

The loan instrument is accounted for as a receivable and carried at amortised cost. The stream is considered a financial instrument in accordance with the Group's accounting policies and is therefore carried at fair value.



**CIGAR LAKE IS THE WORLD'S HIGHEST GRADE URANIUM MINE AND IS LOCATED IN NORTHERN SASKATCHEWAN, CANADA**



**HOW WE DELIVER GROWTH**

# 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.



## 99.1%

99.1% of the portfolio is in established natural resources jurisdictions

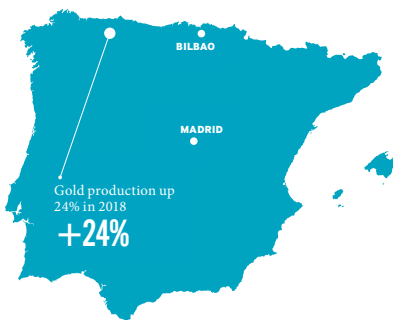


STRATEGIC REPORT  
**BUSINESS REVIEW**

continued

**EL VALLE-BOINÁS /  
CARLÉS (EVBC)**

<b>STAGE</b>	<b>PRODUCING</b>
<b>COMMODITY</b>	<b>GOLD, COPPER &amp; SILVER</b>
<b>OPERATOR</b>	<b>ORVANA MINERALS</b>
<b>LOCATION</b>	<b>SPAIN</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>2.5 – 3% NSR</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY FINANCIAL INSTRUMENT</b>

**EVBC ROYALTY RECEIPTS (€m)****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**

Income from EVBC was another source of growth for Anglo Pacific in the period. Revenue received was up 17% to £1.9m from £1.7m in 2017.

We reported last year that Orvana has invested in an efficiency program at EVBC, and this along with targeting high grade deposit zones, has produced favourable results in 2018. In CY 2018 Orvana produced 64k oz of gold, a 24% increase on the previous year. This is the second year in a row where Orvana has achieved ~25% production increases.

In addition to the initiatives implemented in 2017, the focus for 2018 was to invest in plant and equipment improvements, targeting high grade deposit zones and to bring parts of the Carles mine back online to provide skarn material to feed through the plant. This has assisted them in once again reporting production growth in 2018.

**OUTLOOK**

Orvana remains focused on additional geological and geotechnical work, that will allow it to exploit high grade areas, designed to maximise cash generation.

To this extent, Orvana recently announced the signing of a new four-year borrowing facility with a syndicate of Spanish banks which has been designed to refinance its previous facility with Samsung. This facility is on better economic terms which should enable further reinvestment in mine life expansion.

At present, the Group is estimating a remaining mine life of two and half years, which is shorter than that implied by the term of Orvana's new facility, suggesting that there could be royalty revenue to come from this operation for the next four years at least.

Orvana has announced guidance for FY 2019 of 65k oz of gold production from EVBC, which is in line with 2018.

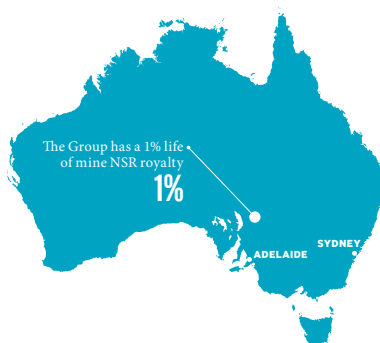
Anglo Pacific earns a royalty over all throughput from the EVBC process plant and is not restricted to licence geographic boundaries.

**VALUATION**

The EVBC royalty is classified as a royalty financial instrument on the balance sheet. It is carried at fair value by reference to the discounted expected future cash flows over the life of the mine. All valuation movements are recognised directly in the income statement.

**FOUR MILE**

<b>STAGE</b>	<b>PRODUCING</b>
<b>COMMODITY</b>	<b>URANIUM</b>
<b>OPERATOR</b>	<b>QUASAR RESOURCES</b>
<b>LOCATION</b>	<b>AUSTRALIA</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>1% NSR</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY INTANGIBLE</b>

**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**

The Group received a small amount of income from Four Mile during the year, although it remains of the view that this amount should have been considerably higher. This forms the basis of the ongoing dispute with the operator, Quasar, around the level of deductions which it continues to apply. Quasar continues to treat the contract, in our view, as akin to a profit interest, whereas the Group remains of the view that this is a NSR and that refining or processing costs should not be taken into account.

We are continuing to engage with Quasar in an attempt to resolve this matter.

**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.



## HOW WE DELIVER GROWTH

# PRODUCTION AND EXPLORATION UPSIDE POTENTIAL

The Group seeks to acquire royalty related assets 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.



### Narrabri

Whitehaven Coal Ltd, the operator of the Group's Narrabri royalty has commenced the process of converting its southern exploration licence into a mining lease, providing the Group with potential production and exploration upside

MORE DETAILS ON PAGE 37

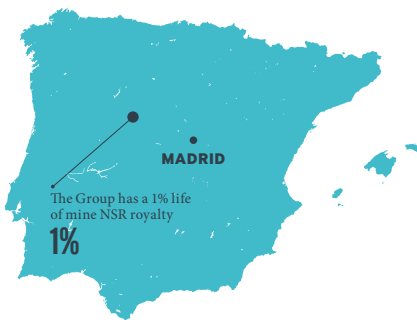


STRATEGIC REPORT  
**BUSINESS REVIEW**

continued

**SALAMANCA**

<b>STAGE</b>	<b>DEVELOPMENT</b>
<b>COMMODITY</b>	<b>URANIUM</b>
<b>OPERATOR</b>	<b>BERKELEY ENERGIA</b>
<b>LOCATION</b>	<b>SPAIN</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>1% NSR</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY INTANGIBLE</b>



THE SALAMANCA PROJECT IS BEING DEVELOPED IN AN HISTORIC URANIUM MINING AREA IN WESTERN SPAIN ABOUT 250KM WEST OF MADRID

**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 been enjoying another successful year, but ended the year with some uncertainty surrounding the likely approval of its outstanding permits. This culminated in a significant reduction in its share price at the end of 2018 as the market ascribed little or no value to the company other than its cash on hand.

Despite completing its IPO on the Spanish exchange during the first half of the year, and outlining the positive impact the Salamanca project would have on the local economy, Berkeley has made limited progress in securing the necessary permits to commence construction.

In the fourth quarter of 2018 Berkeley refuted the claims in the media that the authorities intended to deny permitting applications. Subsequent to the year end, Berkeley announced that it had received a

number of favourable assessments from various regulatory bodies, however, the final recommendation from the Nuclear Safety Council and local municipal approvals remained outstanding. The share price has recovered considerably in 2019 on this news.

Berkeley had targeted construction to commence in 2019. In light of the ongoing permitting delays this is now likely to be pushed back. Berkeley remains fully financed to construct the mine and commence commercial production.

The other positive news for Berkeley is that the uranium price enjoyed a better year in 2018, buoyed by recontracting in the US and EU markets and continued increases in global nuclear capacity. It appears after several years of depressed uranium prices that there could be some positive triggers for a re-rating in the near-term.

**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.

**GROUNDHOG**

<b>STAGE</b>	<b>DEVELOPMENT</b>
<b>COMMODITY</b>	<b>ANTHRACITE</b>
<b>OPERATOR</b>	<b>ATRUM COAL</b>
<b>LOCATION</b>	<b>CANADA</b>
<b>ROYALTY RATE &amp; TYPE</b>	<b>1% GRR or US\$1.00/t</b>
<b>BALANCE SHEET CLASSIFICATION</b>	<b>ROYALTY INTANGIBLE</b>

**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**

Atrum's focus for 2018 was on the Elan project, and so there was limited progress in relation to the Panorama licences. It is hoping to publish the results of their most recent drilling program in H1 2019.

**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.

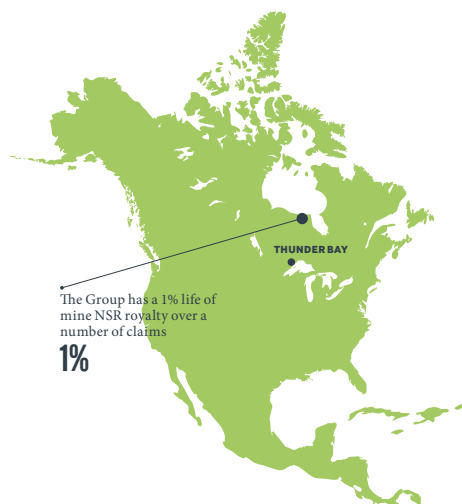


STRATEGIC REPORT  
**BUSINESS REVIEW**

*continued*

## RING OF FIRE

STAGE	EARLY-STAGE
COMMODITY	CHROMITE
OPERATOR	NORONT RESOURCES
LOCATION	CANADA
ROYALTY RATE & 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

Noront released an updated corporate presentation in Q3 2018 which outlined the path towards first production at Eagles Nest, the first deposit it is targeting to bring into production. Anticipated timing of first production is 2024, with construction due to start in 2021, and this reflects positive discussions with the State and First Nation groups over the past few years.

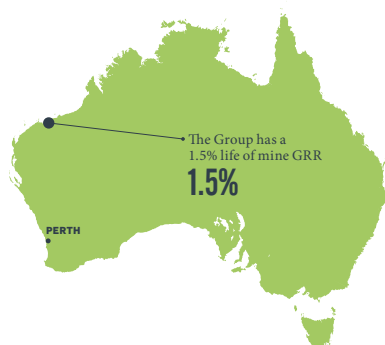
Although there is no specific guidance in relation to the Group's royalties, the Black Thor deposit is the third deposit which would be brought online should market conditions be favourable for chromite prices at that time. Given the guidance in relation to first production at Eagles Nest we have altered our expectation for first production at Black Thor, pushing out the likely start date to 2030.

### 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
LOCATION	AUSTRALIA
ROYALTY RATE & 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 which is dual-listed on the LSE and ASX.

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

### PERFORMANCE

Although no tangible progress in 2018 has been reported in relation to our tenements, BHP continue to advance the permitting of their South Flank licences. Whilst this will have minimal consequences for Anglo Pacific's tenements, we are encouraged that BHP are expanding their plans adjacent to Mining Area C, and that it remains likely they will focus on higher grade deposits, which the Group's royalties cover.

### 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.

Despite recent announcements by BHP in relation to the expansion of Mining Area C, and in particular the South Flank development in the Pilbara, limited information is publicly available for the Group to assess the likely timing of the development of tenements covered by the Group's royalty, the largest of which covers the Railway Deposit which is located to the north of the South Flank development.

In the absence of any public available information, the Group has estimated the likely start date for production from tenements covered by the Group's royalty to be 2030 (2017: start date 2027). Applying this start date to the Group's valuation model, together with a pre-tax nominal discount rate of 8.00% and a long-term iron ore price of US\$106/t for lump and US\$94/t for fines resulted in a net present value of the discount future royalty cash flows of A\$17.5m, compared to the carrying value of A\$21.5m. As a result of the net present value being lower than the carrying value, the Group recognised an impairment charge of A\$4.0m (€2.2m) for the year ended 31 December 2018.

## DUGBE 1

STAGE	EARLY-STAGE
COMMODITY	GOLD
OPERATOR	HUMMINGBIRD RESOURCES
LOCATION	LIBERIA
ROYALTY RATE & 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

There have been no development updates in relation to the Dugbe 1 project, with Hummingbird's focus remaining on its Yanfolila mine, which suffered operational issues in Q4 2018 due to adverse weather events. Hummingbird's focus for 2019 is likely to remain on the Yanfolila operation.

### VALUATION

The Dugbe 1 royalty is classified as a royalty financial instrument on the balance sheet. It is carried at fair value by reference to the discounted expected future cash flows over the life of the mine. All valuation movements are recognised directly in the income statement.

In light of the limited progress Hummingbird has made in relation to developing Dugbe 1, combined with the absence of any public available information, the Group has estimated the likely start date for production to be 2030 (2017: start date 2026). Applying this start date to the Group's valuation model, together with a pre-tax nominal discount rate of 22.00% and a long-term gold price of US\$1,412/oz resulted in a net present value of the discount future royalty cash flows of A\$2.2m, compared to the carrying value of A\$5.9m.

As a result of the net present value being lower than the carrying value, the Group recognised a valuation charge of A\$3.7m (£2.1m) for the year ended 31 December 2018.

There are certain provisions within the contract which would entitle Anglo Pacific to seek its capital to be returned, however, at present the prospect of these being triggered appears remote.



## STRATEGIC REPORT

**FINANCIAL REVIEW**

KEVIN FLYNN

## ALONG WITH CASH, THE REFINANCED AND UP-SIZED FACILITY PROVIDES US WITH ACCESS TO ~£78m (~\$100m) OF LIQUIDITY TO FINANCE OUR GROWTH AMBITIONS

Anglo Pacific enjoyed a very strong financial performance during 2018. We generated a record contribution from our portfolio of £49.4m, a 16% increase from the £42.6m earned in 2017. The comparison for 2017 included £1.8m from the Denison financing arrangement in respect of H2 2016, so the like-for-like increase is actually 21%.

With our limited cost base, our revenue mainly drops to cash flow and the Group generated free cash flow of £40.2m in 2018, in line with the £40.5m in 2017 if the £1.8m Denison back payment is excluded.

We began the year with cash on hand of £8.1m and generated free cash flow of £40.2m resulting in available cash of £48.3m, without drawing down on borrowing facilities. We invested £38.4m in the LIORC stake, and distributed £12.9m to shareholders, a 3:1 capital allocation towards growth. This capital spend was financed entirely from the Group's liquid resources, and so the Group ended 2018 with a modest level of net debt of £3.1m, and returned to a net cash position once again at the beginning of February 2019.

The other notable financial highlight in the year was the refinancing and extending of our borrowing facility, intended to better reflect the Group's debt capacity and provide cheaper and more flexible financing options. As part of this refinancing we were pleased that Scotia Bank joined the existing syndicate of Barclays and Investec. The calibre of banks in our syndicate is testament to the quality of our portfolio and our track record of identifying and executing accretive royalty related acquisitions.

With further organic growth anticipated from the portfolio in 2019 and access to ~£70m (US\$90m) of borrowing lines, the Group is in a strong financial position to pursue growth opportunities in 2019.

**INCOME STATEMENT**

Profit after tax for the year ended 31 December 2018 almost tripled to £28.8m, resulting in earnings per share of 15.97p in 2018 compared to 5.88p in 2017. The main reason for such a large increase is due to valuation movements swinging from a deficit in 2017 to a surplus in 2018, mainly as a result of commodity price volatility over the past two years.

To remove the impact of such volatility and other non-cash items, we present an adjusted earnings measure, and associated earnings per share, which we feel better represents the underlying trading performance of the Group and is the measure used by the Board when considering dividend levels.

	2018 £'000	%	2017 £'000
Royalty related revenue	46,104	17%	39,566
Receipts from royaltly financial instruments	1,975		–
Operating expenses – excluding share based payments	(4,709)		(4,717)
Finance costs	(1,042)		(795)
Finance income	82		19
Net foreign exchange gains/losses	(593)		(747)
Other (losses)/income	1,656		(300)
Tax	(10,990)		(2,933)
Adjusted earnings	32,483	8%	30,094
Weighted average number of shares ('000)	180,278		178,895
	18.02p	7%	16.82p

Adjusted earnings increased by 7% to £32.5m in the period from £30.1m in 2017, which translates into adjusted earnings per share ('AEPS') of 18.02p (2017: 16.82p). The main change year on year is a 16% increase in royalty related revenue, partially offset by an increase in the tax provision now that the Group has utilised its trading losses in full. The following section will focus on these two areas, given that everything else has remained largely in line with the previous year.

#### Royalty related revenue

Total royalty related revenue in 2018 was £46.1m, compared to £39.6m in 2017. Royalty related income no longer includes the royalties received from EVBC following the transition to IFRS 9 at the beginning of 2018. Including the £2.0m from EVBC and the £1.3m in principal repayments made under the Denison financing arrangement results in a total portfolio contribution of £49.4m in 2018 compared to £42.6m in 2017, a 16% increase. £1.9m of this increase is represented by maiden revenue from the LIORC investment made in H2 2018. The remainder of the increase is largely attributable to stronger coking coal and vanadium prices as outlined below.

	2018 £m	%	2017 £m
Kestrel	32.6	13%	28.8
Maracás Menchen	5.9	195%	2.0
Narrabri	3.5	(29%)	4.9
Four Mile	0.1		–
EVBC*	–		1.7
<b>ROYALTY INCOME</b>	<b>42.1</b>	<b>13%</b>	<b>37.4</b>
LIORC dividends	1.9		–
Interest – McClean Lake & Jogjakarta	2.1	(4%)	2.2
<b>ROYALTY RELATED REVENUE</b>	<b>46.1</b>	<b>16%</b>	<b>39.6</b>
EVBC*	2.0		–
Principal repayment – McClean Lake**	1.3		3.0
<b>TOTAL PORTFOLIO CONTRIBUTION</b>	<b>49.4</b>	<b>16%</b>	<b>42.6</b>

\* Following the application of IFRS 9, the royalties received from EVBC are reflected in the fair value movement of the underlying royalty rather than recorded as royalty income.

\*\* The McClean Lake principal repayment in 2017 included £1.8m relating to tolling receipts from H2 2016.

#### Kestrel

Despite flat volumes of 4.6Mt from within the Group's private royalty land at Kestrel in 2018, revenue increased to £32.6m from £28.8m in 2017. The main reason for the increase was the benefit of higher average coking coal prices throughout 2018, which also resulted in a higher weighted average royalty rate. This increase was slightly offset when reporting this revenue in pounds at a less favourable exchange rate on average in 2018.

#### Maracás Menchen (Maracás)

The Maracás royalty is now the Group's second largest income generating royalty, making up 12% of the income recognised in the income statement. Income from Maracás almost tripled in 2018, largely driven by vanadium price movements. Sales volumes subject to the Group's royalty increased by 5% to 9,713kt, a new record for the operation.

The vanadium price was a clear highlight for Anglo Pacific during 2018, with the price achieved increasing from ~US\$8.50/lbs at the beginning of the year to ~US\$26.00/lbs at the end of the year. The spot price peaked at just over US\$34.00/lbs in Q4 2018, although it has come down somewhat thus far in 2019. The reasons behind the price movement are discussed in further detail on [page 35](#) of the business review.

## STRATEGIC REPORT

**FINANCIAL REVIEW***continued***LIORC**

Dividend income from the Group's investment in LIORC was £1.9m in the period, despite only completing the acquisition in H2 2018. The income which the Group receives is derived mainly from the 7% GRR that LIORC holds over the Labrador operations of the Iron Ore Company of Canada ('IOC'), together with the 10% commission LIORC earns on all iron ore product produced, sold and shipped by IOC. In addition LIORC receives dividends from its ongoing 15.10% equity interest in IOC.

The dividend paid by LIORC consists of a standard quarterly dividend of C\$0.25 per share and this is then adjusted on a quarterly basis to provide a special dividend depending on the strength of cash generated from the royalty and underlying operation, which absent production issues should reflect the iron ore pellet price. The dividend payments received so far have contained special dividends of C\$0.65 per share, with this increasing to C\$0.80 per share in respect of Q1 2019.

IOC produces a premium, lower contaminated iron ore pellet which we think will continue to command high premiums going forward as it is more efficient to use in the manufacture of steel. This trend was evident in H2 2018 and using an annualised Q4 2018 dividend level would imply a ~10% running yield on our investment.

LIORC retained additional cash balances in the business during H2 2018. Following the recent press releases by LIORC, discussed in more detail on [page 39](#), we expect there will be additional dividends to come in 2019 in respect of earnings from 2018.

**Narrabri**

The results from Narrabri were disappointing in 2018, with overall revenue decreasing by 31% to £3.5m, despite higher thermal coal prices during 2018. Whitehaven Coal, the operator, continues to navigate its way through a known localised fault in the coal deposit, which is expected to be a short-term issue before volumes can begin to return to more normal levels. Overall sales volumes subject to the Group's royalty in 2018 were 4.2Mt compared to 6.8Mt in 2017. This was lower than Whitehaven's previous guidance, although it was encouraging to see that Narrabri ended the year with a strong performance in Q4 2018.

**EVBC**

As noted, EVBC royalties are no longer reported within royalty related revenue following the introduction of IFRS 9 at the beginning of the year.

Orvana Minerals, the operator, had a successful 2018, with gold production up by around 24% following a strategy to feed higher grade ore through its processing plant. Our royalty receipts increased by 17% in 2018 and would have been even higher but for lower gold prices, particularly in Q3 2018.

**McClellan Lake Mill financing arrangement**

Interest earned on the financing arrangement was in line with the previous year, as would be expected given the fixed interest rate and the amortisation profile associated with the loan.

Overall cash received under the arrangement, including the repayment of principal, was £3.3m in 2018 compared to £3.2m in 2017 (excluding the £1.8m received in 2017 in lieu of H2 2016). We would ordinarily expect this revenue to be stable year on year, although there is some seasonality with summer holidays, and to be in the region of C\$0.5-0.6m per month.

There have been some rumours of potential industrial action by staff at the mill which could interrupt throughput in the coming months. We will keep this under review but any interruptions should hopefully be temporary.

**Four Mile**

We are continuing to engage with the operator of the Four Mile project, Quasar Resources, in an attempt to resolve the ongoing royalty calculation dispute.

**Operating expenses**

Excluding the impact of share-based payments, operating expenses for the year were £4.7m, which is in-line with 2017, and largely represents staff costs and the costs associated with operating a listed business based in London.

Operating costs in 2018 were actually less than they were in 2014, a year in which our portfolio contribution was only £3.7m and, when compared to the cost base associated with generating £49.4m in 2018, highlights the scalability of the royalty model.

Operating costs have been kept under control due to our efforts to recover substantially all diligence costs on aborted transactions which proceed to full due diligence. We were successful in agreeing recoveries on all material costs incurred in this respect in 2018.

**Finance income and finance costs**

Finance income and costs are broadly in line with 2017. Finance costs for both years were impacted by refinancings, with the current year costs due to the upsizing and extension of the Q1 2017 facility to US\$60m in Q3 2018. There is also the potential to upsize this by a further US\$30m for further transactions.

**Income tax**

The current tax charge for the year of £8.4m increased significantly in comparison to £2.0m in 2017 which had the full benefit of carried forward losses. The Group utilised its remaining tax losses during H1 2018.

The effective tax rate, when measured against pre-tax adjusted earnings was ~25% which, given that most of the Group's income is from Australian assets taxed in Australia, is reasonable. With the expectation of even higher levels of volume to come from Kestrel in 2019, the Group's effective tax rate is likely to remain between 20-25% in the near-term.

**Dividends**

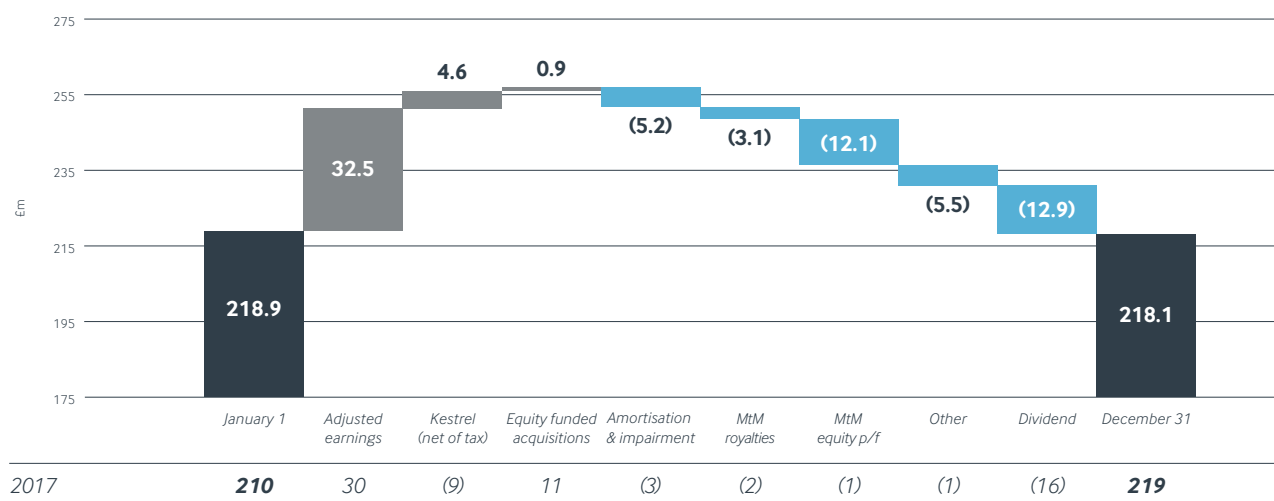
The Board, taking into account the record year of portfolio contribution and strong cash generation, has recommended a 25% increase in the final dividend for 2018 of 3.125p, subject to shareholder approval at the 2019 AGM. This would take the total dividend in respect of 2018 to 8p, a 14% increase on the 7p equivalent for 2017.

Equally important to the quantum of the dividend is the strength of the dividend cover. To this extent, we are pleased that, based on adjusted earnings of 18.02p, our dividend was 2.3x covered (2017: 2.4x, based on a 7p dividend). This represents a healthy pay-out to shareholders whilst also enabling us to re-invest in growth during 2018. Our capital allocation ratio in 2018 was 3:1 in favour of growth.

We expect further growth to come in 2019, mainly driven by volume increases at Kestrel. This should have positive implications for the 2019 dividend, but as the level of income will depend on the performance of commodity prices, we have maintained the quarterly dividend at 1.625p and will use the final dividend to adjust for the full year, as we have done in 2018.

**BALANCE SHEET**

Net assets and net assets per share remained largely flat at £218m and 122p per share in 2017 and 2018.

**Movement in Net Assets £m**

Adjusted earnings less dividends added £19.6m to reserves in 2018. The benefit of this was then offset largely by the mark to market of the Group's remaining equity holdings at year end.

The vast majority of our non-core equity portfolio is an 8% stake in Berkeley Energia, which endured a torrid end to the year with its share price declining significantly as a result of rumours of uncertainty surrounding their permitting process in Spain. Berkeley Energia accounted for most of the £12.1m decline. The strong recovery of the stock in 2019 thus far has reversed some £2.5m of this decline.

Elsewhere, the Group recognised a £2.2m impairment provision against its Pilbara royalty. This reflects a further assessment of the likely start date for mining within the Group's tenements, although we are very encouraged by the firm plans which BHP are putting in place to develop the South Flank deposit, adjacent to their Mining Area C operations.

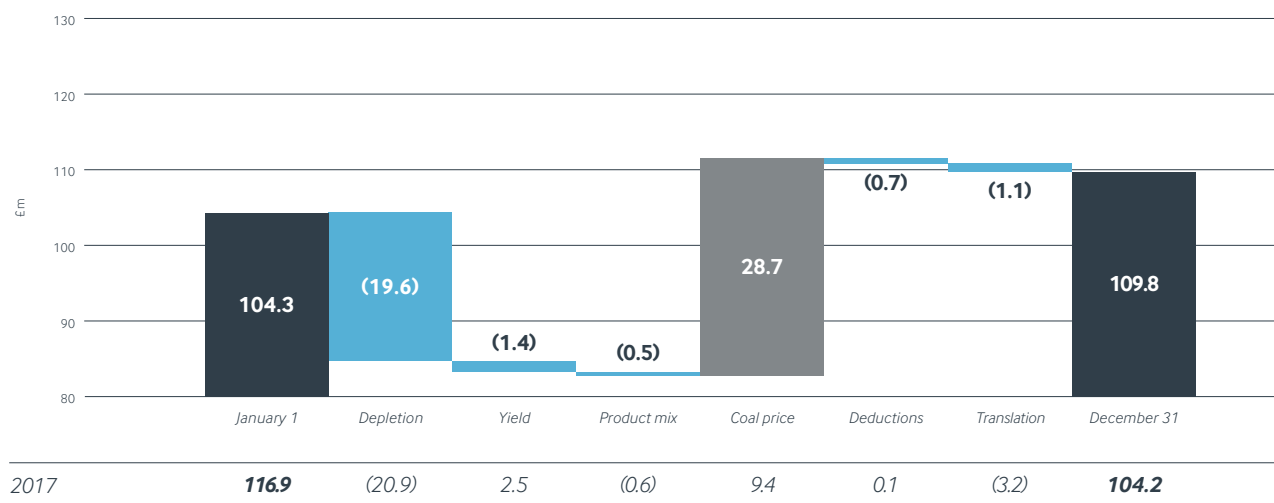
The other noticeable valuation charge against the Group's royalty portfolio was a fair value adjustment in respect of the Dugbe 1 royalty, where again the pushing out of the start date resulted in a £2.1m reduction to the previous carrying value.

These amounts were largely offset by a £5.5m increase in the carrying value of Kestrel, where the resource depletion was largely offset by an increase to the forecast near term volumes from the Group's private royalty lands as provided by the operator, together with higher forecast price inputs going forward, based on the consensus price deck at the end of 2018.

## STRATEGIC REPORT

**FINANCIAL REVIEW***continued*

The Kestrel valuation at the end of 2018 was based on the inputs which were available to the company at 31 December 2018. While this did include the uplift of 40% in volumes announced by Adaro Energy for 2019, it did not include any further updates to production assumptions as these had not been disclosed to us at the time. We have since visited site and are now updating the valuation model for these findings, which we expect to be included in the valuation at 30 June 2019. This could show, subject to commodity prices, further volume growth for 2020 onwards above and beyond that included in our valuation at the end of 2018.

**Movements in Kestrel valuation £m**

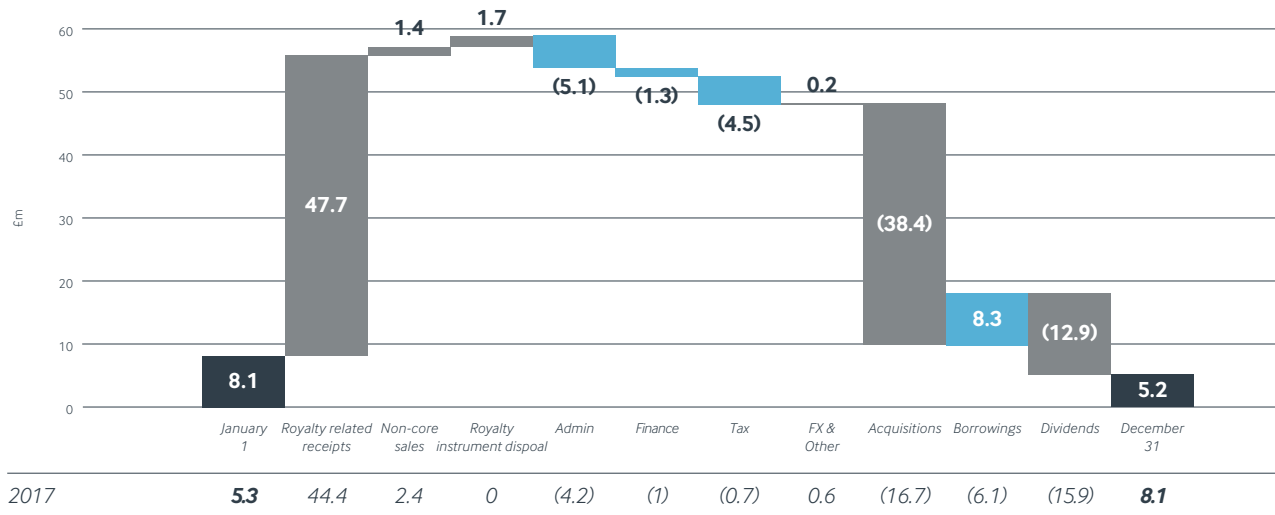
The Kestrel royalty continues to represent a significant portion of the Group's total assets. However, to look at this based on balance sheet asset value would be painting a slightly misleading picture, as our two most recent royalties (Narrabri and Maracás) are carried on the balance sheet at the lower of amortised cost or value i.e. they are not adjusted upwards for increased production or pricing assumptions, which is the case with Kestrel. As such, we feel that the balance sheet net asset number portrays an overly conservative estimate of asset value, certainly when comparing this to our share price. In the case of Narrabri, the much higher coal pricing environment along with the prospect of significant volume growth when mining gets through the localised fault results in a much higher value in use than is recognised on the balance sheet. The same is the case with Maracás, especially given the performance of vanadium prices over the past 18 months. It is our view that the true net asset value is much higher than the number which the balance sheet derives.



## CASH FLOW AND BORROWINGS

Free cash flow generated during the year was £40.2m compared to £42.3m in 2017 and is in line with 2017 when stripping out the £1.8m received from the McClean Lake financing arrangement relating to H2 2016.

### 2018 cash flow sources and usage £m



Free cash flow includes the disposal of non-core assets, which for 2018 totalled £3.1m. This comprised the disposal of the Group's Indo Mines debenture in Q1 2018 for £1.7m, which had been fully impaired previously. The Group also realised £1.4m from its equity portfolio on a selective basis in H1 2018.

The strong free cash flow generated in 2018 provided the Group with some £48.3m of liquidity before needing to draw down on borrowings. This cash was allocated to investments and dividends in a ratio of 3:1. Significantly, the £38.4m of acquisitions during the year were financed from the Group's balance sheet and did not require an associated equity raise. Although this, when combined with the £12.9m of dividends, resulted in the Group swinging from a cash position of £8.1m at the beginning of the year to a net debt position of £3.1m at the end of 2018, the cash received thus far in 2019 has now brought the Group back to a net cash position.

We took the opportunity to better reflect the Group's true debt capacity during 2018 and doubled our borrowing facility from US\$30m to US\$60m during Q3 2018. This new facility also has a US\$30m accordion feature which can be provided by the banks when required to finance future transactions. The facility also has an option to extend the term by 12 months during its first 18 months, a feature which we will keep under review as acquisition financing dictates.

With the Group returning to a net cash position, and a well-covered dividend, we have considerable liquidity of ~£78m (~US\$100m) available to us to finance growth opportunities without needing to rely on equity markets. This is a very important landmark for Anglo Pacific as it not only allows us to be more credible in royalty negotiations, but it also enables us to act more quickly and opportunistically should circumstances demand.

STRATEGIC REPORT

**FINANCIAL REVIEW***continued***CURRENCY AND BREXIT**

Our results in 2018 were impacted by a stronger pound against most dollar currencies. The average exchange rate against both the AUD and USD weakened by 6% and 4% respectively. In line with the Group's currency policy, we successfully hedged a portion of our expected AUD denominated revenue during 2018 and have put in place further hedges for 2019.

The currency markets continue to be volatile. Although our commodities are priced in US dollars, our income is ultimately received in Australian dollars, and the ratchet rate on Kestrel is based on the Australian dollar received from coal which is priced in US dollars.

As such, we have been hedging our exposure to the Australian dollar with a view to covering our pound cost base and dividend. There is no doubt that the outlook for the pound in 2019 will be determined by several factors, but all currencies will be impacted by the prospects of economic stagnation in China should its economy begin to feel the burden of its ever-increasing debt pile. The impact of the US trade wars, particularly directed towards China could further compound this, and the US bond markets are suggesting its economy is destined for recession towards the end of 2019.

The Australian dollar, whose prospects are largely aligned with Chinese GDP growth, has weakened noticeably of late, and it appears that previously predicted interest rate rises will now turn out to be cuts given the stalling of its economy and property market in particular. And, all of this volatility before any mention of the impact of Brexit.

We took the view at the beginning of 2019 that the Australian dollar might remain under pressure during the forthcoming year and, regardless of the impact of Brexit on the GBP:USD rate, the GBP:AUD could move independently of Brexit. We have hedged accordingly and will continue to keep a close eye on currency markets to ensure that our income for 2019, which we now expect could show a significant uplift as a result of recent revisions to Kestrel volumes, is protected as much as possible.

**OUTLOOK**

We enter 2019 in a very strong financial position. We have returned to a net cash position after financing £38.4m of acquisitions from our balance sheet in 2018. Our refinanced facility has provided us with up to US\$90m of borrowing availability. With a well-covered dividend, we also expect to generate strong levels of free cash flow to add to our pool of liquidity as we go through 2019. We have in place a very supportive banking syndicate who have continued to support us through 2018 and we look forward to working closely with them going forward as we look to execute on our growth ambitions.

The information on [pages 8 to 54](#) represents the Group's Strategic Report and has been approved by the Board.

**K. Flynn**

Chief Financial Officer &amp; Company Secretary

26 March 2019

## 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, at a minimum, the 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 of the UK Corporate Governance Code and the Prospectus Rules. However, it is not required by law 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.

The Board was chaired by Patrick Meier, as Non-Executive Chairman, responsible for the leadership and effectiveness of the Board, during 2018. The time commitment expected of the Non-Executive Chairman is around six days per month. Mr. Meier's other commitments are shown on [page 57](#), 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 Chairman and CEO have distinct roles which have been defined in writing and agreed by the Board. The CEO is supported by the Chief Financial Officer & Company Secretary, the Head of Investments and Head of Development who meet as an Executive Committee. The Executive Committee remains an informal Board Committee because it is not comprised of a majority of Executive Directors.

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 is Anglo Pacific's Senior Independent Director (SID). The role of the SID is to be available to shareholders to discuss any concerns they may have about the running of Anglo Pacific where the normal channels of communication are not appropriate. The SID is not required to seek meetings with shareholders, however is available to do so if required in order to understand shareholder concerns and take them to the Board for discussion. The SID is also required to lead discussions at meetings of Non-Executive Directors without the Chairman present at least annually to appraise the chairman's performance and on such other occasions as are deemed appropriate.

GOVERNANCE

**THE BOARD**



PATRICK MEIER



MIKE BLYTH



JULIAN TREGGER



VANESSA DENNETT



DAVID ARCHER



ROBERT STAN

**CHAIRMAN****N.P.H. MEIER**

69, was appointed Non-Executive Director in April 2015 and assumed the role of Non-Executive Chairman at the conclusion of the 2017 AGM in May 2017. 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. 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. In addition to his role at Anglo Pacific Mr. Meier acts as a Non-Executive Director of Firestone Diamonds plc and as a Senior Adviser to Bacchus Capital Advisers, an advisory boutique and in various other advisory roles from time to time.

*Committee Chair:* Nomination Committee

**CHIEF EXECUTIVE OFFICER****J.A. TREGER**

56, 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. He currently serves as Non-Executive Chairman of Audley Capital Advisors LLP, an investment advisory firm, which he co-founded in 2005, which specialises in managing value-orientated, special situations investment strategies with a principal focus on the natural resources sector. Mr. Treger holds external Non-Executive Directorships with Mantos Copper S.A., EBT Digital Communications Retail Group and Broadwell Capital for which he earned fees during the year. These directorships do not affect Mr. Treger's ability to perform his role as CEO of the Company, as they form part of his 10% time commitment outside Anglo Pacific.

**SENIOR INDEPENDENT DIRECTOR****D.S. ARCHER**

62, was appointed Non-Executive Director in October 2014. 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, an energy metals group focused on lithium in Portugal, high grade copper in Oman and the world class Mutamba mineral sands joint venture with Rio Tinto in Mozambique.

He 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.

*Committee member:* Remuneration Committee, Nomination Committee, Audit Committee

**NON-EXECUTIVE DIRECTORS****W.M. BLYTH**

68, was appointed Non-Executive Director in March 2013 and became Non-Executive Chairman on April 1, 2014 until stepping down from this role at the conclusion of the 2017 AGM in May 2017. 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 directorship 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.

*Committee Chair:* Audit Committee, Remuneration Committee

*Committee member:* Nomination Committee

**V.A. DENNETT**

54, was appointed Non-Executive Director in November 2018. She has over twenty-eight years' experience as an international lawyer, most recently as Senior Legal Counsel at Anglo American plc where she specialised in acquisitions, disposals and joint ventures in multiple commodities and jurisdictions as well as leading teams of lawyers based in the mining operations in various different jurisdictions. Prior to that she was a Consultant in London at international law firm Hogan Lovells (then Lovells) and a Partner in Johannesburg at Webber Wentzel, a leading South African law firm with a long history of acting for mining clients. Ms. Dennett has a Bachelor of Arts and a Bachelor of Laws from the University of KwaZulu – Natal, South Africa (then University of Natal) and a Master of Laws from the University of Witwatersrand, South Africa. She is admitted as a solicitor in England and Wales (non-practising) and as an attorney, notary and conveyancer (also non-practising) in South Africa.

*Committee member:* Audit Committee, Remuneration Committee, Nomination Committee

**R.H. STAN**

64, was appointed Non-Executive Director in February 2014. He has a B.Comm from the University of Saskatchewan and has over 40 years experience in mining and resource development. Mr. Stan 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. At GCC, he served as President, CEO and Director from 2001 to 2012 and in 2012 negotiated the sale of the company to an Asian-backed strategic investor consortium (Winsway Coking Coal and Marubeni Corp) for US\$1.0bn. Mr. Stan served two terms as Chairman of the Coal Association of Canada Board of Directors, was a board member of the International Energy Agency's Coal Industry Advisory Board and represented the mining industry on the Alberta Economic Development Agency. He currently serves on the board of several private companies, including Quantex Resources Ltd, Lighthouse Resources Inc., CanWhite Sands Corp. and Spruce Bluff Resources Ltd, and formerly served on the board of publicly-listed Whetstone Minerals Ltd.

*Committee member:* Audit Committee, Nomination Committee, Remuneration Committee

## GOVERNANCE

**THE BOARD***continued***BOARD EVOLUTION**

Following the decision by Rachel Rhodes to step down as a Non-Executive Director at the conclusion of the 2018 AGM in order to focus on her other professional commitments, the Board undertook an extensive recruitment process to identify a suitable replacement. The Nomination Committee engaged a professional search firm to assist with the identification and shortlisting of suitable candidates.

In November 2018, following the recommendation of the Nomination Committee, the Board appointed Vanessa Dennett as Non-Executive Director. Following Ms. Dennett's appointment to the Board, she also joined the Group's Audit, Nomination and Remuneration committees. Ms. Dennett's experience is detailed on [page 57](#) and she is already making considerable contributions to the deliberations of the Board.

As the company develops, the composition of the Board will continue to be evaluated and refreshed when appropriate.

**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.

The Company's Directors have a wide range of skills as well as 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. At least biannually external subject matter experts are engaged to update and advise the Board on governance and secretarial changes.

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.

**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. A large area of focus in the current year was in relation to the changes to the UK Corporate Governance Code and GDPR, and we arranged for a presentation by an expert from a leading law firm. One area which we identified as an area for improvement was in relation to employee engagement. To this extent, the Board arranged for a session with all members of staff to provide them with an update in relation to business development and to hear the views and concerns of

employees. This was hosted in an informal manner in order to encourage participation. Following the success of this event, we replicated it at the 2018 away day and will look to do this twice a year going forward. Vanessa Dennett has been designated as the Director responsible for employee engagement.

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 2018 was as follows:

	Full Board	Audit	Remuneration	Nomination
Total meetings held	8	3	4	3
Attendance:				
D.S. Archer <sup>1</sup>	7	2	4	3
W.M. Blyth	8	3	4	3
V.A. Dennett <sup>2</sup>	1	1	2	–
N.P.H. Meier	8	–	–	3
R.C. Rhodes <sup>3</sup>	1	1	–	–
R.H. Stan	8	3	4	3
J.A. Treger	8	–	–	–

<sup>1</sup> D.S. Archer was appointed to the Audit Committee on 15 May 2018.

<sup>2</sup> V.A. Dennett was appointed to the Board on 1 November 2018.

<sup>3</sup> R.C. Rhodes resigned from the Board on 15 May 2018.

**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). Following a formal review in 2017, we carried out a self-evaluation for 2018, of key areas of the Board's work including:

- Board composition and availability of appropriate skills;
- roles and responsibilities; committees;
- strategy setting;
- performance monitoring;
- risk management and internal control.

Each of the Directors and the Company Secretary discussed their views with the Chairman in one-to-one meetings. Overall, the review concluded that the Board and its committees were 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 reference was made to the external Board Effectiveness review carried out in 2017 and, in particular, the recommendations that were made. These have been implemented with an improvement in Board papers, time allotted to key issues, particularly strategy, and the frequency of meetings of the Non-Executive Directors being noted.

Consideration was also given to future succession planning and the need to anticipate any retirements, as well as to refreshing the Board as appropriate as the business grows.



## 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 and risks amongst investors and an effective two-way communication with fund managers, institutional investors and analysts. Management undertake regular meetings with shareholders following results or investment announcements. The Chairman and SID also 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 2018 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, Berenberg and Peel Hunt, and the Board remains satisfied that the UK, Europe and North America, which are the 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.

Following the extensive update to the Group's approach to and documentation of risk in 2017, the Board, supported by executive management continued to review and enhance the monitoring of the Group's principal risks throughout 2018. The Group's principal risks are discussed in detail on [pages 22 to 29](#).

A statement of Directors' responsibilities in respect of the financial statements is set out on [page 80](#).

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 31 December 2018 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 2019.



## GOVERNANCE

**NOMINATION COMMITTEE****COMPOSITION****Compliant with the Code:**

N.P.H. Meier – Chairman

W.M. Blyth

D.S. Archer

V.A. Dennett – appointed 1 November 2018

R.C. Rhodes – resigned 15 May 2018

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. The decision by Rachel Rhodes to step down as a Non-Executive Director was a step backwards in addressing this, but the appointment of Vanessa Dennett redressed the imbalance. The opportunities for developing and appointing women to senior management roles and Executive Directorships will be kept under review.

**MAIN ACTIVITIES COVERED DURING 2018**

The Nomination Committee was actively involved during 2018 in reviewing the structure, size and composition of the Board, and in particular the recruitment of Ms. Dennett as a Non-Executive Director following the resignation of Ms. Rhodes. It concluded that no other changes were required during the year.

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.

**N.P.H. Meier**

Chairman of the Nomination Committee

26 March 2019

## AUDIT COMMITTEE

### COMPOSITION

#### Compliant with the Code:

W.M. Blyth – Chairman from 16 February 2018

D.S. Archer – appointed 15 May 2018

V. Dennett – appointed 1 November 2018

R.C. Rhodes – Chairman until 16 February 2018, resigned 15 May 2018

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 57](#).

### ROLE 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, to establish sound systems of internal control and to facilitate robust risk management processes.

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 their independence and their effectiveness;
- making recommendations to the Board on the appointment, retention and removal of the external auditors and the 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 22 to 29](#) 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.

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

### MAIN ACTIVITIES COVERED DURING 2018

In 2018 the Committee's activities focused on:

- reviewing asset carrying values and other material accounting matters;
- reviewing the accounting classification and treatment of completed acquisitions and potential opportunities;
- reviewing the impact of the first-time application of new standards, specifically IFRS 9 and IFRS 15;
- reviewing the change to the Group's definition and presentation of revenue;
- considering the impact of new but not yet effective standards, specifically IFRIC 23, on the Group's financial statements;
- monitoring legal and tax exposures 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 Auditor's Report on [pages 81 to 86](#).

## GOVERNANCE

**AUDIT COMMITTEE**

*Significant issues considered by the Committee in relation to the financial statements  
How the issue was addressed by the Committee*

*How the issue was addressed by the Committee*

Review of carrying values of royalties held at amortised cost and resulting impairment charges

The Committee reviewed and challenged 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 3](#) and the impairment charge of £2.2m described in [note 18](#) for the year ended 31 December 2018.

The Committee concluded the impairment charges recognised during the year ended 31 December 2018 were appropriate and have been adequately disclosed.

Review of the carrying value of royalties held at fair value

The Committee reviewed and challenged 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.

In addition, the Committee has reviewed the independent valuation of the Group's coal royalties, together with management's review and challenge of the key assumptions used by the independent valuer to determine carrying value of the coal royalties.

The Committee reviewed the disclosures related to the revaluation gain of £10.1m in relation to coal royalties, together with the revaluation charge of £0.9m in relation to royalty financial instruments, described in [notes 16 and 17](#) respectively, for the year ended 31 December 2018.

The Committee concluded that the fair value has been calculated in accordance with the Group's accounting policy outlined in [note 3](#), is appropriate as at 31 December 2018 and is adequately disclosed.

Review of accounting classification and treatment of completed acquisitions

The Committee reviewed and challenged management's accounting classification and treatment of the £38.4m investment in Labrador Iron Ore Company.

The Committee concur with management's classification of the investment as a royalty financial instrument, in light of LIORC's revenue being generated from its exposure to one mining operation, through the 7% gross revenue royalty it holds over the IOC and its equity interest in IOC. The Committee further concur with management's decision to make an irrevocable election to designate this investment as FVTOCI given the equity nature of the investment.

The Committee reviewed the disclosures related to the investment in LIORC outlined in [note 17](#), including the revaluation gain of £0.3m in relation to this investment for the year ended 31 December 2018.

Review of first-time application of new accounting standards (IFRS 9 and IFRS 15) together with the revision of the definition and presentation of revenue

The Committee reviewed management's first-time application of both IFRS 9 and IFRS 15. In particular the Committee reviewed the accounting treatment applied to the EVBC royalty which is now classified as FVTPL and no longer has royalty income recognised in the income statement but rather is disclosed with the fair value movement on the face of the income statement as detailed in [note 17](#).

The Committee concur with management's conclusion that the adoption of IFRS 15 does not result in a material change to the Group's revenue recognition. In addition, the Committee concur with management's decision to revise the definition of revenue and include income received from royalty related financial assets in order to provide greater consistency in the classification of the royalty income arising in the course of the Group's ordinary activities as detailed in [notes 2 and 6](#).

Group tax exposures

The Committee considered management's assessment of any potential or uncertain tax exposures. The Committee challenged management, and its professional advisors, on tax positions taken where there is no precedent or guidance in the public domain and concluded that the disclosures contained in [notes 4, 12 and 37](#) are sufficient and that no additional provision is appropriate.

### 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 process undertaken during the year is discussed in more detail within the Principal Risks and Uncertainties section on [pages 22 to 29](#). 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 31 December 2018 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 7b](#).

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 2020. Resolutions to authorise the Board to re-appoint and determine the remuneration of Deloitte LLP will be proposed at the AGM on 13 May 2019.

### W.M. Blyth

Chairman of the Audit Committee

26 March 2019

## GOVERNANCE

**REMUNERATION COMMITTEE****COMPOSITION****Compliant with the Code:**

W.M. Blyth – Chairman

D.S. Archer

V.A. Dennett – appointed 1 November 2018

R.H. Stan

**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, the Chief Executive and the Chief Executive's direct reports; 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 2018, the Remuneration Committee received advice from the Executive Compensation practice of Aon plc. Aon was first appointed by the Remuneration Committee on January 20, 2014. Aon 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 Aon is objective and independent. Total fees paid to Aon in respect of its services were £37,656.

**MAIN ACTIVITIES COVERED DURING 2018**

The Remuneration Committee's activities focused on:

- designing the CEO's 2018 bonus framework and the associated performance scorecard criteria;
- providing guidance to the CEO on salaries and bonuses to be awarded to his direct reports and approving salaries and bonuses paid
- reviewing the Company's bonus arrangements and proposing the introduction of a deferred bonus scheme; and
- Reviewing the remuneration policy ahead of its renewal at the forthcoming AGM

## 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 2018. Under the Regulations which govern this report, the Directors' remuneration policy must be put to a binding shareholder resolution every three years. As the policy was last put to a shareholder vote in 2016, shareholders are being asked to support the policy at the forthcoming AGM.

This report is set against a background of continued strength in the Company's performance following a record contribution from its underlying royalty portfolio of £49.4m. The main focus for the Committee this year was in relation to a review of the policy and the setting of bonus matrices, Director fees and salary benchmarking. After careful consideration the Committee has decided that the remuneration policy remains appropriate for the Company and continues to support the long investment horizons of the business, providing alignment between shareholders and Executive Directors and Senior Management. This is primarily through the Value Creation Plan, with the performance period of the plan continuing to run until June 2021. However, to further increase the alignment to shareholders the Committee has decided to introduce an element of deferral to the annual bonus plan. The Committee considered the level of deferral which would be appropriate and has decided that for any new external Executive Director, 40% of any bonus earned in respect of 2019 and beyond will be deferred into shares for two years. For the existing Executive Director, the Committee has decided to operate a transitional arrangement as follows:

- 20% of any bonus earned in respect of 2019 will be deferred into shares for two years
- 30% of any bonus earned in respect of 2020 will be deferred into shares for two years
- 40% of any bonus earned in respect of 2021 (and beyond) will be deferred into shares for two years

In setting the transitional arrangement, the Committee was mindful that the bonus opportunity will remain unchanged and therefore the introduction of deferral will reduce the cash payable to the CEO for any given level of performance. In addition to the changes relating to the bonus deferral, the Committee has agreed to align the pension contributions of any future Executive Director with those of the wider workforce. No further changes to the policy are proposed.

The salary of the Chief Executive Officer ('CEO') was benchmarked at the end of 2018. Considering the responsibilities of the CEO and his continued strong performance in the role, the Committee concluded that a 4.8% increase to the basic salary of the CEO was appropriate at this stage. The Committee 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, with any increases made by reference to individual performance, experience and responsibilities.

The Company contributes to money purchase pension arrangements on behalf of staff on a matched basis subject to an overall cap. This cap will remain static for 2019.

The fees for the Chairman and the Non-Executive Directors were last re-assessed at the beginning of 2017 and remained unchanged throughout 2018. They were reviewed with effect from 1 January 2019 as detailed in section M.

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 2018 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 2017 both in recognition of the 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 72](#).

The CEO was awarded a bonus of £274,050 under the bonus criteria matrix or 72.5% of the total potential award.

As noted above, the Value Creation Plan ('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 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. The changes made to the VCP at the 2016 AGM extended the term of the plan such that there are still two 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. Further details can be found in the Remuneration Policy part of this report.

The main objectives for the Remuneration Committee in 2019 will be to:

- Review and further tailor the senior executive bonus criteria for the 2019 financial year
- Implement the proposed deferred bonus scheme; 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 resolution to approve this report at the forthcoming AGM.

Yours sincerely

**W.M Blyth**

Chairman of the Remuneration Committee

26 March 2019

## GOVERNANCE

**DIRECTORS' REMUNERATION REPORT**

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' which will be subject to a binding vote at the forthcoming AGM. The policy remains broadly unchanged from that approved by shareholders in 2016. The main change to the policy is the introduction of bonus deferral, which is detailed in the policy table. The policy also provides a revised overview of the VCP Principal Terms and Conditions, which is consistent with last year's report.

The report 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 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 2018, details the remuneration paid to Directors during 2018 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2019 AGM. It is structured as follows:

- A. Single figure total remuneration
- B. Annual bonus for the year ended 31 December 2018
- 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. 2018 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. However, a relative measure in relation to the VCP was added whereby the rewards for the holders of 2016 awards (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 (£270m at 31 December 2018) and the number of its employees (10, as at 31 December 2018, 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 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 Directors' remuneration policy sets out the Company's remuneration policy for its Executive and Non-Executive Directors and will be put to shareholder vote at the forthcoming AGM. 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:

<i>Element, purpose and link to strategy</i>	<i>Operation</i>	<i>Maximum</i>										
<p><b>SALARY</b></p> <p>To recruit, retain and reward executives of a suitable calibre for the roles and duties required</p>	<p>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.</p> <p>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.</p>	<p>There is no prescribed maximum annual increase.</p>										
<p><b>PENSION AND BENEFITS</b></p> <p>To provide market competitive benefits</p>	<p>A Company contribution to a money purchase pension scheme, or a cash allowance in lieu of pension at the request of the individual. In addition, the main benefits currently provided are: death in service and private medical insurance scheme which are provided to all staff.</p>	<p>Pension: 11% (2017: 11%) of salary – pension contributions for any future Executive Director will be aligned with the wider workforce.</p> <p>Death in service policy: five times salary.</p> <p>The maximum value of benefit overall is not predetermined and is based upon the cost to the Company.</p>										
<p><b>ANNUAL BONUS</b></p> <p>To encourage and reward delivery of the Company's operational objectives</p>	<p>For annual bonuses in respect of FY2019 and onwards, a portion of any bonus earned will be deferred into awards over shares with awards normally vesting after a two-year period.</p> <p>Any new external Executive Director appointment will have at least 40% of any bonus deferred.</p> <p>For the existing Executive Director, transitional arrangements are in place. 20% of bonus will be deferred in respect of any bonus awarded for FY2019, 30% in respect of FY2020 and 40% in respect of FY2021.</p> <p>At the discretion of the Committee, an Executive Director may also be entitled to receive the value of dividends paid between grant and vesting on vested shares. The payment may be in cash or shares and may assume dividend reinvestment.</p> <p>Bonus outturns 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.</p> <p>Corporate performance targets are agreed by the Board at the beginning of the year.</p> <p>Personal performance targets are agreed with the Chairman and the Committee.</p> <p>The Committee will use a balanced scorecard approach to assess performance against targets at the end of the year.</p> <p>The targets are discussed more fully in section D overleaf.</p>	<p>The maximum annual bonus opportunity is 100% of salary.</p>										
<p><b>LONG-TERM INCENTIVES</b></p> <p>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</p>	<p>The LTIP takes the form of a Value Creation Plan (VCP) with a performance period to June 16, 2021.</p> <p>Awards that were granted in 2014 were amended in 2016 with a performance period of seven years to June 16, 2021 and are subject to the following performance condition:</p> <ul style="list-style-type: none"> <li>• Minimum growth in TSR of 7% per annum, with growth measured over the seven-year period</li> </ul> <p>2016 awards (granted in 2017) have a performance period to June 16, 2021 and are subject to two TSR performance conditions:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• A relative measure of TSR which requires outperformance of a comparator group</li> </ul> <p>For participants with 2014 and 2016 awards, the 2016 awards will accrue at a lower level once the 2014 awards reach the threshold growth of 7% per annum.</p> <p>The detailed design is discussed in section E overleaf.</p>	<p>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.</p> <p>In 2014, the Committee allocated the pool as follows:</p> <table> <tr> <td>CEO:</td> <td>56.0%</td> </tr> <tr> <td>Non-Board senior managers:</td> <td>6.9%</td> </tr> </table> <p>In 2016, the Committee allocated the pool as follows (and granted to participants in 2017):</p> <table> <tr> <td>CEO:</td> <td>20.0%</td> </tr> <tr> <td>Non-Board senior managers:</td> <td>4.0%</td> </tr> <tr> <td>Unallocated reserve:</td> <td>13.1%</td> </tr> </table>	CEO:	56.0%	Non-Board senior managers:	6.9%	CEO:	20.0%	Non-Board senior managers:	4.0%	Unallocated reserve:	13.1%
CEO:	56.0%											
Non-Board senior managers:	6.9%											
CEO:	20.0%											
Non-Board senior managers:	4.0%											
Unallocated reserve:	13.1%											

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

## GOVERNANCE

**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 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 Value Creation Plan (VCP). The key features of the VCP are as follows:

**Key features:**

- **Eligibility** – 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.
- **Alignment with shareholders** – 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.
- **Reward pool cap** – 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 provides an effective cap of total growth in TSR approximately above 300%.

Two sets of awards have been made under the VCP:

- 2014 awards, which were modified in 2016; and
- 2016 awards, which used the units from the unallocated pool and were granted in 2017.

Both the modification of the 2014 awards and the new 2016 awards were approved by shareholders at the 2016 AGM.

	2014 Awards	2016 Awards
<b>PERFORMANCE PERIOD</b>	Seven-year performance period, ending on June 16, 2021.	Performance is measured from the net asset value as at December 31, 2015 to June 16, 2021.
<b>ALLOCATION OF THE POOL*</b>	CEO: 56% Non-Board Senior Managers: 6.9% Total Allocated: 62.9%	CEO: 20% Non-Board Senior Managers: 4.0% Total Allocated: 24.0%
<b>OPERATION</b>	<p>Subject to threshold growth of 7% per annum, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to the cap. The number of options is set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the seven-year period or, if less, 50% of the growth in the Company's TSR over the seven-year period in excess of the threshold growth.</p> <p>This will mean that, if the total growth in TSR over the seven-year period is:</p> <ul style="list-style-type: none"> <li>• below approximately 61%, no value accrues;</li> <li>• 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; and</li> <li>• between 76% and the 300% effective cap, the value that accrues is equal to 10% of the growth in the Company's TSR over a seven-year period.</li> </ul> <p>This pool value is adjusted to reflect the percentage of the pool allocated to these awards (62.9% of the total).</p>	<p>Subject to a threshold growth of 7% per annum over £161.3m, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to the cap. £161.3m was the net asset value at December 31, 2015 and a premium of approximately 61% to the market capitalisation on the same date.</p> <p>The number of options is 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. There is no "catch-up" once the threshold growth is achieved.</p> <p>This means that if the total growth in TSR is:</p> <ul style="list-style-type: none"> <li>• below approximately 40%, no value accrues;</li> <li>• 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 the performance period.</li> </ul> <p>This pool value is adjusted to reflect the percentage of the pool allocated to these awards (37.1% of the total, when including the unallocated reserve).</p> <p>In addition, a relative measure of TSR ensures it is at least equal to the movement in the index of the FTSE 350 Mining Index. In the event that the increase in TSR does not equal or exceed the aforementioned index, no value will accrue to the new awards.</p> <p>Pay-outs to the CEO and other participants who have 2014 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 2014 awards, value accrues on only half of the units under the 2017 awards held by the CEO and any non-Board members of the senior management team who have an existing award.</p>

<b>VESTING</b>	Options to which participants become entitled at the end of the relevant performance period ending on June 16, 2021 will become exercisable as follows: <ul style="list-style-type: none"> <li>• One-third immediately;</li> <li>• One-third after 12 months;</li> <li>• One-third after 24 months</li> </ul>
<b>MAXIMUM VALUE</b>	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.

\* Unallocated reserve: 13.1%

#### 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 performance period to June 16, 2021:

	Allocation of pool	Benefit assuming total growth in TSR (from an illustrative starting market capitalisation plus capital inflows of £262.1m) over a seven-year period of:			
		50%	76%*	100%	150%**
CEO – 2014 award	56%	£0.0m	£10.6m	£13.9m	£20.8m
CEO – 2016 award	20%	£2.3m	£3.2m	£3.8m	£5.0m
<b>CEO TOTAL</b>	<b>76%</b>	<b>£2.3m</b>	<b>£13.8m</b>	<b>£17.7m</b>	<b>£25.8m</b>
Others – 2014 award	6.9%	£0.0m	£1.3m	£1.7m	£2.6m
Others – 2016 award	4%	£0.5m	£0.7m	£0.9m	£1.3m
Unallocated	13.1%	£1.5m	£2.3m	£3m	£4.4m
<b>OVERALL TOTAL</b>	<b>100%</b>	<b>£4.27m</b>	<b>£18.07m</b>	<b>£23.24m</b>	<b>£34.14m</b>
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 the 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.

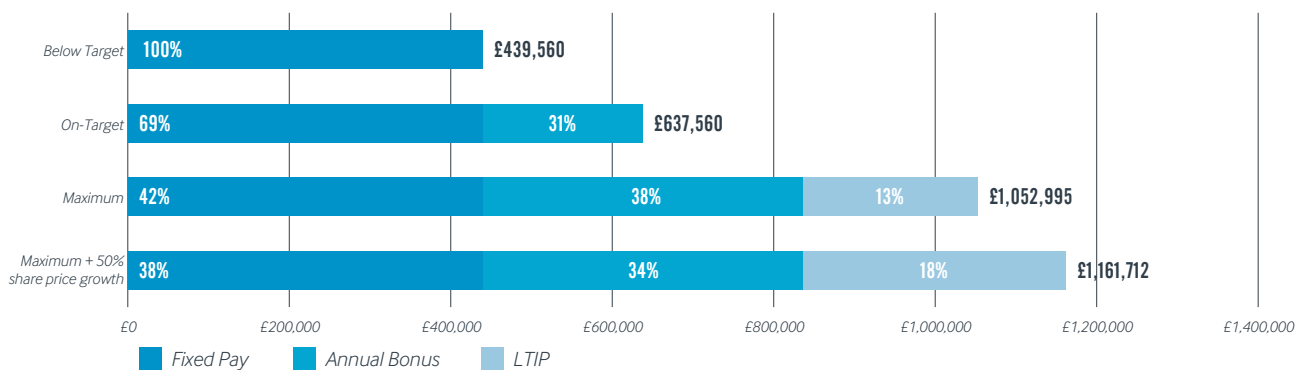
\*\*At the effective cap of total growth in TSR of 300% over the period, the benefit to shareholders would be £677.20m and total participant awards would be £66.80m, of which the CEO would receive £41.7m under the 2014 award and £8.7m under the 2016 award.

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 (illustrative starting market capitalisation of £248.0m for original awards and £161.3m for new awards (based on the net asset value as at December 31, 2015)).

#### F. Reward scenarios

The Company's policy results in a significant portion of remuneration received by the CEO being dependent on Company performance. The chart below illustrates how the total pay opportunity for the CEO varies under three different performance scenarios: below target (fixed pay only), on-target, maximum and maximum with 50% share price growth. This chart is indicative as share price movement and dividend accrual have been excluded. All assumptions made are noted below the chart.

Below target and on-target do not include any VCP vesting and simply allow for salary, benefits and pension for the below target level with a bonus award included at the on-target level. The maximum level includes the fair value of the VCP assuming outperformance of the FTSE 350 Mining Index is achieved. To aid comparability with standard LTIP structures, the chart reflects the total pay opportunity if the VCP (both the 2014 awards and the 2016 awards) is included on an annualised basis.



## GOVERNANCE

**DIRECTORS' REMUNERATION REPORT**

## 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 (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, granted in 2017. The annualised value reflects a seven-year performance period of the 2014 award and five-year performance period of the 2016 award;
- Maximum plus 50% share price growth = fixed pay and 100% vesting of the annual bonus and annualised 2014 and 2016 VCP awards, granted in 2017 with 50% share price growth applied to the awards.
- Salary levels (on which other elements of the package are calculated) are based on those which apply from January 1, 2019. Salary for the CEO is 90% of his full time equivalent salary; and
- The fair value of the VCP has been calculated using a *stochastic* model as at the date of grant (or in the case of the 2014 awards, the date of modification). The model projects the share price of Anglo Pacific using the historical volatility of the Company (whilst past behaviour is not always a good indicator of movements in the future, it is difficult to determine a more accurate method). For each simulation the resulting share price and thus pay-out is determined. The fair value is the average of 100,000 possible simulations.

**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 2018 and will continue to be reviewed going forward. The Committee notes the current difference between the pension contribution of the CEO at 11% and for all other staff at 7%, and has agreed to align pension contributions of future Executive Directors with the wider workforce. 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 albeit, given the short timetable to the end of the performance period, further awards are less likely; and
- the Executive Directors will receive any annual bonus partly in cash and partly in the form of deferred shares as described on [page 67](#) of the remuneration policy; 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 external Executive Director appointments, the bonus deferral level will be set in line with the terms of the policy (currently 40% of any bonus earned). For internal Executive Director appointments prior to 2021, the bonus deferral level will typically be transitioned to full level, as described in the policy table above.

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.

The current Executive Director's service contract is for an indefinite term and contains a notice period of six months, which is in line with 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.

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

<i>Provision</i>	<i>Detailed terms</i>
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.

Share based awards granted to an Executive Director in respect of a deferred bonus will generally vest in full on normal timetable where cessation of employment is due to death, ill-health, injury or disability (evidenced to the satisfaction of the Committee) or in circumstances where the Committee determines that 'good leaver' status should be applied. The Committee retains discretion in exceptional circumstances to allow awards to vest at the date of cessation.

Where an Executive Director ceases to be employed in circumstances where they are not a 'good leaver', share based awards granted in respect of the deferred bonus will lapse whether vested or unvested.

#### 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.



## GOVERNANCE

**DIRECTORS' REMUNERATION REPORT**

The Committee's specific policy is as follows:

<i>Element, purpose and link to strategy</i>	<i>Operation</i>	<i>Maximum</i>
<b>BOARD FEES</b> Attract, retain and fairly reward high calibre individuals	<p>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.</p> <p>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. The Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses. They may also receive limited travel or accommodation-related benefits in connection with their role as a Director.</p> <p>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.</p> <p>Normally fees are reviewed every two years and fee increases are generally effective from 1st January in the year of review.</p> <p>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.</p>	<p>Current fee levels are set out in the Annual Report on Remuneration.</p> <p>Overall fee limit will be within the £600,000 limit set out in the Company's Articles of Association.</p>

Mr. Meier, Mr. Archer, Mr. Blyth, Ms. Dennett 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:

<i>Non-Executive</i>	<i>Date of appointment</i>	<i>Notice period</i>	<i>Non-Executive</i>	<i>Date of appointment</i>	<i>Notice period</i>
N.P.H. Meier	30 April 2015	One month	V.A. Dennett	1 November 2018	One month
D.S. Archer	15 October 2014	One month	R.H. Stan	19 February 2014	One month
W.M. Blyth	20 March 2013	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 2018**

This part of the report details the remuneration paid to Directors during 2018 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2019 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**

		<i>Salary/fees £'000</i>	<i>Benefits £'000</i>	<i>Total bonus £'000</i>	<i>Pension £'000</i>	<i>Other £'000</i>	<i>Total remuneration £'000</i>
<b>EXECUTIVE DIRECTORS</b>							
J.A. Treger <sup>1</sup>	2018	378	4	274	40	–	696
	2017	360	–	257	36	–	653
<b>NON-EXECUTIVE DIRECTORS</b>							
N.P.H. Meier <sup>2</sup>	2018	115	–	–	–	–	115
	2017	90	–	–	–	–	90
D.S. Archer	2018	56	–	–	–	–	56
	2017	56	–	–	–	–	56
W.M. Blyth <sup>3</sup>	2018	55	–	–	–	–	55
	2017	74	–	–	–	–	74
V.A. Dennett <sup>4</sup>	2018	8	–	–	–	–	8
	2017	–	–	–	–	–	–
R.C. Rhodes <sup>5</sup>	2018	18	–	–	–	–	18
	2017	51	–	–	–	–	51
R.H. Stan	2018	46	–	–	–	–	46
	2017	46	–	–	–	–	46

<sup>1</sup> J.A. Treger agreed to receive 90% of his contractual salary for both 2017 and 2018 as outlined in section K below.

<sup>2</sup> N.P.H. Meier became Non-Executive Chairman on May 10, 2017.

<sup>3</sup> W.M. Blyth was Non-Executive Chairman until May 10, 2017.

<sup>4</sup> V.A. Dennett was appointed to the Board on 1 November 2018.

<sup>5</sup> R.C. Rhodes resigned from the Board on 15 May 2018.

**B. Annual bonus for the year ending 31 December 2018**

A set of individually crafted corporate and personal bonus criteria were agreed with the CEO for the 2018 financial year which 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 2018 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 bonus matrix for the CEO for 2018 is detailed below.

**2018 CEO Scorecard**

<i>Criteria</i>	<i>Maximum award (%)</i>	<i>Actual outcome (%)</i>
<b>CORPORATE PERFORMANCE CRITERIA</b>		
<b>A. GROWTH</b>	<b>40</b>	<b>24</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Acquisition of producing and/or near producing royalties (transformational and medium-sized)</li> <li>• Acquisition of development royalties</li> <li>• Previous acquisitions meeting targeted returns</li> <li>• Royalty accretiveness to earnings</li> </ul>		
<b>B. FINANCIAL PERFORMANCE</b>	<b>25</b>	<b>20</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Net profit after tax</li> <li>• Capital raisings</li> <li>• Price/net asset value</li> </ul>		
<b>C. FINANCIAL CONTROL</b>	<b>10</b>	<b>7</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Risk and currency management plan and implementation</li> <li>• Budgeting and financial reporting</li> </ul>		
<b>PERSONAL PERFORMANCE CRITERIA</b>		
<b>D. RELATIONSHIPS, REPUTATION AND BUSINESS DEVELOPMENT</b>	<b>10</b>	<b>8.5</b>
<ul style="list-style-type: none"> <li>• Implementation of IR plan</li> <li>• Engagement with debt and equity providers</li> <li>• Engagement with and development of royalty sourcing network</li> <li>• Progress regarding resolution of long-standing business issues</li> </ul>		
<b>E. LEADERSHIP</b>	<b>15</b>	<b>13</b>
<ul style="list-style-type: none"> <li>• Senior management development and succession</li> <li>• Development of a collaborative, goal-oriented, ethical company with harmonious working relationships</li> <li>• Personal contribution</li> </ul>		
<b>TOTAL</b>	<b>100</b>	<b>72.5</b>

## GOVERNANCE

**DIRECTORS' REMUNERATION REPORT**

*Growth:* The main acquisition during the year was the investment in Labrador Iron Ore Royalty Corporation in August. In addition, a development royalty, Cañariaco, was acquired in June 2018. Growth bonus in relation to these transactions was 14%. An element of the growth bonus was in respect of the performance of 2018 acquisitions, which earned a score of 8%. A further part of the growth bonus related to the performance of investments from 2015 to 2017 meeting modelled returns. The returns as modelled gave an overall score of 2%. Total overall score of 24% out of a possible 40%.

*Financial Performance:* Adjusted earnings of £32.5m was ~1.5x the budgeted amount of £22.3m and earned the maximum bonus of 10%. In September 2018, the Group successfully refinanced its revolving credit facility, adding a third bank to the lending syndicate and increasing the overall size of the facility from US\$30m to US\$60m. The bonus earned in relation to this metric was 5%. As at year end, the share price was £1.49 versus NAV per share of £1.22 and hence exceeded the hurdle of >1 and earned the full bonus allocation of 5%. Total overall score of 20% out of a possible 25%.

*Financial Control:* Management of the Group's exposure to exchange rate risk has remained a key focus throughout 2018 with 78% of the Group's royalty related revenue denominated in AUD. The Group's currency hedging strategy developed in 2017, was fully implemented and further refined throughout 2018. The aim of the hedging policy is to ensure that the Group has sufficient pounds sterling to meet its dividend and overhead obligations, and this was done effectively throughout 2018. This area earned a bonus allocation of 1.5%. The Group's approach to budgeting and financial control continued with a high degree of effectiveness and accuracy, particularly in relation to overheads, which were below budget for 2018 and in line with previous years, despite increased investment in business development. In addition, the Group's financial reporting continued to be of a very high standard. These elements met the hurdle bonus level of superior to earn a score of 4%. Good relationships have been formed with the new owners of Kestrel, which have resulted in an improvement in the information flow regarding mining operations. A bonus allocation of 1.5% was earned in this regard. Total overall score of 7.0% out of a possible 10%.

*Relationships, Reputation and Business Development:* A more extensive investor relation plan was developed and implemented in 2018, resulting in active engagement with all of the Group's top 20 shareholders. In addition, the Group was well represented at a number of industry conferences where the CEO lead multiple panel discussions. Ongoing concerns with climate change and wider ESG issues led to the Group focussing on its own ESG policies and approach to responsible investing, which in turn provided the Group with the opportunity to engage with a number of ESG funds. To further assist with existing and potential shareholder engagement, the CEO appointed a Head of Investor Relations, whose remit will include making further enhancements to the investor plan for 2019. The Group continues to be focused on growth, with the appointment of a Head of Development together with a designated business development consultant in Canada to further expand the Group's access to royalty sourcing networks. Superior hurdles were met in each of these three metrics. Total overall score of 8.5% out of a possible 10%.

*Professionalism:* Under the guidance of the CEO, staff at all levels have continued to develop throughout 2018, with a number of internal promotions resulting in better support for and the expansion of the existing management team. The addition to the Group's small management team has diversified the skill set available and better placed it to develop and evaluate the pipeline of new prospects. The CEO's personal contribution was evidenced by his championing the review of the Group's approach to ESG issues. In particular he instigated a comprehensive ESG risk assessment of the operators of the Group's producing assets. In addition, he added the ESG risk assessment as a key component to management's due diligence in evaluating business opportunities. Superior hurdles were met in relation to professionalism, resulting in an overall score of 13.0% out of a possible 15%.

**Bonus outturn**

The overall bonus score was agreed at 72.5% under the bonus scoring matrix for a total award of £274,050 (72.5% x £420,000 x 90%). The overall aggregate bonus of £274,050 bonus falls within the 100% bonus limit set out in the policy table.

The CEO's direct senior reports, none of whom are Executive Directors, have individually crafted bonus objectives which were agreed for the 2018 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 100% 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 2019 year to ensure that these closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

**C. Vesting of long-term incentive awards**

No awards vested in 2018.

**Long-term incentive awards made during the year**

There were no awards granted to Executive Directors under the JSOP, the CSOP or USOP in 2018.

The CEO's allocation of units under the VCP out of the pool to Executive Directors has remained constant at 76,000 units or 76% of the total number of units (2017: 76,000 units). As at the date of this report there are a total of 86,880 units issued out of a total pool of 100,000 units, including the awards for non-Board senior managers (2017: 86,880 units).

**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.

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

	Beneficially owned at 26 March 2019	Beneficially owned at 31 December 2018	Not subject to performance conditions		Subject to performance conditions	
			LTIP	Deferred bonus shares	LTIP	Deferred bonus shares
<b>EXECUTIVE DIRECTORS</b>						
J.A. Treger	5,651,454	5,651,454	–	–	–	–
<b>NON-EXECUTIVE DIRECTORS</b>						
N.P.H. Meier	231,927	231,927	–	–	–	–
D.S. Archer	20,000	20,000	–	–	–	–
W.M. Blyth	139,250	139,250	–	–	–	–
V.A. Dennett	–	–	–	–	–	–
R.H. Stan	226,015	226,015	–	–	–	–

None of the Directors holds 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 2018 (2017: nil).

**G. Percentage increase in the remuneration of the CEO**

CEO £'000	2018	2017	% change
– salary (full time equivalent basis)	420	400	5%
– benefits	40	36	11%
– bonus	274	257	7%
Average per employee £'000			
– salary	108	99	9%
– benefits	7	8	(13%)
– bonus	43	49	(12%)

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.

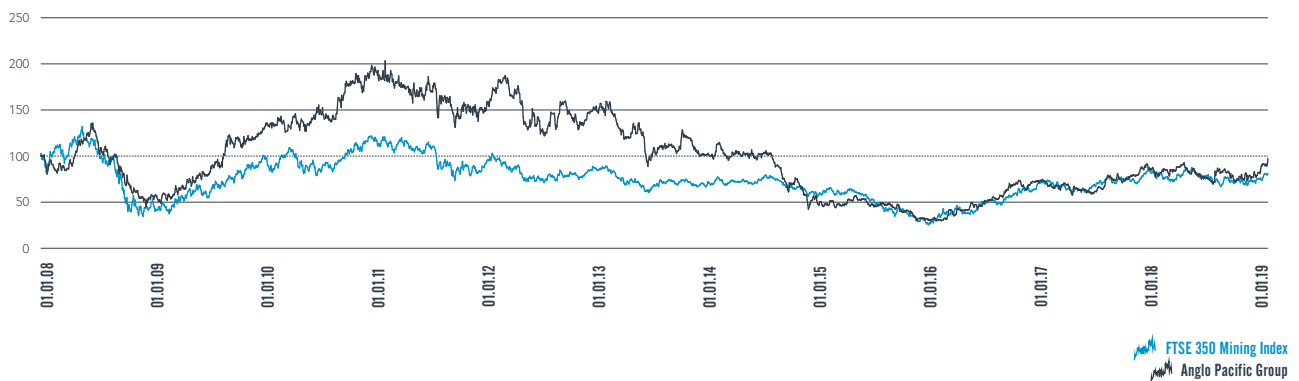
## GOVERNANCE

**DIRECTORS' REMUNERATION REPORT****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 31 December 2018 is shown in the graph opposite. 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 31 December 2018 was 149.00p. During the year the share price ranged from a low of 125.00p to a high of 166.50p.

**FTSE 350 Mining Index vs. Anglo Pacific Group 2008-2018****(Rebased to 100)****I. Total remuneration for the CEO over time**

	2009	2010	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018
	B.M. Wides		J. Theobald <sup>1</sup>						J.A. Treger <sup>2</sup>			
Total remuneration (£'000)	197	155	69	253	209	193	39	432	374	563	653	692
Bonus outturn (%)	N/A <sup>4</sup>	N/A <sup>4</sup>	N/A <sup>4</sup>	37%	–	–	–	64%	–	47%	71%	72%
Bonus (£'000)	75	76	38	84	–	–	–	160	–	167	257	274
LTIP vesting (%)	–	–	–	–	–	–	–	–	–	–	–	–

<sup>1</sup> J. Theobald was appointed CEO on 6 October 2010.

<sup>2</sup> J.A. Treger was appointed CEO on 21 October 2013.

<sup>3</sup> 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.

<sup>4</sup> For 2009 and 2010, this is not applicable as there were no caps in place.

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)	2018	2017	%(decrease)/ increase
Staff costs	3.87	3.79	2.1%
Dividends	12.89	15.87	(19%)

**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 £420,000.



**L. 2019 salary review**

The Executive Director's full time equivalent ('FTE') salary was reviewed in January 2019 as outlined in the Chairman's letter to shareholders, and the current salary (on a FTE basis) is as follows:

**Current salaries for the Executive Director**

Executive	FTE Salary as at 1 January 2019	FTE Salary as at 1 January 2018	Increase
J.A. Treger	440,000	420,000	4.8%

The 4.8% increase in the Executive Director's salary, was below the increase in the salaries of the wider workforce.

**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:

	2019	2018	% Increase
Chairman	125,000	115,000	8.7%
Committee member	48,000	46,000	4.3%
Base fee	42,000	40,000	5%
<b>INCREMENT</b>			
Senior Independent Director	10,000	10,000	–
Senior Independent Director (if also chairing a committee)	7,000	5,000	40%
Committee Chairmanship	7,000	5,000	40%
Committee Membership	6,000	6,000	–

The Chairman's fee of £125,000 was set with effect from January 1, 2019 for a two-year period.

**N. Performance targets for the annual bonus and LTIP awards to be granted in 2019 and beyond**

The annual bonus scorecard approach will continue in 2019. 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 2019 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 2019 scorecard will be provided in the 2019 Directors' Remuneration Report. No long-term incentive awards are due to be made in 2019. Details of the awards made in 2014 and 2017 under the VCP can be found in the notes of the policy table on [page 68](#).

**O. Statement of shareholder voting**

At last year's AGM held on 15 May 2018, 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)	97,059,236	99.90%
Votes cast against	94,525	0.10%
Total votes cast (excluding votes directed to be withheld)	97,153,761	100.00%
Votes withheld	17,880	

The Directors' remuneration policy was last put to shareholders at the AGM held on 10 May 2016:

	Votes	Percentage
Votes cast in favour (including proxy appointments that gave discretion to the Chairman)	72,615,262	93.36%
Votes cast against	5,166,921	6.64%
Total votes cast (excluding votes directed to be withheld)	77,782,183	100.00%
Votes withheld	119,824	

**Approval**

This report was approved by the Board on 26 March 2019 and signed on its behalf by

**W. M. Blyth**

Chairman of the Remuneration Committee

## GOVERNANCE

**DIRECTORS' REPORT**

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2018.

**PRINCIPAL ACTIVITIES**

The Group's principal royalty activities are set out in the Strategic Report on [pages 8 to 54](#).

**GOING CONCERN**

The financial position of the Group and its cash flows are set out on [pages 89 and 92](#). The directors have considered the principal risks of the company which are set out on [pages 22 to 29](#), and considered key sensitivities which could impact on the level of available borrowings. As at 31 December 2018, the Group had cash and cash equivalents of £5.2m as set out in [note 24](#) and borrowings under its revolving credit facility of £8.3m (US\$10.6m) as set out in [note 26](#). Subject to continued covenant compliance, the Group has access to a further £38.8m (US\$49.4m) through its secured US\$60.0m revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2020. 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 cash position and access to the undrawn revolving credit facility, 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 87](#) of the financial statements.

The Group reported a profit after tax of £28.8m (2017: £10.5m).

Total dividends for 2018 will amount to 8.00p per share (2017: 7.00p per share), combining the recommended final dividend of 3.125p per share for the year ended 31 December 2018 with the interim dividends of 1.625p per share paid on 15 August 2018, 15 November 2018 and 14 February 2019. The final dividend for the year ended 31 December 2018, is subject to shareholder approval at the 2019 AGM. The Board proposes to pay the final dividend on 30 May 2019 to shareholders on the Company's share register at the close of business on 17 May 2019. The shares will be quoted ex-dividend on the London and Toronto Stock Exchanges on 16 May 2019.

**OUTLOOK**

The outlook for and likely future developments of the Group are described within the Chairman's Statement on [pages 6 and 7](#), together with the Chief Executive Officer's Statement on [pages 8 and 11](#), and the Group's Strategic Report on [pages 8 to 54](#).

**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 [pages 56 and 57](#).

All Directors will stand for election or re-election at the 2019 AGM.

A table of Directors' attendance at Board and Committee meetings during 2018 is on [page 58](#).

**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 2018 AGM, held on 15 May 2018, the Directors were given the power to issue new shares up to an aggregate nominal amount of £1,206,013. This power will expire at the earlier of the conclusion of the 2019 AGM or 30 June 2019. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 18,090,203. This power will expire at the earlier of the conclusion of the 2019 AGM or 30 June 2019.

At the AGM held on 15 May 2018, 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 2019 AGM or 30 June 2019.

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 22 March 2019 was as follows:

	Issued No.	Nominal value per share	Total	% of total capital
Ordinary shares	181,470,392	0.02	3,629,408	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 68](#) below and in [note 30](#) to the financial statements.

### Treasury

The Company holds 925,933 £0.02 ordinary shares in treasury for the purposes of settling the Group's share-based compensation plans, as described in [note 29](#).

### Warrants

On 22 May 2014, the Company resolved to create 500,000 warrants, to be issued pursuant to a warrant instrument dated 10 June 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 18 January 2017, the Company resolved to create 294,695 warrants, to be issued pursuant to a warrant instrument dated 10 February 2017, with Investec Bank PLC as part of the refinancing of the Group's revolving credit facility (refer to [note 26](#)). 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 16 May 2018, the Company issued 37,954 new Ordinary Shares at a price of 92.21p per share amounting to an aggregate nominal value of £759 and aggregate consideration of £34,998 following the exercise of options awarded to employees under the Company Share Option Plan ('CSOP'). Further details are set out in [notes 29 and 30](#) to the financial statements.

On 10 October 2018, the Company issued 51,453 new Ordinary Shares at a price of 77p per share amounting to an aggregate nominal value of £1,029 and aggregate consideration of £39,619 following the exercise of options awarded to employees under the CSOP. Further details are set out in [notes 29 and 30](#) to the financial statements.

On 11 June 2018, the Company issued 478,951 new Ordinary Shares at a price of 156.6p per share amounting to an aggregate nominal value of £9,579 and aggregate consideration of £750,037. This issue price was fixed on 4 June 2018 and represented the 30-day VWAP. These shares were the total consideration for the acquisition of the Cañariaco copper royalty, further details of which are set out in [notes 18 and 29](#) to the financial statements.

On 6 February 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 1 February 2017. The issue price was fixed on 1 February 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 31 January 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 [note 22](#) to the financial statements.

As a result of the preceding issuance, the Company has issued 568,358 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 0.3% of the Company's share capital as at the date of this Annual Report. The Company has issued a further 49,019,681 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 27% 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 22 March 2019.

	Ordinary Shares of 2p each	Representing
Schroder Investment Management	18,050,437	9.95%
Canaccord Genuity Wealth Management	17,934,211	9.89%
Aberforth Partners	16,620,444	9.16%
AXA Investment Manager	13,207,775	7.28%
P.N.R. Cooke	8,649,120	4.77%
Miton Asset Management	7,625,799	4.20%
BlackRock Investment Management	5,940,575	3.27%
Charles Stanley	5,876,342	3.24%
J.A. Treger	5,651,454	3.12%

See [page 75](#) 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 28](#) 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 2019 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](http://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  
26 March 2019

### Registered office

1 Savile Row  
London  
W1S 3JR

## GOVERNANCE

**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.anglo-pacificgroup.com](http://www.anglo-pacificgroup.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

**N.P.H. Meier**

Chairman

26 March 2019

## FINANCIAL STATEMENTS

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### OPINION

#### In our opinion:

- the financial statements of Anglo Pacific Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 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.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;

- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statement; and
- the related *notes 1 to 39*.

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.

### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council (FRC's) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### SUMMARY OF OUR AUDIT APPROACH

#### Key audit matters

The key audit matters that we identified in the current year were:

- Valuation of the Kestrel royalties
- Impairment assessment of the royalties intangibles portfolio
- Accounting for deferred and current tax

Within this report, any new key audit matters are identified with ▲ and any key audit matters which are the same as the prior year are identified with ►.

#### Materiality

The materiality that we used for the group financial statements was £4.4m which was determined on the basis of 2% on net assets.

#### Scoping

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

#### Significant changes in our approach

We have not included the Denison transaction as a key audit matter for 2018. In 2017 the transaction was a key audit matter because of the complexity of the initial accounting classification and valuations for the loan and streaming royalty. Having audited the fair value methodology and sources of assumptions during 2017, the potential for a material misstatement this year is considered significantly lower.

Within the accounting for deferred and current tax key audit matter, a second uncertain tax position has arisen for the 2018 year end audit.



## FINANCIAL STATEMENTS

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

## CONCLUSIONS RELATING TO GOING CONCERN

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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.

## VALUATION OF THE KESTREL ROYALTY ►

### Key audit matter description

Royalties arrangements held at fair value, have a value of £117.6m as at 31 December 2018 (2017: £115.0m). The Kestrel royalty comprises £109.8m (2017: £104.3m) of the total and management engaged 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.

Following the acquisition of the Kestrel mine by a new operator with announced plans to accelerate production, management has considered the extent to which increases in the forecast production are appropriate.

Due to the high level of judgements involved, we have determined that there was a potential for fraud through possible manipulation of this balance.

The price and discount rate assumptions are set out in [note 16](#) along with the related sensitivity analysis. The Group discloses this risk as a critical accounting judgement in [note 4](#).

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 62](#).

### How the scope of our audit responded to the key audit matter

We obtained the valuation model used by management's independent specialist to determine the fair value of the Kestrel royalty. We challenged the assumptions adopted by management's independent specialist by comparison to recent third party forecast commodity price data, reference to third party documentation and the relevant reserves and resources reports. We understood the key changes being made by the new operator and calculated that the effect on the valuation of the increased production profile recognised to date by management was not material. To challenge the discount rates we prepared independent discount rates and compared those to the rates adopted by management.

We evaluated the independence, objectivity and competence of management's independent specialist. We challenged the valuation assumptions adopted in line with the above methodology by directly reviewing their reporting 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

We concur that the fair value of the Kestrel royalty is within an acceptable range.

**IMPAIRMENT ASSESSMENT OF THE ROYALTY INTANGIBLES PORTFOLIO ►**

<b>Key audit matter description</b>	<p>Royalty arrangements held as intangibles have a gross carrying amount of £113.3m at 31 December 2018 (2017: £115.8m) and a net carrying amount of £71.1m (2017: £77.4m). As a consequence of the volatility in current commodity prices, the assessment of whether impairment/reversal indicators exist and estimating the recoverable amount of royalty arrangements accounted for as intangible assets where necessary require management to adopt key judgements in relation to the discount rates used, the forecast commodity prices, the expected production profiles and where relevant the probability of production commencing.</p> <p>Impairment indicators were identified for Four Mile and Salamanca with carrying amounts of £1.2m (2016: £1.5m) and £2.3m (2017: £2.3m) respectively. Indicators of impairment were also identified for Ring of Fire which has a carrying amount of £3.6m (2017: £3.7m).</p> <p>An impairment charge of £2.2m was recognised at Pilbara (see <a href="#">note 18</a>) while no impairment or impairment reversal was recognised for 2017. The Group discloses this risk as a critical accounting judgement in <a href="#">note 4</a>.</p> <p>Refer to the Audit Committee report where this matter is considered by the Audit Committee as part of the significant issue, "Review of the carrying values of royalties held at amortised cost along with the investment portfolio and resulting impairment charges" on <a href="#">page 62</a>.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We challenged management's assessment as to whether indicators of impairment exist for specific royalty arrangements through evaluation of changes in production and pricing forecasts and a review of publicly available information. Where such indicators were identified, we obtained copies of the valuation models and challenged the assumptions adopted by management by comparison to third party forecast commodity price data, reference to third party documentation and the relevant reserves and resources reports.</p> <p>To challenge the discount rates we prepared independent discount rates and compared those to the rates adopted by management. We reviewed and challenged management's assessment of whether projects still in the development phase would reach commercial production through 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.</p>
<b>Key observations</b>	<p>We concur with management's impairment assessment. In respect of the intangible assets where indicators of impairment were identified, we found that the assumptions used were within a reasonable range and had been determined and applied on a consistent basis across the Group.</p>

**ACCOUNTING FOR DEFERRED AND CURRENT TAX ▲**

<b>Key audit matter description</b>	<p>The preparation and filing of tax returns requires certain judgements and interpretations to be made, in some circumstances where there is little guidance or precedent.</p> <p>In 2017 the Group undertook a restructuring of certain loss making entities. The Group obtained advice from professional advisers in respect of these transactions. The tax treatment in relation to the restructure is uncertain given the lack of precedence and guidance from the tax authorities. In the event this aspect were successfully challenged by the tax authorities, possibly through litigation, this would result in a reduction in the deferred tax asset of £3.3m (2017: £3.3m) and the recognition of current tax liability of £3.6m (2017: £3.6m) as at 31 December 2018, with a £6.9m (2017: £6.9m) corresponding income statement tax charge for 2018.</p> <p>The Group has increased its tax provisions by £1.7m during the year in relation to a separate uncertain tax position. This represents management's best estimate as to a settlement value should the judgement be successfully challenged.</p> <p>Management disclosed these matters as uncertain tax positions in <a href="#">note 12</a> to the financial statements. The Group discloses this risk as a critical accounting judgement in <a href="#">note 4</a>.</p> <p>Refer to the Audit Committee report where these matters are considered by the Audit Committee as part of the significant issue, "Group tax exposures" on <a href="#">page 62</a>.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We reviewed the papers prepared by management's independent tax expert in respect of the two uncertain tax positions. We utilised our specialists to</p> <ul style="list-style-type: none"> <li>• review management's tax advice and accounting papers;</li> <li>• evaluate the potential for the Group's historical treatments to be challenged;</li> <li>• review the tax legislation, case law and relevant precedents to determine if the tax treatment was reasonable;</li> <li>• recalculate the potential exposures; and</li> <li>• challenge management's assessment of the probable loss to be provided for and the possible exposures disclosed.</li> </ul> <p>We held a meeting with management to discuss our concern that there is no clear precedence or guidance on these matters and, as such, these result in uncertain tax positions.</p>
<b>Key observations</b>	<p>We concur with management's provisions and disclosure.</p>

## FINANCIAL STATEMENTS

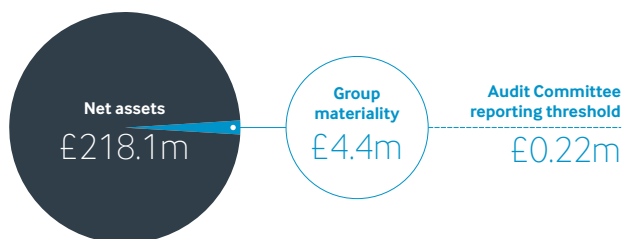
## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ANGLO PACIFIC GROUP PLC

### 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 FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
<b>Materiality</b>	£4.4m (2017: £4.3m)	£2.7m (2017: £2.7m)
<b>Basis for determining materiality</b>	2% of net assets (2017: 2%)	2% of net assets (2017: 2%)
<b>Rationale for the benchmark applied</b>	<p>Net assets was considered a more stable base than profits due to the effect of unrealised fair value gains/losses in each financial year.</p> <p>The long term value for shareholders is also in the asset base as the group generates its wealth through royalties acquired. Considering that these are often bought in the development phase of an asset's life a significant portion of the group's value at this moment is not reflected in the income statement.</p>	<p>Net assets was considered a more stable base than profits due to the effect of unrealised fair value gains/losses in each financial year.</p> <p>The long term value for shareholders is also in the asset base as the company generates its wealth through royalties acquired. Considering that these are often bought in the development phase of an asset's life a significant portion of the company's value at this moment is not reflected in the income statement.</p>



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £220,000 (2017: £86,000) for the group, 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 are subject to full scope audit. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

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

### OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

**We have nothing to report in respect of these matters.**

### RESPONSIBILITIES OF DIRECTORS

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

### IDENTIFYING AND ASSESSING POTENTIAL RISKS RELATED TO IRREGULARITIES

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and the audit committee, including obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; As part of this discussion, we identified potential for fraud in the key audit matter of the valuation of the Kestrel royalty due to the high level of judgements involved; and
- obtaining an understanding of the legal and regulatory frameworks that the group operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the group. The key laws and regulations we considered in this context included the provisions and requirements of the Companies Act 2006.

### AUDIT RESPONSE TO RISKS IDENTIFIED

As a result of performing the above, we identified the valuation of Kestrel royalty as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including our tax specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## FINANCIAL STATEMENTS

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

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or 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 in respect of these matters.**

## OTHER MATTERS

### Auditor tenure

Following the recommendation of the audit committee, we were appointed by shareholders at the AGM on 11 June 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 December 2014 to 31 December 2018.

### Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

### Use of our report

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.

### Christopher Thomas ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

26 March 2019



## CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000 (Restated*)
Royalty related revenue	6	46,104	39,566
Amortisation of royalties	18	(2,974)	(3,116)
Operating expenses	7(a)	(6,032)	(5,890)
<b>OPERATING PROFIT BEFORE IMPAIRMENTS, REVALUATIONS AND GAINS ON DISPOSALS</b>		<b>37,098</b>	<b>30,560</b>
Gain on sale of mining and exploration interests	19	–	1,774
Impairment of mining and exploration interests	19	–	(219)
Impairment of royalty intangible assets	18	(2,234)	–
Revaluation of royalty financial instruments	17	(871)	(6,324)
Revaluation of coal royalties (Kestrel)	16	10,061	(11,933)
Finance income	9	82	19
Finance costs	10	(1,042)	(795)
Net foreign exchange loss		(593)	(747)
Other net income/(losses)	11	2,043	(488)
<b>PROFIT BEFORE TAX</b>		<b>44,544</b>	<b>11,847</b>
Current income tax charge	12	(8,378)	(1,997)
Deferred income tax (charge)/credit	12	(7,373)	677
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>28,793</b>	<b>10,527</b>
<b>TOTAL AND CONTINUING EARNINGS PER SHARE</b>			
Basic earnings per share	13	15.97p	5.88p
Diluted earnings per share	13	15.94p	5.88p

The notes on [pages 93 to 130](#) are an integral part of these consolidated financial statements.

\* The Group has revised its definition of revenue to include all royalty related revenue arising in the course of the Group's ordinary activities. As a result, the presentation of the comparative income statement has been restated to show an additional £2,184,000 of income in revenue, which was previously included in finance income. Refer to [note 2 and 6](#).

In the current year, net foreign exchange gains and losses are now presented separately on the face of the income statement. Previously they were included in finance income. The comparative financial information has been adjusted to be on a consistent basis. Profit attributable to equity holders remains unchanged.

## FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>28,793</b>	<b>10,527</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>			
Changes in the fair value of equity investments held at fair value through other comprehensive income			
Revaluation of royalty financial instruments	17	290	–
Revaluation of mining and exploration interests	19	(12,147)	–
		<b>(11,857)</b>	–
<b>ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS</b>			
Available-for-sale investments			
Revaluation of equity investments	17, 19	–	2,233
Reclassification to income statement on disposal of equity investments		–	(1,774)
Reclassification to income statement on impairment		–	219
Deferred tax relating to items that have been or may be reclassified		(147)	341
Net exchange loss on translation of foreign operations		(6,669)	(883)
		<b>(6,816)</b>	<b>136</b>
<b>OTHER COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR, NET OF TAX</b>		<b>(18,673)</b>	<b>136</b>
<b>TOTAL COMPREHENSIVE PROFIT FOR THE YEAR</b>		<b>10,120</b>	<b>10,663</b>

The notes on [pages 93 to 130](#) are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET

as at 31 December 2018

	Notes	2018 £'000	Group 2017 £'000	2018 £'000	Company 2017 £'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	15	22	44	22	44
Coal royalties (Kestrel)	16	109,778	104,266	–	–
Royalty financial instruments	17	46,205	10,867	3,929	3,979
Royalty and exploration intangible assets	18	71,194	77,421	2,349	2,349
Mining and exploration interests	19	2,848	16,431	2,559	13,273
Deferred costs	20	926	689	584	449
Investments in subsidiaries	21	–	–	99,439	70,207
Other receivables	22	19,335	21,259	56,532	56,862
Deferred tax	27	3,261	5,484	–	–
		253,569	236,461	165,414	147,163
<b>CURRENT ASSETS</b>					
Trade and other receivables	22	10,267	8,702	764	427
Derivative financial instruments	23	188	100	–	–
Cash and cash equivalents	24	5,223	8,099	1,024	1,349
		15,678	16,901	1,788	1,776
<b>TOTAL ASSETS</b>		<b>269,247</b>	<b>253,362</b>	<b>167,202</b>	<b>148,939</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	26	8,300	–	8,300	–
Other payables	28	575	418	575	418
Deferred tax	27	35,156	31,507	668	676
		44,031	31,925	9,543	1,094
<b>CURRENT LIABILITIES</b>					
Income tax liabilities		4,085	5	111	5
Trade and other payables	28	3,023	2,495	20,736	12,716
		7,108	2,500	20,847	12,721
<b>TOTAL LIABILITIES</b>		<b>51,139</b>	<b>34,425</b>	<b>30,390</b>	<b>13,815</b>
<b>NET ASSETS</b>		<b>218,108</b>	<b>218,937</b>	<b>136,812</b>	<b>135,124</b>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS</b>					
Share capital	29	3,629	3,618	3,629	3,618
Share premium	29	62,779	61,966	62,779	61,966
Other reserves		47,285	64,752	33,576	42,495
Retained earnings		104,415	88,601	36,828	27,045
<b>TOTAL EQUITY</b>		<b>218,108</b>	<b>218,937</b>	<b>136,812</b>	<b>135,124</b>

The notes on [pages 93 to 130](#) 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 £22,791,000 (2017: £13,538,000).

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on [pages 81 to 130](#) were approved by the Board and authorised for issue on 26 March 2019 and are signed on its behalf by:

**N.P.H. MEIER**  
Chairman

**J.A. TREGER**  
Chief Executive Officer

## FINANCIAL STATEMENTS

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2018

Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Other reserves				Investment in own shares £'000	Retained earnings £'000	Total equity £'000	
					Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000				
Balance at 1 January 2017	3,399	49,211	29,134	143	10,708	2,016	23,568	632	(2,601)	93,928	210,138	
Profit for the year	–	–	–	–	–	–	–	–	–	10,527	10,527	
Other comprehensive income:												
Available-for-sale investments												
Valuation movement taken to equity	–	–	–	–	2,233	–	8	–	–	–	2,241	
Transferred to income statement on disposal	–	–	–	–	(1,774)	–	–	–	–	–	(1,774)	
Transferred to income statement on impairment	–	–	–	–	219	–	–	–	–	–	219	
Deferred tax	27	–	–	–	341	–	1	–	–	–	342	
Foreign currency translation	–	–	–	–	–	–	(892)	–	–	–	(892)	
<b>TOTAL COMPREHENSIVE PROFIT</b>	–	–	–	–	<b>1,019</b>	–	<b>(883)</b>	–	–	<b>10,527</b>	<b>10,663</b>	
Dividends	14	–	–	–	–	–	–	–	–	(15,869)	(15,869)	
Issue of ordinary shares	29	219	12,755	–	–	–	–	–	–	–	12,974	
Value of employee services	30	–	–	–	–	1,016	–	–	–	15	1,031	
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY</b>		<b>219</b>	<b>12,755</b>	–	–	–	<b>1,016</b>	–	–	<b>(15,854)</b>	<b>(1,864)</b>	
<b>BALANCE AT 31 DECEMBER 2017</b>		<b>3,618</b>	<b>61,966</b>	<b>29,134</b>	<b>143</b>	<b>11,727</b>	<b>3,032</b>	<b>22,685</b>	<b>632</b>	<b>(2,601)</b>	<b>88,601</b>	<b>218,937</b>
Balance at 1 January 2018		3,618	61,966	29,134	143	11,727	3,032	22,685	632	(2,601)	88,601	218,937
Adjustment for transition to new accounting standards		–	–	–	–	477	–	–	–	–	(527)	(50)
Restated opening balance		3,618	61,966	29,134	143	12,204	3,032	22,685	632	(2,601)	88,074	218,887
Profit for the year		–	–	–	–	–	–	–	–	–	28,793	28,793
Other comprehensive income:												
Changes in fair value of equity investments held at fair value through other comprehensive income												
Valuation movement taken to equity		–	–	–	–	(11,857)	–	(65)	–	–	–	(11,922)
Deferred tax	27	–	–	–	–	(147)	–	155	–	–	–	8
Foreign currency translation		–	–	–	–	–	–	(6,759)	–	–	–	(6,759)
<b>TOTAL COMPREHENSIVE PROFIT</b>		–	–	–	–	<b>(12,004)</b>	–	<b>(6,669)</b>	–	–	<b>28,793</b>	<b>10,120</b>
Transferred to retained earnings on disposal		–	–	–	–	(398)	–	–	–	–	398	–
Dividends	14	–	–	–	–	–	–	–	–	–	(12,889)	(12,889)
Issue of ordinary shares	29	11	813	–	–	–	–	–	–	–	–	824
Value of employee services	30	–	–	–	–	–	1,127	–	–	–	39	1,166
Total transactions with owners of the company		11	813	–	–	(398)	1,127	–	–	–	(12,452)	(10,899)
<b>BALANCE AT 31 DECEMBER 2018</b>		<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>(198)</b>	<b>4,159</b>	<b>16,016</b>	<b>632</b>	<b>(2,601)</b>	<b>104,415</b>	<b>218,108</b>

The notes on [pages 93 to 130](#) are an integral part of these consolidated financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

Notes	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Other reserves			Special reserve £'000	Retained earnings £'000	Total equity £'000
					Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000			
Balance at 1 January 2017	3,399	49,211	29,134	143	8,916	2,016	82	632	29,361	122,894
<b>Changes in equity for 2017</b>										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	2,331	–	–	–	–	2,331
Transferred to income statement on disposal	–	–	–	–	(1,774)	–	–	–	–	(1,774)
Transferred to income statement on impairment	–	–	–	–	13	–	–	–	–	13
Deferred tax on valuation	–	–	–	–	(14)	–	–	–	–	(14)
Net income recognised direct into equity	–	–	–	–	556	–	–	–	–	556
Profit for the period	–	–	–	–	–	–	–	–	13,538	13,538
Total recognised income and expenses	–	–	–	–	556	–	–	–	13,538	14,094
Dividends	14	–	–	–	–	–	–	–	(15,869)	(15,869)
Issue of ordinary shares	29	219	12,755	–	–	–	–	–	–	12,974
Value of employee services	30	–	–	–	–	1,016	–	–	15	1,031
<b>BALANCE AT 31 DECEMBER 2017</b>	<b>3,618</b>	<b>61,966</b>	<b>29,134</b>	<b>143</b>	<b>9,472</b>	<b>3,032</b>	<b>82</b>	<b>632</b>	<b>27,045</b>	<b>135,124</b>
Balance at 1 January 2018	3,618	61,966	29,134	143	9,472	3,032	82	632	27,045	135,124
Adjustment for transition to new accounting standards	–	–	–	–	477	–	–	–	(527)	(50)
Restated opening balance	3,618	61,966	29,134	143	9,949	3,032	82	632	26,518	135,074
<b>Changes in equity for 2018</b>										
Changes in fair value of equity investments held at fair value through other comprehensive income:										
Valuation movement taken to equity	–	–	–	–	(10,154)	–	–	–	–	(10,154)
Net income recognised direct into equity	–	–	–	–	(10,154)	–	–	–	–	(10,154)
Profit for the period	–	–	–	–	–	–	–	–	22,791	22,791
Total recognised income and expenses	–	–	–	–	(10,154)	–	–	–	22,791	12,637
Transferred to retained earnings on disposal	–	–	–	–	(369)	–	–	–	369	–
Dividends	14	–	–	–	–	–	–	–	(12,889)	(12,889)
Issue of ordinary shares	29	11	813	–	–	–	–	–	–	824
Value of employee services	30	–	–	–	–	1,127	–	–	39	1,166
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>(574)</b>	<b>4,159</b>	<b>82</b>	<b>632</b>	<b>36,828</b>	<b>136,812</b>

The notes on [pages 93 to 130](#) 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 31 December 2018

	Notes	Group		Company	
		2018 £'000	2017 £'000 (*Restated)	2018 £'000	2017 £'000 (*Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before taxation		44,544	11,847	23,261	13,725
<i>Adjustments for:</i>					
Finance income	9	(82)	(19)	(216)	(1)
Finance costs	10	1,042	795	524	335
Net foreign exchange gains/losses		593	747	612	2,076
Other income	11	(2,043)	230	(1,657)	(35)
Gain on disposal of mining and exploration interests	19	–	(1,774)	–	(1,774)
Impairment of mining and exploration interests	19	–	219	–	13
Impairment of royalty and exploration intangible assets	18	2,234	–	–	–
Revaluation of royalty financial instruments	17	871	6,324	(1,925)	3,076
Royalties due or received from royalty financial instruments	17	1,975	–	1,975	–
Impairment of investment in subsidiaries	21	–	–	5,325	1,467
Revaluation of coal royalties (Kestrel)	16	(10,061)	11,933	–	–
Depreciation of property, plant and equipment	15	26	33	26	33
Amortisation of royalty intangible assets	18	2,974	3,116	–	–
Amortisation of deferred acquisition costs	20	202	–	202	–
Share based payment	8(a)	1,323	1,174	1,323	1,174
Forgiveness of loan to subsidiary undertaking		–	–	284	(6,483)
Intercompany dividends		–	–	(27,794)	(11,399)
		43,598	34,625	1,940	2,207
(Increase)/Decrease in trade and other receivables		(1,554)	3,402	(337)	86
(Decrease)/Increase in trade and other payables		(650)	1,138	(534)	900
Cash generated from operations		41,394	39,165	1,069	3,193
Income taxes (paid)/refunded	12	(4,482)	(1,863)	(369)	(321)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>36,912</b>	<b>37,302</b>	<b>700</b>	<b>2,872</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds on disposal of mining and exploration interests	19	612	2,424	562	2,424
Proceeds on return of capital from mining and exploration interests	19	827	–	–	–
Purchase of property, plant and equipment	15	(4)	–	(4)	–
Purchases of royalty and exploration intangible assets	18	–	(1,125)	–	–
Proceeds from royalty financial instruments	17	1,720	258	1,720	258
Purchases of royalty financial instruments	17	(38,408)	(3,323)	–	–
Advances under commodity related financing agreements	22	–	(24,990)	–	(24,990)
Repayments under commodity related financing agreements	22	1,276	3,051	1,276	3,051
Prepaid acquisition costs	20	(34)	(224)	(34)	(224)
Sundry income		–	–	–	209
Finance income	9	82	19	216	1
Investment in subsidiaries	21	–	–	(39,346)	(4,084)
Return of capital from subsidiaries	21	–	–	4,789	–
Intercompany dividends		–	–	27,794	11,399
Loans granted to subsidiary undertakings	33	–	–	(2,080)	(2,374)
Loan repayments from subsidiary undertakings	33	–	–	866	405
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(33,929)</b>	<b>(23,910)</b>	<b>(4,241)</b>	<b>(13,925)</b>
<b>Cash flows from financing activities</b>					
Drawdown of revolving credit facility	25, 26	17,300	7,498	17,300	7,498
Repayment of revolving credit facility	25, 26	(9,000)	(13,651)	(9,000)	(10,451)
Loans from subsidiary undertakings		–	–	8,552	18,764
Proceeds from issue of share capital	29	75	13,700	75	13,700
Transaction costs of share issue		–	(726)	–	(726)
Dividends paid	14	(12,889)	(15,869)	(12,889)	(15,869)
Finance costs	10, 20	(1,264)	(795)	(813)	(335)
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>		<b>(5,778)</b>	<b>(9,843)</b>	<b>3,225</b>	<b>12,581</b>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,795)</b>	<b>3,549</b>	<b>(316)</b>	<b>1,528</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>8,099</b>	<b>5,331</b>	<b>1,349</b>	<b>924</b>
Effect of foreign exchange rate changes		(81)	(781)	(9)	(1,103)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>5,223</b>	<b>8,099</b>	<b>1,024</b>	<b>1,349</b>

The notes on [pages 93 to 130](#) are an integral part of these consolidated financial statements.

\* The Group has revised its definition of revenue to include all royalty related revenue arising in the course of the Group's ordinary activities. As a result, the presentation of the comparative statement of cash flows has been restated to show an additional £2,184,000 of net cash generated from operating activities, which was previously included in cash flows from investing activities. Refer to [notes 2 and 6](#).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2018

## 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, vanadium, 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 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

### (a) New and amended IFRS Standards that are effective for the current year

#### Impact of initial application of IFRS 9 Financial Instruments

In the current financial year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. As permitted by the transition provisions, the Group has elected not to restate the comparatives for the adoption of IFRS 9.

The overall impact on net assets from the transition to IFRS 9 was a reduction in opening net assets of £50,000 to £218,887,000 due to the recognition of expected credit losses. The adoption of IFRS 9 impacted the following through 2018:

*Impairment:* The standard introduces an 'expected credit loss' model which for the Group requires an assessment of impairment of financial assets held at amortised cost. The Group's primary asset held at amortised cost is the interest-bearing loan to Denison Mines (*note 22*) and the expected credit losses at 1 January 2018 and 31 December 2018 were £50,000 and £114,000 respectively.

*Classification and measurement:* The measurement and accounting treatment of the Group's financial assets is materially unchanged on application of the new standard with the exception of mining and exploration interests previously categorised as available-for-sale and royalty financial instruments previously categorised as available-for-sale equity financial assets.

Mining and exploration interests are now held at fair value through other comprehensive income ('FVTOCI'), with the effect that the gains and losses on disposal and impairment losses are no longer recycled from reserves to the income statement for this category of asset. There is no impact to the net assets of the Group at 1 January 2018. During the year ended 31 December 2018 mining and exploration interests were disposed with historical gains of £398K transferred to retained earnings rather than the income statement, following the adoption of IFRS 9 (*note 19*).

Royalty financial instruments (with the exception of Labrador Iron Ore – see "Changes to revenue presentation" below) are now held at fair value through profit or loss ('FVTPL'), meaning they are held at fair value on the balance sheet, with fair value movements taken through the income statement rather than reserves. Accumulated fair value movements of £477k (net of deferred tax) recognised in the investment revaluation reserve as of 1 January 2018 have been reclassified to retained earnings on adoption of IFRS 9 (*note 17*).

Royalty income from these assets is no longer recognised as revenue in the income statement and instead reduces the fair value of the asset. There is no impact to the net assets of the Group at 1 January 2018. During the year ended 31 December 2018 royalties from the Group's EVBC royalty of £1,975k were deducted from the royalty's carrying value (rather than being recognised as royalty revenue) and a non-cash revaluation gain of £1,925k was instead recognised in the income statement, following the adoption of IFRS 9.

#### Impact of application of IFRS 15 'Revenue from Contracts with Customers'

The Group adopted IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) with effect from 1 January 2018 with no change arising to the Group's revenue recognition.

The Group's royalty income is derived from three sources: assets accounted for as investment property (Kestrel) under IAS 40, assets at fair value (EVBC) accounted for under IFRS 9 and assets accounted for as intangibles (Narrabri, Maracás Menchen and Four Mile) under IAS 38.

The royalty income derived from investment properties continues to be accounted for in accordance with IAS 40, while the royalty income derived from assets at fair value is accounted for under IFRS 9 as described above. The royalty income derived from assets classified as intangibles are accounted for in accordance with IFRS 15. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has had no impact on the financial position or financial performance of the Group.

### (b) New and amended IFRS Standards but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 16 Leases
- Annual Improvements to IFRS Standards 2015 – 2017
- Amendments to IAS 19 Employee Benefits
- IFRIC 23 Uncertainty over Income Tax Treatments

#### IFRS 16 Leases

IFRS 16 Leases was published in January 2016 and will be effective for the Group from 1 January 2019, replacing IAS 17 Leases.

The principal impact of IFRS 16 will be to change the accounting treatment by lessees of leases currently classified as operating leases. Lease agreements will give rise to the recognition by the lessee of an asset, representing the right to use the leased item, and a related liability for future lease payments. Lease costs will be recognised in the income statement in the form of depreciation of the right-of-use asset over the lease term, and finance charges representing the unwinding of the discount on the lease liability.

## FINANCIAL STATEMENTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2018

As the Group's operating leases relate primarily to office space and office equipment, the adoption of IFRS 16 is not expected to result in a material increase in lease liabilities or a corresponding increase in property, plant, and equipment right-of-use assets. Information on the Group's operating lease commitments is disclosed in [note 32](#).

**Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs**

**IAS 12 Income Taxes**

In particular amendments to *IAS 12 Income Taxes* clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

**Amendment to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement**

The amendments to IAS 19 apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively. The adoption of IFRIC 23 is not anticipated to have an impact on the provisions recognised in relation to the Group's uncertain tax positions as at 31 December 2018, as detailed in notes 4 and 12.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Other issued standards and amendments that are not yet effective are not expected to have a significant impact on the financial statements.

**(c) Change to revenue presentation**

For the year ended 31 December 2018 the Group has revised its definition of revenue and included income received from royalty related financial assets in order to provide greater consistency in the classification of the royalty income arising in the course of the Group's ordinary activities.

Income recognised from the Denison non-current other receivable was previously reported as interest within finance income. In addition, the income earned on the Jogjakarta royalty financial instrument was previously reported as effective interest income on royalty financial instruments within other gains and losses. The Group has included £2,011K (2017: £1,926K) of Denison interest and £77K (2017: £258K) of Jogjakarta effective interest within "royalty related revenue" for the year ended 31 December 2018 and the comparative has been restated to be on a consistent basis ([note 6](#)).

Dividend income is received from the Group's investment in Labrador Iron Ore Corporation, which was acquired during the year ended 31 December 2018, whose primary asset is a royalty income stream. This equity financial instrument was designated at inception as fair value through other comprehensive income with dividends accordingly recognised in the income statement. This income is considered royalty-related and therefore part of the Group's ordinary activities. As such the £1,949K of dividend income receivable from Labrador Iron Ore for the year ended 31 December 2018 was presented in revenue ([note 6](#)).

**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 (IFRS Standards). The financial statements have also been prepared in accordance with IFRS Standards 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 4](#).

### 3.1.1 Going concern

The financial position of the Group and its cash flows are set out on [pages 89 and 92](#). The Directors have considered the principal risks of the Company which are set out on [pages 22 to 29](#) as well as access to funding as set out in [note 26](#) and considered key sensitivities which could impact on the level of available borrowings. As at 31 December 2018, the Group had cash and cash equivalents of £5.2m and borrowings of £8.3m (U\$10.6m). Subject to continued covenant compliance, the Group has access to a further £38.8m (U\$49.4m) through its secured U\$60.0m revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2020. 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 cash position and access to the revolving credit facility, 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.

### 3.2 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. If 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\(b\)](#)).

## FINANCIAL STATEMENTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2018

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.

**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 reverse, 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 23](#).

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.

On initial recognition, the Group may make an irrevocable election to designate investments in mining and exploration equity instruments as FVTOCI. Designation as FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve, within "Other Reserves". The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9 (see [notes 17 and 19](#)).

**(e) Royalty financial instruments**

Royalty financial 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.

All of the Group's royalty financial instruments have been designated as at FVTPL, with the exception of the investment in Labrador Iron Ore Corporation for which the Group has made an irrevocable election to designate as at FVTOCI.

The royalty financial instruments at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any royalties earned on the royalty instrument, and is included in the 'revaluation of royalty financial instruments' line item ([note 17](#)). Fair value is determined in the manner described in [note 17 and 34](#).

The Group's investment in the equity instruments of Labrador Iron Ore Corporation is classified as a royalty financial instrument as its primary asset is a royalty income stream. On initial recognition the Group made the irrevocable election to designate this investment as FVTOCI. The dividends received from this investment are recognised in profit or loss, and are included in the 'royalty related revenue' line item ([note 6](#)).

**(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 as the proceeds received, net of direct issue costs.

**3.9 Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses ('ECL') on investments in debt instruments that are measured at amortised cost or at FVTOCI and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group's primary asset held at amortised cost is the interest-bearing loan to Denison Mines ([note 22](#)).

The Group always recognises lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Due to trade receivables ultimately representing a royalty related income and being repaid within a month after the reporting date, the amount of expected credit losses is immaterial.

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For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

**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.

**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' was created in June 2014 in connection with the issue of share warrants as part consideration of the Maracás 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 29](#) and [note 30](#)).
- 'Retained earnings' represents retained profits.

Of these reserves £104,415,000 are considered distributable as at 31 December 2018 (31 December 2017: £88,601,000).

**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 30](#), and are reconciled to GAAP measures in the [notes 13, 14 and 35](#) respectively.

**4 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 the fair value of certain royalty arrangements 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 IFRS 9 *Financial Instruments*; 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.

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*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 accounted for as financial assets under IFRS 9.

*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.

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

Accounting classification	Substance of contractual terms	Accounting treatment	Examples
Royalty intangible assets	<ul style="list-style-type: none"> <li>Simple royalty with no right to receive cash other than through a royalty related to production</li> </ul>	<ul style="list-style-type: none"> <li>Investment is presented as an intangible asset and carried at cost less accumulated amortisation and any impairment provision</li> <li>Royalty income is recognised as revenue in the income statement</li> <li>Intangible asset is amortised on a systematic basis</li> <li>Intangible asset is assessed for indicators of impairment at each period end</li> </ul>	<ul style="list-style-type: none"> <li>Narrabri</li> <li>Maracás Menchen</li> <li>Four Mile</li> <li>Salamanca</li> <li>Pilbara</li> <li>Ring of Fire</li> <li>Cañariaco</li> </ul>
<ul style="list-style-type: none"> <li>Royalty financial instruments</li> </ul>	<ul style="list-style-type: none"> <li>Royalty arrangement with a contractual right to receive cash (e.g. through a mandated interest rate or milestones which, if not met, trigger repayment)</li> </ul>	<ul style="list-style-type: none"> <li>Financial asset is recognised at fair value on the balance sheet</li> <li>Fair value movements taken through the income statement (FVTPL), with the exception of the LIORC investment where fair value movements are taken through other comprehensive income FVTOCI.</li> <li>Royalty income is not recognised as revenue in the income statement and instead reduces the fair value of the asset.</li> </ul>	<ul style="list-style-type: none"> <li>EVBC</li> <li>Dugbe 1</li> <li>McClellan Lake</li> <li>Piauí</li> <li>LIORC</li> </ul>
<ul style="list-style-type: none"> <li>Investment property</li> </ul>	<ul style="list-style-type: none"> <li>Direct ownership of sub-stratum land</li> <li>Returns based on royalty related production</li> </ul>	<ul style="list-style-type: none"> <li>Investment property is carried at fair value on the balance sheet</li> <li>Movements in fair value recognised in income statement</li> <li>Royalty income is recognised as revenue in the income statement</li> </ul>	<ul style="list-style-type: none"> <li>Kestrel</li> <li>Crinum</li> </ul>

**Key sources of estimation uncertainty****Assessment of fair value of royalty arrangements held at fair value**

A number of the Group's 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 are set out in [note 16](#). The key assumptions relating to the Group's royalty financial instruments classified as fair value through profit or loss, are set out in [notes 17 and 34](#).

**Impairment review of intangible assets**

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 8.00% and 12.50% 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.

**Uncertain tax provisions**

The Group operates across many tax jurisdictions. Application of tax law can be complex and requires judgement to assess risk and estimate outcomes, particularly in relation to the Group's cross-border operations and transactions. The evaluation of tax risks considers both amended assessments received and potential sources of challenge from tax authorities. In some cases, it may not be possible to determine a range of possible outcomes or a reliable estimate of the potential exposure.

Tax matters with uncertain outcomes arise in the normal course of business and occur due to changes in tax law, changes in interpretation of tax law, periodic challenges and disagreement with tax authorities. Tax obligations assessed as having probable future economic outflows capable of reliable measurement are provided for at 31 December 2018 (refer to [note 12](#)). Matters with a possible economic outflow and/or presently incapable of being measured reliably are contingent liabilities and disclosed in [note 37](#).

**5 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

**AMERICAS:** McClean Lake, Maracás Menchen, LIORC, Ring of Fire, Piauí, Cañariaco

**EUROPE:** EVBC, Salamanca

**OTHER:** 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 31 December 2018 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 revenue	36,189	9,838	–	77	46,104
Amortisation of royalties	(2,469)	(505)	–	–	(2,974)
Operating expenses	(2,380)	–	–	(3,652)	(6,032)
<b>TOTAL SEGMENT OPERATING PROFIT/(LOSS)</b>	<b>31,340</b>	<b>9,333</b>	<b>–</b>	<b>(3,575)</b>	<b>37,098</b>
<b>TOTAL SEGMENT ASSETS</b>	<b>169,051</b>	<b>82,914</b>	<b>6,702</b>	<b>10,580</b>	<b>269,247</b>
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	2,098	–	4	2,102
<b>TOTAL SEGMENT LIABILITIES</b>	<b>38,738</b>	<b>1,178</b>	<b>668</b>	<b>10,555</b>	<b>51,139</b>



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The segment information for the year ended 31 December 2017 is as follows:

	Australia Royalties £'000	Americas Royalties £'000	Europe Royalties £'000	All other segments £'000	Total £'000
Royalty related revenue	33,692	3,927	1,689	258	39,566
Amortisation of royalties	(2,623)	(493)	–	–	(3,116)
Operating expenses	(2,987)	–	–	(2,903)	(5,890)
<b>TOTAL SEGMENT OPERATING PROFIT/(LOSS)</b>	<b>28,082</b>	<b>3,434</b>	<b>1,689</b>	<b>(2,645)</b>	<b>30,560</b>
<b>TOTAL SEGMENT ASSETS</b>	<b>168,823</b>	<b>43,122</b>	<b>6,328</b>	<b>35,089</b>	<b>253,362</b>
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	–	–	–	–
<b>TOTAL SEGMENT LIABILITIES</b>	<b>30,539</b>	<b>–</b>	<b>676</b>	<b>2,732</b>	<b>33,947</b>

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 revenue in Australia of £36,189,000 (2017: £33,692,000) includes the Kestrel and Narrabri royalties which generated £32,648,000 and £3,445,000 respectively (2017: Kestrel £28,746,000; Narrabri: £4,946,000). Individually the revenue generated by Kestrel represented greater than 10% of the Group's revenue in both 2017 and 2018. In 2017 the revenue generated by Narrabri represented greater than 10% of the Group's revenue.

The royalty related revenue in the Americas of £9,838,000 (2017: £3,927,000) includes the Maracás Menchen royalty which generated £5,877,000 (2017: £2,001,000). Individually the revenue generated by Maracás Menchen represented greater than 10% of the Group's revenue in 2018.

The royalty related revenue from Narrabri, Maracás Menchen detailed above, together with the £0.1m from Four Mile (2017: nil) represents revenue recognised from contracts with customers as defined by IFRS 15.

**Impairments**

The Group recognised an impairment charge of £2.2m (A\$4.0m) in relation to the Pilbara royalty, which is within the "Australia royalties" segment during the year ended 31 December 2018. There was no impairment of the Group's royalty intangible assets during the year ended 31 December 2017. Refer to [note 18](#) for further details on the Group's impairments.

**6 ROYALTY RELATED REVENUE**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Royalty income	42,067	37,382
Interest from royalty related financial assets	2,088	2,184
Dividends from royalty financial instruments	1,949	–
	<b>46,104</b>	<b>39,566</b>

**7A EXPENSE BY NATURE**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Employee benefit expense ( <a href="#">note 8a</a> )	3,866	3,794
Professional fees	1,173	1,073
Listing fees	97	127
Operating lease payments	229	227
Other expenses	667	669
	<b>6,032</b>	<b>5,890</b>

**7B AUDITOR'S REMUNERATION**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Fees payable to Company's auditor for the audit of Parent Company and consolidated financial statements	147	83
<b>FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES FOR OTHER SERVICES:</b>		
– The audit of Company's subsidiaries	26	34
<b>TOTAL AUDIT FEES</b>	<b>173</b>	<b>117</b>
– Other assurance services pursuant to legislation	56	30
– Other services	7	23
<b>TOTAL NON-AUDIT FEES</b>	<b>63</b>	<b>53</b>

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 are safeguarded are set out in the Audit Committee Report on [page 63](#). No services were provided pursuant to contingent fee arrangements.

**8A EMPLOYEE COSTS**

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Wages and salaries	2,174	2,293	2,143	2,171
Share-based awards to directors and employees	1,323	1,174	1,323	1,174
Social security costs	276	261	273	258
Other pension costs	93	66	93	66
	<b>3,866</b>	<b>3,794</b>	<b>3,832</b>	<b>3,669</b>

**8B RETIREMENT BENEFITS PLANS**

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

The total cost charged to income of £93,000 (2017: £66,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2018, contributions of £11,600 (2017: £8,500) due in respect of the current reporting period had not been paid over to the schemes.

**8C AVERAGE NUMBER OF PEOPLE EMPLOYED**

	2018	2017
<b>GROUP</b>		
Number of employees	10	10
	2018	2017
<b>GROUP</b>		
Average number of people (including executive directors) employed:		
Executive directors	1	1
Administration	9	9
	<b>10</b>	<b>10</b>

**Company**

The average number of administration staff employed by the Company during the year, including Executive Directors was 9 (2017: 9). Directors' salaries are shown in the Directors' Remuneration Report on [pages 66 to 77](#), including the highest paid Director.

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**9 FINANCE INCOME**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Interest on bank deposits	82	19
	<b>82</b>	<b>19</b>

**10 FINANCE COSTS**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Professional fees	(574)	(422)
Revolving credit facility fees and interest	(468)	(373)
	<b>(1,042)</b>	<b>(795)</b>

**11 OTHER NET INCOME/(LOSSES)**

	2018 £'000	2017 £'000
<b>GROUP</b>		
Revaluation of foreign exchange instruments	387	(188)
Gain on disposal of royalty financial instrument	1,720	–
Other losses	(64)	(300)
	<b>2,043</b>	<b>(488)</b>

**12 INCOME TAX EXPENSE**

	2018 £'000	2017 £'000
<b>ANALYSIS OF CHARGE FOR THE YEAR</b>		
United Kingdom corporation tax credit	14	3
Overseas tax	6,615	2,132
Adjustments in respect of prior years	1,749	(138)
Current tax	8,378	1,997
Deferred tax charge in current year	7,373	853
Adjustments in respect of prior years	–	(1,530)
Deferred tax	7,373	(677)
<b>INCOME TAX EXPENSE</b>	<b>15,751</b>	<b>1,320</b>

The effective tax rate for the year of 35.4% (2017: 11.2%) is higher (2017: lower) than the applicable weighted average statutory rate of corporation tax in the United Kingdom of 19.00% (2017: 19.25%). The reconciling items are:

	2018 £'000	2017 £'000
Factors affecting tax charge for the year:		
<b>PROFIT BEFORE TAX</b>	44,544	11,847
Tax on profit calculated at United Kingdom corporation tax rate of 19.00% (2017: 19.25%)	8,463	2,281
<b>TAX EFFECTS OF:</b>		
<i>Items non-taxable/deductible for tax purposes:</i>		
Non-deductible expenses	1,393	1,120
Non-taxable income	(2,307)	–
<i>Temporary difference adjustments</i>		
Utilisation of losses not previously recognised	(826)	(1,986)
Current year losses not recognised	(1,873)	199
Write down of deferred tax assets previously recognised	–	1,016
Adjustment in deferred tax due to change in tax rate	1,841	(2,418)
Other temporary difference adjustments	369	(667)
<i>Other adjustments</i>		
Withholding taxes	2,851	2,132
Effect of differences between local and United Kingdom tax rates	4,732	1,309
Prior year adjustments to current tax	1,108	(1,668)
Other adjustments	–	2
<b>INCOME TAX EXPENSE</b>	<b>15,751</b>	<b>1,320</b>

The Group's effective tax rate for the year ended 31 December 2018 was 35.4% (2017: 11.2%). The higher effective tax rate in 2018 compared to the headline tax rate is mainly due to the majority of the Group's revenue producing assets being held in Australian subsidiaries and as such are subject to higher corporation tax rate.

In future periods, it is expected that the Group's effective tax rate will mainly be driven by the prevailing Australian tax corporation tax rates.

Refer to [note 27](#) for information regarding the Group's deferred tax assets and liabilities.

#### Uncertain tax provisions

As outlined in [note 4](#), tax matters with uncertain outcomes arise in the normal course of business and occur due to changes in tax law, changes in interpretation of tax law, periodic challenges and disagreement with tax authorities. Where such matters are assessed as having probable future economic outflows capable of reliable measurement they are provided for. During the year, the Group increased its provision for uncertain tax positions by £1.7m (2017: nil). Matters with possible economic outflow and/or presently incapable of being measured reliably are contingent liabilities and are disclosed in [note 37](#).

The Group does not currently have any material unresolved tax matters or disputes with tax authorities. Recent changes to and the interpretation of tax legislation in certain jurisdictions where the Group has established structures may however, be a potential source of challenge from tax authorities. Due to the complexity of changes in international tax legislation, the Group has taken local advice and has recognised provisions where necessary. None of these provisions are material in relation to the Group's assets or liabilities.

### 13 EARNINGS PER SHARE

Earnings per ordinary share is calculated on the Group's profit after tax of £28,793,000 (2017: £10,527,000) and the weighted average number of shares in issue during the year of 180,277,848 (2017: 178,895,115).

	2018 £'000	2017 £'000
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		
Earnings – basic	28,793	10,527
Earnings – diluted	28,793	10,527

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	2018	2017
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE</b>		
Basic number of shares outstanding	180,277,848	178,895,115
Dilutive effect of Employee Share Option Scheme	353,179	267,660
<b>DILUTED NUMBER OF SHARES OUTSTANDING</b>	<b>180,631,027</b>	<b>179,162,775</b>
Earnings per share – basic	15.97p	5.88p
Earnings per share – diluted	15.94p	5.88p

Earnings 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 31 December 2018 (31 December 2017: 925,933).

**Adjusted earnings per share**

Adjusted earnings represent 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.

Valuation and other non-cash movements such as these are not considered by management in assessing the level of profit and cash generation available for distribution to shareholders. As such, an adjusted earnings measure is used which reflects the underlying contribution from the Group's royalties during the year.

	Earnings £'000	Earnings per share p	Diluted earnings per share p
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>			
Earnings – basic and diluted for the year ended 31 December 2018	28,793	15.97p	15.94p
<i>Adjustment for:</i>			
Amortisation of royalty intangible assets	2,974		
Gain on sale of royalty financial instruments	(1,720)		
Impairment of royalty and exploration intangible assets	2,234		
Receipts from royalty financial instruments	1,975		
Revaluation of royalty financial instruments	871		
Revaluation of coal royalties (Kestrel)	(10,061)		
Revaluation of foreign currency instruments	(387)		
Share-based payments and associated national insurance	1,323		
Tax effect of the adjustments above	6,481		
Adjusted earnings – basic and diluted for the year ended 31 December 2018	32,483	18.02p	17.98p

	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net profit attributable to shareholders			
Earnings – basic and diluted for the year ended 31 December 2017	10,527	5.88p	5.88p
<i>Adjustment for:</i>			
Amortisation of royalty intangible assets	3,116		
Gain on sale of mining and exploration interests	(1,774)		
Impairment of mining and exploration interests	219		
Revaluation of royalty financial instruments	6,324		
Revaluation of coal royalties (Kestrel)	11,933		
Revaluation of foreign currency instruments	188		
Share-based payments and associated national insurance	1,173		
Tax effect of the adjustments above	(1,612)		
Adjusted earnings – basic and diluted for the year ended 31 December 2017	30,094	16.82p	16.80p



In 2015 the Group recognised an impairment and a corresponding deferred tax asset and gain of £7.6m, which was excluded from adjusted earnings. In subsequent years a deferred tax expense arose on utilisation of the losses which is therefore also excluded from adjusted earnings. The adjustment included in tax effect of adjustments in the year ended 31 December 2018 was £3.5m (2017: £4.1m).

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

	2018	2017
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE</b>		
Basic number of shares outstanding	180,277,848	178,895,115
Dilutive effect of Employee Share Option Scheme	353,179	267,660
<b>DILUTED NUMBER OF SHARES OUTSTANDING</b>	<b>180,631,027</b>	<b>179,162,775</b>

#### 14 DIVIDENDS AND DIVIDEND COVER

On 15 February 2018 an interim dividend of 1.50p per share was paid to shareholders in respect of the year ended 31 December 2017. On 31 May 2018 a final dividend of 2.50p per share was paid to shareholders to make a total dividend for the year ended 31 December 2017 of 7.00p per share. The first quarterly dividend of 1.625p for the year ended 31 December 2018 was paid to shareholders on 15 August 2018. On 15 November 2018 the second quarterly dividend of 1.625p was paid to shareholders. Total dividends paid during the year were £12.9m (2017 £15.9m).

On 14 February 2019 a further quarterly dividend of 1.625p per share was paid to shareholders in respect of the year ended 31 December 2018. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 3.125p per share be paid to shareholders on 30 May 2019, to make a total dividend for the year of 8.00p 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 2018 will be payable to all shareholders on the Register of Members on 17 May 2019. The total estimated dividend to be paid is £5.6m. 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 31 December 2018 is 18.02p per share (*note 13*) with dividends for the year totalling 8.00p, resulting in dividend cover of 2.3x (2017: adjusted earnings per share 16.82p, dividends totalling 7.00p, dividend cover 2.4x).

#### 15 PROPERTY, PLANT AND EQUIPMENT

<i>Group</i>	<i>Other assets £'000</i>	<i>Equipment and fixtures £'000</i>	<i>Total £'000</i>
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2018	1,356	276	1,632
Additions	–	4	4
At 31 December 2018	1,356	280	1,636
<b>DEPRECIATION AND IMPAIRMENT</b>			
At 1 January 2018	(1,356)	(232)	(1,588)
Depreciation	–	(26)	(26)
At 31 December 2018	(1,356)	(258)	(1,614)
<b>CARRYING AMOUNT 31 DECEMBER 2018</b>	<b>–</b>	<b>22</b>	<b>22</b>

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<i>Group</i>	<i>Other assets £'000</i>	<i>Equipment and fixtures £'000</i>	<i>Total £'000</i>
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2017	1,356	276	1,632
At 31 December 2017	1,356	276	1,632
<b>DEPRECIATION AND IMPAIRMENT</b>			
At 1 January 2017	(1,356)	(199)	(1,555)
Depreciation	–	(33)	(33)
At 31 December 2017	(1,356)	(232)	(1,588)
<b>CARRYING AMOUNT 31 DECEMBER 2017</b>	<b>–</b>	<b>44</b>	<b>44</b>

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 2017 or 2018.

<i>Company</i>	<i>Other assets £'000</i>	<i>Equipment and fixtures £'000</i>	<i>Total £'000</i>
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2018	821	276	1,097
Additions	–	4	4
At 31 December 2018	821	280	1,101
<b>DEPRECIATION AND IMPAIRMENT</b>			
At 1 January 2018	(821)	(232)	(1,053)
Depreciation	–	(26)	(26)
At 31 December 2018	(821)	(258)	(1,079)
<b>CARRYING AMOUNT 31 DECEMBER 2018</b>	<b>–</b>	<b>22</b>	<b>22</b>

<i>Company</i>	<i>Other assets £'000</i>	<i>Equipment and fixtures £'000</i>	<i>Total £'000</i>
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2017	821	276	1,097
At 31 December 2017	821	276	1,097
<b>DEPRECIATION AND IMPAIRMENT</b>			
At 1 January 2017	(821)	(199)	(1,020)
Depreciation	–	(33)	(33)
At 31 December 2017	(821)	(232)	(1,053)
<b>CARRYING AMOUNT 31 DECEMBER 2017</b>	<b>–</b>	<b>44</b>	<b>44</b>

**16 COAL ROYALTIES (KESTREL)**

	<i>Group £'000</i>
At 1 January 2017	116,885
Foreign currency translation	(686)
Loss on revaluation of coal royalties	(11,933)
At 31 December 2017	104,266
Foreign currency translation	(4,549)
Gain on revaluation of coal royalties	10,061
At 31 December 2018	109,778

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 2018 at £109.8m (A\$198.2m) (2017: £104.3m and A\$180.2m) by an independent coal industry advisor, on a net present value of the pre-tax cash flow discounted at a nominal rate of 7.50% (2017: 7.50%). The key assumptions in the independent valuation relate to price and discount rate.

The price assumptions used in the 2018 valuation decrease from US\$165/t in the short-term to a long-term flat nominal price of US\$128/t. If the price were to increase or decrease 10% 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\$167.7m (€92.8m) and an £17.1m reversal of the revaluation gain in the income statement, resulting in a revaluation loss of £7.0m; and
- a 10% increase in the coal price would have resulted in the coal royalties being valued at A\$229.5m (€127.1m) and an increase of £17.5m in the revaluation gain in the income statement to £27.6m.

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\$204.0m (€113.0m) and a £3.2m increase in the revaluation gain in the income statement to £13.3m; and
- a 1% increase in the nominal discount rate would have resulted in the coal royalties being valued at A\$192.8m (€106.8m) and a £3.1m decrease in the revaluation gain in the income statement to £7.0m.

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 to 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 £5.1m (A\$9.2m) of capital losses potentially available to offset against taxable gains. As it is not the Group's present intention to dispose of the coal royalty, these losses have not been included in the deferred tax calculation (*note 27*). Were the coal royalty to be carried at cost the carrying value would be £0.2m (2017: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

Refer to *note 34* 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 26*).

## 17 ROYALTY FINANCIAL INSTRUMENTS

The details of the Group's royalty financial instruments, which are held at fair value are summarised below:

		Original Cost '000	Royalty Rate	Escalation	Classification	31 December 2018 Carrying value £'000	31 December 2017 Carrying value £'000
EVBC	Gold, Silver, Copper	C\$7,500	2.50%	3% gold >US\$1,100/oz	FVTPL	3,929	3,979
Dugbe 1	Gold	US\$15,000	2.00%	2.5% >US\$1,800/oz & production <50,000oz/qrt	FVTPL	1,226	3,408
McClellan Lake	Uranium	C\$2,700	–	22.5% of tolling milling receipt on production >215Mlbs	FVTPL	1,671	1,877
Piui	Nickel-Cobalt	US\$2,000	1.00%	–	FVTPL	1,011	1,603
LIORC	Iron Ore	C\$66,105	7.00%	–	FVTOCI	38,368	–
						46,205	10,867

The Group's royalty instruments are represented by four royalty agreements, EVBC, Dugbe 1, McClellan Lake, and Piui 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. All four royalty agreements are classified as fair value through profit or loss ('FVTPL').

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 fair value through profit or loss in accordance with IFRS 9 and are carried at fair value in accordance with the Group's classification of royalty arrangements criteria set out in *note 4*.

The Group's fifth royalty financial instrument, is its equity investment in Labrador Iron Ore Company ('LIORC'), which was acquired during 2018 and entitles the Group to a share of the 7% GRR LIORC receives from the Iron Ore Company of Canada ('IOC') mine and distributes to its shareholders via dividends. As LIORC is a single asset company, being GRR over the IOC mine, the Group has classified its investment in LIORC as a royalty financial instrument and made an irrevocable election to designate it as FVTOCI.

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The movement in the Group's royalty financial instruments is summarised in the table below.

	Group £'000	Company £'000
<b>FAIR VALUE</b>		
At 1 January 2017	13,556	6,724
Additions	3,323	–
Revaluation of royalty financial instruments recognised in profit or loss	(6,324)	(3,076)
Revaluation of royalty financial instruments recognised in equity	496	496
Foreign currency translation	(184)	(165)
At 31 December 2017	10,867	3,979
Additions	38,408	–
Royalties due or received from royalty financial instruments	(1,975)	(1,975)
Revaluation of royalty financial instruments recognised in profit or loss	(871)	1,925
Revaluation of royalty financial instruments recognised in equity	290	–
Foreign currency translation	(514)	–
At 31 December 2018	46,205	3,929

**Jogjakarta**

The Group received £1.7m (US\$2.5m) during 2018 in final settlement of its outstanding US\$4m 8% secured debenture with Indo Mines, that was fully impaired at 31 December 2017. Given the challenges which the project encountered, the Group commenced discussions with the majority shareholder of Indo Mines in 2017 which ultimately culminated in a takeover, including the Group's outstanding debenture. As a result, the Group received US\$4.9m over the life of the debenture and represents a highly satisfactory exit considering the many challenges which the project has faced.

**EVBC**

The Group's EVBC royalty acquired in 2008 was initially accounted for as an available-for-sale equity financial asset, carried at fair value with all movements in fair value recognised in the investment revaluation reserve in equity. Following the adoption of IFRS 9, EVBC was classified as FVTPL resulting in movements in the fair value being recognised directly in the income statement. In addition, the royalties received from EVBC following the adoption of IFRS 9 are no longer recognised in the income statement but instead reduce the fair value.

The Group received royalties from EVBC totalling £2.0m during the year ended 31 December 2018, which initially reduced the carrying value. As at 31 December 2018 the Group determined the fair value of EVBC by calculating the discounted future flows of the royalty with an 8.75% (2017: 7.00%) pre-tax nominal discount rate, resulting in a valuation of £3.9m (2017: £3.9m). As a result of the fair value remaining constant year on year, the royalties received equated to the royalty financial instrument valuation gain recognised in the income statement.

**Dugbe 1**

On February 23, 2016, Hummingbird Resources PLC ('Hummingbird'), the operator of the Dugbe 1 project, gave notice under the US\$15.0m royalty financing arrangement with the Group that a Mineral Development Agreement ('MDA') had been approved by the Liberian Government although this is yet to be signed into law. There are certain mechanisms available to the Group to recover the US\$15.0m investment, although at present these seem unlikely to be triggered.

The net smelter return royalty over the Dugbe 1 project is classified as FVTPL as outlined in [note 4](#). As at 31 December 2018 the Group assessed the likely start date of commercial production at Dugbe 1 to be 2030 (2017: 2025), and have applied a 75% (2017: 75%) probability factor to the project reaching commercial production to the discounted future flows of the royalty with an 22.00% (2017: 18.00%) pre-tax nominal discount rate, resulting in a valuation of £1.2m (2017: £3.4m). The £2.1m decrease (2017: £3.4m decrease) in carrying value has been recognised as a royalty financial instrument valuation charge to the income statement for the year.

**McClean Lake**

On February 13, 2017, the Group completed a C\$43.5m (£26.6m) financing and streaming agreement with Denison Mines Inc ('Denison'). The financing agreement comprises two separate transactions: a 13-year amortising secured loan of C\$40.8m (£24.9m) with an interest rate of 10% per annum payable to the Group and is classified as non-current other receivables ([note 22](#)); and a 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 from July 1, 2016, was acquired for C\$2.7m (£1.7m) and is classified as FVTPL in accordance with [note 4](#).

As at 31 December 2018, the Group assessed the probability of the McClean Lake Mill achieving throughput in excess of 215Mlbs at 50% (2017: 50%), and applied this to the discounted future cash flows of the stream with a 7.50% (2017: 6.5%) pre-tax nominal discount rate, resulting in a valuation of £1.7m (2017: £1.9m). The £0.2m decrease (2017: £0.2m increase) in the carrying value of the stream has been recognised in the income statement for the year.

**Piauí**

On September 14, 2017, the Group acquired a 1% gross revenue royalty over the Piauí nickel-cobalt project in Brazil for US\$2.0m (£1.6m). Under the acquisition agreement, subject to certain development milestones, the Group has the option to acquire up to a total of US\$70.0m in additional gross revenue royalties. On initial recognition the Group decided to invoke the fair value option in classifying this royalty financial instrument, due to there being one or more embedded options that are not closely related in the underlying contract. Following the adoption of IFRS 9 the Group continues classify the Piauí royalty as FVTPL.

As at 31 December 2018 the Group assessed the probability of the Piauí project reaching commercial production at 25% (2017: 30%) and applied this to the discounted future cash flows of the royalty with a 13.50% (2017: 12.00%) pre-tax nominal discount rate, resulting in a valuation of £1.0m (2017: £1.6m) which is equal to the acquisition cost. The £0.5m decrease in carrying value has been recognised as a royalty financial instrument valuation charge to the income statement for the year.

#### LIORC

During the year ended 31 December 2018, the Group acquired 2,747,890 shares in Labrador Iron Ore Royalty Company ('LIORC') at a cost of C\$60.1m (£38.4m). As the dividend income the Group receives from LIORC is derived from the 7% GRR that LIORC holds over the Labrador operations of the Iron Ore Company of Canada ('IOC'), and the 10% commission LIORC earns on all iron ore product produced, sold and shipped by IOC, together with any dividends LIORC receives from its 15.10% equity interest IOC, the Group has classified its investment in LIORC as a royalty financial instrument. On initial recognition the Group made the irrevocable election to designate this investment as FVTOCI. As at 31 December 2018, the Group's investment in Labrador was valued at £38.7m, resulting in a £0.3m gain on revaluation being recognised in the investment revaluation reserve. The resulting dividends from the Group's investment in Labrador Iron Ore have been classified as royalty related revenue (as described in [note 2\(c\)](#)).

### 18 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
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2018	697	115,069	115,766
Additions	–	2,098	2,098
Foreign currency translation	–	(4,541)	(4,541)
At 31 December 2018	697	112,626	113,323
<b>AMORTISATION AND IMPAIRMENT</b>			
At 1 January 2018	(697)	(37,648)	(38,345)
Amortisation charge	–	(2,974)	(2,974)
Impairment charge	–	(2,234)	(2,234)
Foreign currency translation	–	1,424	1,424
At 31 December 2018	(697)	(41,432)	(42,129)
<b>CARRYING AMOUNT 31 DECEMBER 2018</b>	–	71,194	71,194

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2017	697	115,017	115,714
Additions	–	1,125	1,125
Foreign currency translation	–	(1,073)	(1,073)
At 31 December 2017	697	115,069	115,766
<b>AMORTISATION AND IMPAIRMENT</b>			
At 1 January 2017	(697)	(34,970)	(35,667)
Amortisation charge	–	(3,116)	(3,116)
Foreign currency translation	–	438	438
At 31 December 2017	(697)	(37,648)	(38,345)
<b>CARRYING AMOUNT 31 DECEMBER 2017</b>	–	77,421	77,421

Company	2018 £'000	2017 £'000
<b>ROYALTY INTERESTS</b>		
At 1 January and 31 December	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.



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**Acquisition of royalty interests**

Under the terms of the Maracás Menchen royalty sale agreement entered into in 2014, a further US\$3.0m of cash is payable when the project reaches certain annualised production milestones. The first of these milestones was annualised production over a quarter of 9,500t which was achieved in Q3 2017, resulting in the Group paying the first tranche of deferred consideration of US\$1.5m (€1.1m) in November 2017. This amount had previously been provided for with a corresponding deferred acquisition cost asset (see [note 20](#)) which was transferred to intangibles on payment in the year.

The Group has recognised the second tranche of deferred consideration of US\$1.5m (€1.2m) due under the royalty agreement to acquire the Maracás Menchen royalty. This follows the record production achieved by Largo throughout H1 2018, and Group's expectation that Largo will achieve, in a quarter, an annualised rate of production of 12,000t in the next 12 to 18 months. A corresponding liability has been included in trade and other payables on the balance sheet as at 31 December 2018 (refer to [note 28](#)).

On 11 June 2018, the Group completed its acquisition of the 0.5% NSR over the Canariaco copper royalty from Entrée Resources Limited in exchange for 478,951 new ordinary shares of 2p each, issued at 156.6p per share resulting total consideration for the royalty £0.8m (US\$1.0m).

**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 2018, and were amortised on the following basis:

Royalty interest	Carrying value 31 December 2018 A\$'000	Carrying value 31 December 2017 A\$'000	Estimated life of mine	Remaining life of mine
Narrabri	72,675	76,715	22 years	18 years
Maracás Menchen	24,680	23,456	29 years	25 years
Four Mile	2,226	2,597	10 years	6 years

The amortisation charge for the period, of £3.0m (31 December 2017: £3.1m) relates to the Group's producing royalties, Narrabri, Maracás Menchen and Four Mile. Amortisation of the remaining interests will commence once they begin commercial production.

at 31 December 2018, 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 26](#)).

**Impairments of royalty intangible assets**

As described in [notes 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 4 outlines the impairment methodology applied.

**Pilbara iron ore royalty**

Despite recent announcements by BHP in relation to the expansion of Mining Area C, and in particular the South Flank development in the Pilbara, limited information is publicly available for the Group to assess the likely timing of the development of tenements covered by the Group's royalty, the largest of which covers the Railway Deposit which is located to the north of the South Flank development.

In the absence of any public available information, the Group has estimated the likely start date for production from tenements covered by the Group's royalty to be 2030 (2017: start date 2027). Applying this start date to the Group's valuation model, together with a pre-tax nominal discount rate of 8.00% and a long-term iron ore price of US\$106/dmtu for lump and US\$94/dmtu for fines resulted in a net present value of the discount future royalty cash flows of A\$17.5m, compared to the carrying value of A\$21.5m. As a result of the net present value being lower than the carrying value, the Group recognised an impairment charge of A\$4.0m (€2.2m) for the year ended 31 December 2018.

There were no impairments recognised during the year ended 31 December 2017.

**19 MINING AND EXPLORATION INTERESTS**

	Group £'000	Company £'000
<b>FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>		
At 1 January 2017	17,062	13,861
Disposals	(2,424)	(2,424)
Revaluation adjustment	1,737	1,836
Foreign currency translation	56	–
At 31 December 2017	16,431	13,273
Return of capital	(827)	–
Disposals	(612)	(562)
Revaluation adjustment	(12,147)	(10,154)
Foreign currency translation	3	2
At 31 December 2018	2,848	2,559

The fair values of listed securities are based on quoted market prices. Unquoted investments and royalty options are initially recognised using cost where fair value cannot be reliably determined. In the absence of an active market for these securities, the Group considers each unquoted security to ensure there has been no material change in the fair value since initial recognition.

Following the transition to IFRS 9 on 1 January 2018, mining and exploration interests are now held at fair value through other comprehensive income, with the effect that the gains and losses on disposal and impairment losses are no longer recycled from reserves to the income statement for this category of asset, but rather are transferred to retained earnings.

For the year ended 31 December 2018 the Group realised £0.6m in cash (2017: £2.4m) 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 £0.4m for the year ended 31 December 2018 which was transferred to retained earnings following the adoption of IFRS 9 (2017: £1.8m recycled to the income statement).

In addition to the disposals outlined above, the Group received £0.8m in cash (2017: Nil) from one of its unquoted investments following a capital reduction.

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

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	2,443	2,386	13,270	13,095
Unquoted investments	405	173	3,161	178
	2,848	2,559	16,431	13,273
Number of investments	9	7	10	8

## 20 DEFERRED COSTS

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
<b>CARRYING AMOUNT</b>			
At 1 January 2018	202	487	689
Additions	219	796	1,015
Released to income during the year	(202)	(574)	(776)
Foreign currency translation	–	(2)	(2)
<b>CARRYING AMOUNT AT 31 DECEMBER 2018</b>	219	707	926

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
<b>CARRYING AMOUNT</b>			
At 1 January 2017	1,370	–	1,370
Transferred from borrowings	–	133	133
Additions	224	632	856
Transfer to royalty intangible assets	(1,125)	–	(1,125)
Transfer to royalty financial instrument	(11)	–	(11)
Transfer to interest bearing receivable	(153)	–	(153)
Released to income during the year	(13)	(279)	(292)
Foreign currency translation	(90)	1	(89)
<b>CARRYING AMOUNT AT 31 DECEMBER 2017</b>	202	487	689

Company	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
<b>CARRYING AMOUNT</b>			
At 1 January 2018	202	247	449
Additions	219	398	617
Released to income during the year	(202)	(280)	(482)
<b>CARRYING AMOUNT AT 31 DECEMBER 2018</b>	219	365	584

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<i>Company</i>	<i>Deferred acquisition costs £'000</i>	<i>Deferred financing costs £'000</i>	<i>Total £'000</i>
<b>CARRYING AMOUNT</b>			
At 1 January 2017	155	–	155
Additions	224	355	579
Transfer to interest bearing receivable	(153)	–	(153)
Released to income during the year	(13)	(108)	(121)
Transfer to subsidiary	(11)	–	(11)
<b>CARRYING AMOUNT AT 31 DECEMBER 2017</b>	<b>202</b>	<b>247</b>	<b>449</b>

**Deferred acquisition costs**

As at 31 December 2018 deferred acquisition costs of £0.2m (2017: £0.2m) represent those costs associated with royalty acquisitions that the Group are actively pursuing and expect to complete in 2019.

**Deferred financing costs**

As at 31 December 2017 deferred financing costs represent the costs associated with entering into the US\$30.0m, three-year secured revolving credit facility with a US\$10.0m accordion that have been deferred and will be amortised over the term of the facility.

During the year ended 31 December 2018 all costs associated with the 2017 refinancing were amortised in full following a further refinancing of the Group's revolving credit facility in September 2018. As at 31 December 2018 deferred financing costs of £0.7m represent the arrangement fees and legal costs associated with the new US\$60.0m revolving credit facility with a US\$30.0m accordion. The new facility has been provided by a syndicate of three banks with a three-year term, together with an option to extend the facility by 12 months (refer to note 26). The deferred costs will be amortised over the term of facility.

**21 INVESTMENTS IN SUBSIDIARIES**

The Group's full listing of subsidiaries is provided in [note 38](#). The Company's investment in subsidiaries as 31 December 2018 and 31 December 2017 is as follows:

	<b>£'000</b>
<b>COST</b>	
At 1 January 2018	85,865
Capital injection into subsidiaries	39,346
Return of capital from subsidiaries	(4,789)
At 31 December 2018	120,422
<b>IMPAIRMENT OF INVESTMENT IN SUBSIDIARY</b>	
At 1 January 2018	(15,658)
Impairment of investment in subsidiaries	(5,325)
At 31 December 2018	(20,983)
Carrying amount 31 December 2018	99,439
	<b>£'000</b>
<b>COST</b>	
At 1 January 2017	70,734
Capital injection into subsidiaries	15,131
<b>AT 31 DECEMBER 2017</b>	<b>85,865</b>
<b>IMPAIRMENT OF INVESTMENT IN SUBSIDIARY</b>	
At 1 January 2017	(14,191)
Reversal of previous impairment of investment in subsidiaries	(1,467)
At 31 December 2017	(15,658)
Carrying amount 31 December 2017	70,207

**22 TRADE AND OTHER RECEIVABLES**

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>CURRENT</b>				
Income tax receivable	398	–	388	–
Prepayments	141	127	130	116
Royalty receivables	9,464	424	8,131	264
Other receivables	264	213	53	47
	10,267	764	8,702	427

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>NON-CURRENT</b>				
Other receivables	19,335	19,335	21,259	21,259
Amounts due from subsidiaries	–	37,197	–	35,603
	19,335	56,532	21,259	56,862

**Current trade and other receivables**

Trade and other receivables principally comprise amounts relating to royalties receivable for the final quarter in each year. The increase in royalty receivables as at 31 December 2018 is the result of increased Q4 2018 royalties from both Kestrel and Maracás Menchen.

The Directors consider that the carrying amount of trade and other receivables is approximately their fair value.

**Non-current other receivables**

On 13 February 2017 the Group completed a C\$43.5m (£26.6m) financing and streaming agreement with Denison. The streaming agreement is classified as a royalty financial instrument (*note 17*), with an initial value of C\$2.7m (£1.7m).

The financing agreement is structured as a 13-year secured loan of C\$40.8m (£24.9m) with an interest rate of 10% per annum payable to the Group. The loan contains mandatory repayment provisions in any period where the equivalent toll revenues exceed the interest liability. Conversely, in any period when toll revenues are less than the interest payment, the shortfall is capitalised and carried forward to the next period. The loan principal, along with any capitalised interest, is repayable in full at maturity.

During 2018 the Group has earned £2.0m in interest revenue (2017: £1.9m) and received principal repayments of £1.3m (2017: £3.1m).

Following the adoption of IFRS 9, the Group has assessed the carrying value of the Denison financing agreement for expected credit losses over the next 12 months by making reference to the security held by the Group and the financial position of Denison as at 31 December 2018. The implied probability of default has been assessed at 0.98% resulting in the Group recognising expected credit losses of £0.1m. On transition to IFRS 9, the Group recognised expected credit losses of £0.1m directly in retained earnings.

The movement in non-current other receivables is summarised as follows:

<i>Group and Company</i>	<i>£'000</i>
At 1 January 2017	–
Advances	24,990
Deferred acquisition costs	140
Interest	1,939
Repayments of principal and interest	(4,984)
Foreign currency translation	(826)
At 31 January 2017	21,259
Provision for expected credit losses on transition to IFRS 9	(50)
Interest	2,011
Repayments of principal and interest	(3,286)
Amortisation of deferred acquisition costs	(14)
Expected credit losses	(64)
Foreign currency translation	(521)
	19,335

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**Non-current amounts due from subsidiaries**

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.

**23 DERIVATIVE FINANCIAL INSTRUMENTS**

In 2016, the Group implemented a policy whereby foreign exchange forward contracts can be entered into to manage its exposure to foreign exchange risk associated with its Australian dollar denominated royalty income (*note 34*). 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 31 December is as follows:

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
Fair value as at 31 December	188	—	100	—

As at 31 December 2018 the Group had outstanding forward contracts totalling A\$12.7m (2017: A\$19.4m) to receive £7.2m (2017: £11.3m).

**24 CASH AND CASH EQUIVALENTS**

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

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	4,240	1,024	8,099	1,349
Trading deposits with brokers	983	—	—	—
Cash and cash equivalents	5,223	1,024	8,099	1,349

**25 NET DEBT**

See *note 3.8(a)* and *note 3.8(h)* 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:

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
Revolving credit facility	(8,300)	(8,300)	—	—
Cash and cash equivalents	5,223	1,024	8,099	1,349
Net cash and cash equivalents/(debt)	(3,077)	(7,276)	8,099	1,349

**Movement in net debt**

	Cash and cash equivalents £'000	Medium and long-term borrowings £'000	Net debt £'000
At 1 January 2017	5,331	6,300	(969)
Cash flow	2,587	(6,153)	8,740
Currency movements	181	(147)	328
At 31 December 2017	8,099	—	8,099
Cash flow	(2,795)	8,300	(11,689)
Currency movements	(81)	—	513
At 31 December 2018	5,223	8,300	(3,077)



**26 BORROWINGS**

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>SECURED BORROWING AT AMORTISED COST</b>				
Revolving credit facility	8,300	8,300	–	–
	8,300	8,300	–	–
Amount due for settlement within 12 months	–	–	–	–
Amount due for settlement after 12 months	8,300	8,300	–	–

In February 2017, the Group refinanced its existing facility with a further three-year revolving credit facility of US\$30.0m with a US\$10.0m accordion, maturing in February 2020, which is available at LIBOR plus 300bps. The Group triggered the accordion in November 2017, and as at December 31, 2017 had access to US\$40.0m (£29.6m).

In September 2018, the Group refinanced the facility agreed in 2017 with a three-year revolving credit facility of US\$60.0m with a US\$30.0m accordion, maturing in September 2021, which is available at LIBOR plus 300bps. Under the terms of the new facility, the Group has an option to extend the facility by 12 months. The Group's option to extend the term of the facility expires in March 2020.

Deferred borrowing costs detailed in [note 20](#), relate to the establishment fees and legal fees associated with the 2018 facility and will be amortised over its three-year term. Deferred borrowing costs relating to the 2017 facility were fully amortised at the time of entering the new 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 31 December 2018.

**27 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 royalty instruments £'000	Revaluation of mining interests £'000	Accrual of royalty receivable £'000	Other tax losses £'000	Total £'000
	Revaluation of coal royalty £'000	Effects of tax losses £'000					
At 1 January 2017	34,543	(1,605)	(920)	164	2,667	(7,338)	27,511
Charge/(credit) to profit or loss	(2,908)	1,636	(316)	190	(964)	4,103	1,741
Reclassification from current to deferred tax asset	–	–	–	–	–	–	–
Charge/(credit) to other comprehensive income	–	–	84	(356)	–	–	(272)
Exchange differences	(356)	(31)	14	10	3	(109)	(469)
Effect of change in tax rate:							
– income statement	(2,154)	–	(264)	–	–	–	(2,418)
– equity	–	–	(70)	–	–	–	(70)
At 31 December 2017	29,125	–	(1,472)	8	1,706	(3,344)	26,023
Charge/(credit) to profit or loss	2,232	–	(1,618)	–	(79)	3,502	4,037
Reclassification from current to deferred tax asset	–	–	–	–	–	–	–
Charge/(credit) to other comprehensive income	–	–	–	(8)	–	–	(8)
Exchange differences	(1,331)	–	92	–	(72)	(182)	(1,493)
Effect of change in tax rate:							
– income statement	2,906	–	430	–	–	–	3,336
– equity	–	–	–	–	–	–	–
At 31 December 2018	32,932	–	(2,568)	–	1,555	(24)	31,895

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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:

	2018 £'000	2017 £'000
Deferred tax liabilities	(35,156)	(31,507)
Deferred tax assets	3,261	5,484
	(31,895)	(26,023)

As at 31 December 2018, the Group has no unused tax losses (2017: £11.0m) 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:

	2018				2017			
	Tax losses – trading £'000	Tax losses – capital £'000	Other temporary differences	Total £'000	Tax losses – trading £'000	Tax losses – capital £'000	Other temporary differences	Total £'000
<b>EXPIRY DATE</b>								
Within one year	–	–	–	–	–	–	–	–
Greater than one year, less than five years	–	–	–	–	–	–	–	–
Greater than five years	–	–	–	–	–	–	–	–
No expiry date	12,499	43,058	5,991	61,548	17,683	36,959	5,899	60,541
	12,499	43,058	5,991	61,548	17,683	36,959	5,899	60,541

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:

<i>Company</i>	<i>Revaluation of royalty instruments £'000</i>	<i>Total £'000</i>
At 1 January 2017	662	662
Charge to equity for the year	14	14
At 31 December 2017	676	676
Released to income for the year	(8)	(8)
At 31 December 2018	668	668

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:

	2018 £'000	2017 £'000
<b>COMPANY</b>		
Deferred tax liabilities	668	676
Deferred tax assets	–	–
	668	676

**28 TRADE AND OTHER PAYABLES**

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>CURRENT</b>				
Other taxation and social security payables	74	72	72	68
Trade payables	34	28	16	14
Borrowings from subsidiaries	–	19,278	–	10,726
Accruals and other payables	1,737	1,358	2,406	1,908
Deferred consideration	1,178	–	–	–
	3023	20,736	2,494	12,716

Deferred consideration of £1.2m as a 31 December 2018 relates to the second tranche of deferred consideration of US\$1.5m due under the royalty agreement to acquire the Maracás Menchen royalty. This follows the record production achieved by Largo throughout H1 2018, and Group's expectation that Largo will achieve, in a quarter, an annualised rate of production of 12,000t during the next 12 to 18 months.

The average credit period taken for trade purchases is 26 days (2017: 25 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.

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>NON-CURRENT</b>				
Other taxation and social security payables	575	575	419	419
	575	575	419	419

Non-current other taxation and social security payables relates to employer national insurance due on vesting of the certain share-based payments.

**29 SHARE CAPITAL AND SHARE PREMIUM****Issued share capital**

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
<b>GROUP AND COMPANY</b>					
<b>ORDINARY SHARES OF 2p EACH AT 1 JANUARY 2017</b>	<b>169,942,034</b>	<b>3,399</b>	<b>49,211</b>	<b>29,134</b>	<b>81,744</b>
Issue of share capital under placing (a)	10,960,000	219	12,755	–	12,974
<b>ORDINARY SHARES OF 2p AT 31 DECEMBER 2017</b>	<b>180,902,034</b>	<b>3,618</b>	<b>61,966</b>	<b>29,134</b>	<b>94,718</b>
Issue of share capital on exercise of employee options (b)	89,407	2	73	–	75
Issue of share capital on completion of royalty acquisition (c)	478,951	9	740	–	749
<b>ORDINARY SHARES OF 2p AT 31 DECEMBER 2018</b>	<b>181,470,392</b>	<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>95,542</b>

- (a) On 6 February 2017 the Group issued 10,960,000 new ordinary shares of 2p each to part fund the Denison transaction (refer to [notes 17 and 22](#)). The shares were placed at 125p per share raising gross proceeds of £13.7m (C\$22.4m), and net proceeds of £13.0m.
- (b) On 16 May 2018, the Group issued 37,954 new ordinary shares of 2p each following the exercise of options awarded to employees under the Company Share Option Plan ('CSOP'). The shares were issued at the exercise price of 99.21p per share. On 10 October 2018, the Group issued 51,453 new ordinary shares of 2p each following the exercise of options awarded to employees under the CSOP. The shares were issued at the exercise price of 77p per share.
- (c) On 11 June 2018, the Group issued 478,951 new ordinary shares of 2p each to Entrée Resources Limited as consideration for acquiring the Canariaco copper royalty ([note 9](#)). The shares were issued at 156.6p per share with the total consideration for the Canariaco copper royalty being £0.8m (US\$1.0m).

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**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:

	2018		2017	
	Number of shares	£'000	Number of shares	£'000
<b>OWN SHARES</b>				
Own shares held by the Anglo Pacific Group Employee Benefit Trust	925,933	(2,601)	925,933	(2,601)
<b>TOTAL</b>	<b>925,933</b>	<b>(2,601)</b>	<b>925,933</b>	<b>(2,601)</b>

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 13](#).

**30 SHARE-BASED PAYMENTS**

The Group operates four equity-settled share-based compensation plans as follows:

- The HMRC approved Company Share Ownership Plan (the 'CSOP');
- The Unapproved Share Ownership Plan (the 'USOP');
- 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 Executive 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:

	2018		2017	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	133,981	0.9764	133,981	0.9764
Granted during the year	21,378	1.6367	–	–
Exercised during the year	(89,407)	0.8346	–	–
Surrendered during the year	(18,450)	1.6258	–	–
Forfeited during the year	–	–	–	–
Outstanding at 31 December	47,502	1.2884	133,981	0.9764

Out of the 47,502 outstanding options (2017: 133,981), 19,974 options (2017: nil) were exercisable.

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

Expiry date	Exercise price in £ per share	Options	
		2018	2017
2024	1.6258	6,150	24,600
2025	0.9221	–	37,954
2025	0.7700	19,974	71,427
2028	1.6367	21,378	–
		47,502	133,981
Weighted average remaining contractual life		8.00	7.82

The weighted average fair value of options granted during 2018 determined using a Black-Scholes valuation model was £0.82 per option granted in May 2018. The significant inputs into the model were the weighted average share price of £1.637 at the grant date, exercise price of £1.637, volatility of 40%, expected option life of three years and an annual risk-free rate of 1.16%.

No awards were made under the CSOP during 2017.

#### (b) Unapproved Share Option Plan

The Group's USOP was approved by shareholders at the 2016 AGM. The plan was established to provide the Group additional scope to incentivise employees, particularly those who do not participate in the VCP, over and above the limit of the CSOP. In addition, the USOP is intended to replace the Group's JSOP.

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 and have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

No awards were made under the USOP during 2018. The weighted average fair value of options granted during 2017 determined using a Black-Scholes valuation model was £0.39 per option granted in April 2017. The significant inputs into the model were the weighted average share price of £1.258 at the grant date, exercise price of £0.88, volatility of 40.21%, expected dividend yield of 4.77%, expected option life of four years and an annual risk-free rate of 0.21%.

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

	2018		2017	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	2,097,593	0.8801	–	–
Granted during the year	–	–	2,097,593	0.8801
<b>OUTSTANDING AT 31 DECEMBER</b>	<b>2,097,593</b>	<b>0.8801</b>	<b>2,097,593</b>	<b>0.8801</b>

Out of the 2,097,593 outstanding options (2017: nil), nil options (2017: nil) were exercisable.

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

Expiry date	Exercise price in £ per share	Options	
		2018	2017
2027	–	633,334	633,334
2027	1.2607	1,464,259	1,464,259
		2,097,593	2,097,593
Weighted average remaining contractual life		3.28	4.28

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**(c) Joint Share Ownership Plan**

Under the JSOP, the Remuneration Committee invites selected Executive 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 2017 or 2018, as a result there are no outstanding awards under this plan.

**(d) Value Creation Plan**

Following the approval at the 2014 AGM, the Group implemented 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 31 December 2018 and 31 December 2017 are as follows:

<i>Expiry date</i>	<b>Units 2018</b>	<i>Units 2017</i>
Outstanding at 1 January	86,867	66,880
Awarded in May 2017	–	24,000
Forfeited during the year	–	(4,013)
Outstanding at 31 December	86,867	86,867
Weighted average remaining contractual life	2.50	3.50

At the 2016 AGM, the shareholders approved an amendment to the VCP extending the performance period from five years to seven years, resulting in the weighted average remaining contractual life increasing by two years to 4.5 years.

The weighted average fair value of options granted during 2017 determined using a Monte Carlo valuation model was £35.46 per option granted in May 2017. The significant inputs into the model were the weighted average share price of £1.145 at the grant date, exercise price of nil, volatility of 40.25%, expected dividend yield of 5.25%, expected option life of four years and an annual risk-free rate of 0.30%.

Refer to [note 8\(a\)](#) for the total expense recognised in the income statement for awards under the Group's CSOP, JSOP and VCP granted to Directors and employees.

**31 SPECIAL RESERVE**

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended 30 June 2002. At 31 December 2018, this reserve remains unavailable for distribution.

	<b>Group £'000</b>	<b>Company £'000</b>
At 1 January 2018 and 31 December 2018	632	632



### 32 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:

	2018 £'000	2017 £'000
<b>GROUP</b>		
Within one year	252	330
In the second to fifth years inclusive	–	252
After five years	–	–
	252	582

#### Capital commitments

At the year end the Group had capital commitments of £nil (2017: £nil).

### 33 RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with subsidiaries:

	2018 £'000	Company 2017 £'000
Net financing of related entities	(728)	1,969
Management fee	1,907	2,778
Amounts owed by related parties at year end	37,197	35,603

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 72 to 77](#).

	2018 £'000	2017 £'000
Short-term employee benefits	1,566	1,559
Post-employment benefits	65	52
Share-based payment	985	936
	2,616	2,547

#### Directors' transactions

The Group received £100,114.31 from Audley Capital Advisors LLP, a company which Mr. J.A. Treger, Chief Executive Officer, is both a director and shareholder, for the reimbursement of travel costs and the subletting of office space during the year ended 31 December 2018 (2017: £68,547.76). At 31 December 2018 there was £2,411.94 owing from Audley Capital Advisors LLP (2017: £nil).

The Group paid £14,137.45 to Audley Capital Advisors LLP, a company which Mr. J.A. Treger, Chief Executive Officer, is both a director and shareholder, for office expenses and subscriptions during the year ended 31 December 2018 (2017: £4,562.50). No amounts were owing to Audley Capital Advisors LLP as at 31 December 2018 or 2017.

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**34 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 8 to 54](#) of the Strategic Report.

**Financial instruments**

The Group and Company held the following investments in financial instruments (this includes investment properties):

	2018		2017	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Investment property (held at fair value)</i>				
Coal royalties (Kestrel)	109,778	–	104,266	–
<i>Fair value through other comprehensive income</i>				
Royalty financial instruments	38,368	–	3,979	3,979
Mining and exploration interests	2,848	2,559	16,431	13,273
<i>Fair value through profit of loss</i>				
Royalty financial instruments	7,837	3,929	6,888	–
Derivative financial instruments <sup>1</sup>	188	–	100	–
<i>Loans and receivables</i>				
Trade and other receivables <sup>2</sup>	29,063	57,169	29,444	57,173
Cash at bank and in hand	5,223	1,024	8,099	1,349
<i>Financial liabilities</i>				
Trade and other payables <sup>3</sup>	34	19,306	16	10,740
Borrowings <sup>4</sup>	8,300	8,300	–	–
Deferred consideration <sup>5</sup>	1,178	–	–	–

<sup>1</sup> Derivative financial instruments include the Group's foreign exchange forward contracts, as set out in [note 23](#).

<sup>2</sup> Trade and other receivables include royalty receivables, other receivables and other non-current receivables only, as set out in [note 22](#).

<sup>3</sup> Trade and other payables include trade payables only, as set out in [note 28](#).

<sup>4</sup> Borrowings include the revolving credit facility only, as set out in [note 26](#).

<sup>5</sup> Other payables include the deferred consideration only, as set out in [note 28](#).

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 31 December 2018 the Group borrowings of £8.3m (2017: £nil) and continued to have access to a further £38.8m (US\$49.4m) through its secured US\$60.0m 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
<b>31 DECEMBER 2018</b>			
Interest bearing revolving credit facility	3.69	8,300	8,300
		8,300	8,300
<b>31 DECEMBER 2017</b>			
Interest bearing revolving credit facility	3.50	–	–
		–	–

### Credit risk

The Group's principal financial assets are bank balances, royalty financial instruments (excluding the investment in LIORC), trade and other receivables and investments. These represent the Group's maximum exposure to credit risk in relation to financial assets and total £42.1m at 31 December 2018 (£48.4m at 31 December 2017).

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 17](#) where the future contractual right to cash flows 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 70% 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 £0.3m at 31 December 2018 (£1.6m at 31 December 2017).

Similarly, had there been a 10% increase or decrease in the underlying share price of the Group's investment in LIORC, the Group's royalty financial instrument designated as FVTOCI (and the investment revaluation reserve in equity) would have increased/decreased by £3.8m as at 31 December 2018.

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, vanadium, 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 16](#) and [note 17](#).

### Foreign exchange risk

The Group's transactional foreign exchange exposure arises from income, expenditure and purchase and sale of assets denominated in foreign currencies. With royalty income from Kestrel and Narrabri accounting for over 70% of the Group's income (2017: 80%), the Group's primary foreign exchange exposure is to the Australian dollar, which these royalties are denominated in. In 2016, the Group implemented a hedging policy whereby foreign exchange forward contracts can be entered into with a maximum exposure of 70% of forecast Australian dollar denominated royalty revenue expected to be received during a period not exceeding 12 months from contract date to settlement. Refer to [note 23](#) for further details on the fair value of the foreign exchange forward contracts outstanding at 31 December 2018. The Group has no other hedging programme in place.

In terms of material commitment, the risk in relation to currency fluctuations is assessed by the Executive Committee at the time the commitment is made and regularly reviewed.

Financial assets and liabilities are split by currency as follows:

	2018					2017				
	GBP £'000	AUD £'000	CAD £'000	USD £'000	EUR £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	EUR £'000
Financial assets	6,525	123,140	61,060	2,561	19	9,984	131,915	23,092	4,192	24
Financial liabilities	8,329	–	5	1,178	–	14	–	2	–	–
Net exposure	(1,804)	123,140	61,055	1,383	19	9,970	131,915	23,090	4,192	24

### 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 has 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 £3k (2017: £243k);
- A +/- 10% change in the GBP:CAD rate would increase/decrease profit after tax and equity by £207k (2017: £117k);
- A +/- 10% change in the GBP:USD rate would increase/decrease profit after tax and equity by £12k (2017: £50k).

## FINANCIAL STATEMENTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2018

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 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.

In funding the business activities of the Group, the Directors consider both debt and equity, having regard to the Group's available debt facility and the prevailing share price at the time funding is required. Where funding is obtained through debt, the Group maintains its targeted debt capacity of 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 that are measured at fair value at 31 December 2018:

Group	Notes				2018
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>ASSETS</b>					
Coal royalties (Kestrel)	(a)	–	–	109,778	109,778
Royalty financial instruments	(b)	38,368	–	7,837	46,205
Mining and exploration interests – quoted	(c)	2,443	–	–	2,443
Mining and exploration interests – unquoted	(d)	–	405	–	405
Financial derivative instruments	(e)	–	188	–	188
<b>NET FAIR VALUE</b>		<b>40,811</b>	<b>593</b>	<b>117,615</b>	<b>159,019</b>

The following table presents the Group's assets that are measured at fair value at 31 December 2017:

Group	Notes				2017
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>ASSETS</b>					
Coal royalties (Kestrel)	(a)	–	–	104,266	104,266
Royalty financial instruments	(b)	–	–	10,867	10,867
Mining and exploration interests – quoted	(c)	13,270	–	–	13,270
Mining and exploration interests – unquoted	(d)	–	3,161	–	3,161
Financial derivative instruments	(e)	–	100	–	100
<b>NET FAIR VALUE</b>		<b>13,270</b>	<b>3,261</b>	<b>115,133</b>	<b>131,664</b>

The following table presents the Company's assets that are measured at fair value at 31 December 2018:

Company	Notes				2018
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>ASSETS</b>					
Royalty financial instruments	(a)	–	–	3,929	3,929
Mining and exploration interests – quoted	(b)	2,386	–	–	2,386
Mining and exploration interests – unquoted	(c)	–	173	–	173
<b>NET FAIR VALUE</b>		<b>2,386</b>	<b>173</b>	<b>3,929</b>	<b>6,488</b>

The following table presents the Company's assets that are measured at fair value at 31 December 2017:

Company	Notes				2017
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>ASSETS</b>					
Royalty financial instruments	(a)	–	–	3,979	3,979
Mining and exploration interests – quoted	(b)	13,095	–	–	13,095
Mining and exploration interests – unquoted	(c)	–	178	–	178
<b>NET FAIR VALUE</b>		<b>13,095</b>	<b>178</b>	<b>3,979</b>	<b>17,252</b>

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 7.50% (2017: 7.50%) by an independent valuation consultant. Refer to [note 16](#) 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 financial instruments**

The Group's royalty financial instruments comprise of the investment in LIORC and the McClean Lake streaming agreement, together with the NSR and GRR royalties over EVBC, Dugbe 1 and Paiuí as detailed in note 17.

At the reporting date, the fair value of the Group's investment in LIORC has been determined by reference to the quoted bid price of the instrument. As LIORC has a quoted share price in an active market, it has been categorised as level 1 in the fair value hierarchy.

The Group's remaining royalty financial instruments are valued based on the net present value of pre-tax cash flows discounted at a rate between 7.50% and 22.00% at reporting date. 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 instruments 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:

	Classification	31 December 2018		31 December 2017	
		Discount rate	Risk weighting	Discount rate	Risk weighting
EVBC	FVTPL	8.75%	100%	7.00%	100%
Jogjakarta	FVTPL	–	–	10.00%	100%
Dugbe 1	FVTPL	22.00%	75%	18.00%	75%
McClean Lake	FVTPL	7.50%	50%	6.50%	50%
Piauí	FVTPL	13.50%	25%	12.00%	30%

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 rates that reflect the credit risk of various counterparties.

## FINANCIAL STATEMENTS

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2018

**Fair value measurements in Level 3**

The Group's financial assets classified in Level 3 use 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 31 December 2018.

	Royalty financial instruments £'000	Coal royalties (Kestrel) £'000	Total £'000
At 1 January 2018	10,867	104,266	115,133
Revaluation gains or losses recognised in:			
Income statement	(871)	10,061	9,190
Royalties due or received from royalty financial instruments	(1,975)	–	(1,975)
Foreign currency translation	(185)	(4,549)	(4,734)
At 31 December 2018	7,836	109,778	117,614

The following table presents the changes in Level 3 instruments for the year ended 31 December 2017.

	Royalty financial instruments £'000	Coal royalties (Kestrel) £'000	Total £'000
At 1 January 2017	13,556	116,885	130,441
Additions	3,323	–	3,323
Revaluation gains or losses recognised in:			
Other comprehensive income	496	–	496
Income statement	(6,324)	(11,933)	(18,257)
Foreign currency translation	(184)	(686)	(870)
At 31 December 2017	10,867	104,266	115,133

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.

**35 FREE CASH FLOW**

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 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.

	2018 £'000	Free cash flow per share p
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		
Net cash generated from operating activities for the year ended 31 December 2018	36,912	
<i>Adjustment for:</i>		
Proceeds on disposal of mining and exploration interests	612	
Proceeds on return of capital from mining and exploration interests	827	
Finance income	82	
Finance costs	(1,264)	
Proceeds from royalty financial instruments	1,720	
Repayments under commodity related financing agreements	1,276	
Free cash flow for the year ended 31 December 2018	40,165	22.28p



	2017 £'000	Free cash flow per share p
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		
Net cash generated from operating activities for the year ended 31 December 2017	37,302	
<i>Adjustment for:</i>		
Proceeds on disposal of mining and exploration interests	2,424	
Finance income	19	
Finance costs	(795)	
Proceeds from royalty financial instruments	258	
Repayments under commodity related financing agreements	3,051	
Free cash flow for the year ended 31 December 2017	42,259	23.62p

The weighted average number of shares in issue for the purpose of calculating the free cash flow per shares is as follows:

	2018	2017
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE</b>	180,277,848	178,895,115

### 36 PORTFOLIO CONTRIBUTION

Portfolio contribution represents the funds received or receivable from the Group's underlying royalty related assets. A number of the Group's royalty financing arrangements result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. In addition, following the adoption of IFRS 9 royalty receipts from those royalty financial instruments classified as FVTPL such as EVBC, are no longer recognised in the income statement. The Group considers total portfolio contribution as a means of assessing the overall performance of the Group's underlying royalty related assets.

Portfolio contribution is royalty related revenue (note 6) plus royalties received or received from royalty financial instruments carried at FVTPL and principal repayments received under the Denison financing agreement as follows:

	2018 £'000	2017 £'000
Royalty related revenue (note 6)	46,104	39,566
Royalties due or received from royalty financial instruments	1,975	–
Repayments under commodity related financing agreements	1,276	3,051
	49,355	42,617

### 37 CONTINGENT LIABILITIES

During 2017 on advice from professional advisors, the Group undertook the capital restructuring of a number of subsidiaries with significant historical losses and impairment charges. This advice involved the interpretation of certain tax legislation for which there is no clear precedent or guidance. Absent clear guidance from relevant tax authorities there is the possibility that those tax authorities could interpret the legislation in a different way from the Group, which could result in a material reduction in the deferred tax asset and the recognition of a material current tax provision at 31 December 2017. These amounts were estimated at £3.3m and £3.6m respectively. There has been no change in this position as at 31 December 2018.

### 38 EVENTS OCCURRING AFTER YEAR END

No events have occurred subsequent to year end that require additional disclosure.

## FINANCIAL STATEMENTS

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for the year ended 31 December 2018

**39 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	Proportion
			of class held at 31 December 2018 %	of class held at 31 December 2017 %
<b>AUSTRALIA<sup>1</sup></b>				
Alkomy 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%
APG Aus No 8 Pty Ltd	Owner of nickel royalties	Ordinary A\$1.00	100%	100%
APG Aus No 9 Pty Ltd	Investments	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%

<sup>1</sup> The registered office of all of the entities listed above is 6 Price Street, Subiaco, Western Australia 6008

**BARBADOS<sup>2</sup>**

Entrée International Holdings Inc	Intermediate holding company	Ordinary US\$1.00	100%	N/A
Entrée Peru Holdings Inc	Intermediate holding company	Ordinary US\$1.00	100%	N/A

<sup>2</sup> The registered office of all of the entities listed above is Suite 203, Building No 8, Harbour Road, Bridgetown, St Michael, Barbados

**CANADA<sup>3</sup>**

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\$1.00	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%

<sup>3</sup> The registered office of all of the entities listed above is 1720 Queens Avenue, West Vancouver, British Columbia, Canada V7V 2X7

**ENGLAND<sup>4</sup>**

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%

<sup>4</sup> The registered office of all of the entities listed above is 1 Savile Row, London, England W1S 3JR

**GUERNSEY<sup>5</sup>**

Anglo Pacific Group Employee Benefit Trust Administering Group incentive plans			100%	100%
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<sup>5</sup> The registered office of the entity listed above is, Frances House, Sir William Place, St Peter Port GY1 4HQ

**IRELAND<sup>6</sup>**

Anglo Pacific Finance Ltd	Treasury	Ordinary £1.00	100%	100%
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<sup>6</sup> The registered office of the entity listed above is Atlantic Avenue, Westpark Business Campus, Shannon, Co Clare

**PERU<sup>7</sup>**

Exploraciones Apolo Resources SAC	Owner of copper royalties	Ordinary S/1.00	100%	N/A
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<sup>7</sup> The registered office of the entity listed above is Av. Ricardo Angulo No 776, Office 301, District of San Isidro, Lima, Peru

**SCOTLAND<sup>8</sup>**

Shetland Talc Ltd	Mineral exploration	Ordinary £1.00	100%	100%
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<sup>8</sup> 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 22 March 2019)**

<i>Category</i>	<i>Number of Shareholders</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
<b>UK AND CANADA</b>				
1 – 1,000	570	34.36%	288,623	0.16%
1,001 – 5,000	589	35.50%	1,359,814	0.75%
5,001 – 10,000	160	9.64%	1,192,944	0.66%
10,001 – and over	340	20.49%	178,629,011	98.43%
	1,659	100%	181,470,392	100%

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 22 March 2019 was 74.61%.

**CORPORATE DETAILS****REGISTERED OFFICE****Anglo Pacific Group PLC**

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**SHAREHOLDERS**

Please contact the respective registrar if you have any queries about your shareholding.

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**PEEL HUNT**

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## OTHER INFORMATION

**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 and streaming business, 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, steams and investments, 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, steams and investments, 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' within the meaning of Canadian securities legislation) are provided for the purposes of assisting readers in understanding the Group's financial position and results of operations as at and for the periods ended on certain dates, and of presenting information about management's current expectations and plans relating to the future. Readers are cautioned that such forward-looking statements may not be appropriate other than for purposes outlined in this Annual Report. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, cash flow, requirement for and terms of additional financing, performance, prospects, opportunities, priorities, targets, goals, objectives, strategies, growth and outlook of the Group including the outlook for the markets and economies in which the Group operates, costs and timing of acquiring new royalties and making new investments, 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, steams and investments 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; the accuracy of the information provided to the Group by the owners and operators of such underlying properties; no material adverse change in the price of the commodities produced from the properties underlying the Group's portfolio of royalties, steams 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. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. No statement in this communication is intended to be, nor should it be construed as, a profit forecast or a profit estimate.

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, stream and investment 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, steams and investments; royalties, steams and investments 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. This Annual Report contains information and statements relating to the Kestrel mine that are based on certain estimates and forecasts that have been provided to the Group by Kestrel Coal Pty Ltd ("KCPL"), the accuracy of which KCPL does not warrant and on which readers may not rely.

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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