



Anglo Pacific Group PLC  
Annual Report  
& Accounts 2011

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Investing in royalties

LSE:APF  
TSX:APY

2011

### Executive Directors

P.M. Boycott (Chairman)  
A.C. Orchard (Chief Investment Officer)  
J. Theobald (Chief Executive Officer)  
B.M. Wides (Director of International Business Development)

### Non-Executive Directors

M.H. Atkinson (Senior Independent Director)  
J.G. Whellock  
A.H. Yadgaroff

### Secretary

P.T.J. Mason

### Head office

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### Registered office

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### Auditors

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### Listings

London Stock Exchange  
Full Listing  
Symbol APF

Toronto Stock Exchange  
Secondary Listing  
Symbol APY

### Website

[www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com)

#### Cautionary statement regarding forward-looking statements and related information

The descriptions of the royalties in this Annual Report have been simplified for presentation purposes. This Annual Report contains forward-looking information, which is subject to change and risk and should not be relied upon. This Annual Report should be considered along with the additional supporting detail, assumptions and risks regarding the use of forward-looking information outlined on page 18 of this Annual Report and in the Anglo Pacific Group PLC (the "Group") Annual Information Form, which is available on [www.sedar.com](http://www.sedar.com) and on the website at [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com). As a royalty holder, the Group often has limited, if any, access to technical information or is subject to confidentiality provisions. For this Annual Report and the Annual Information Form, the Group has generally relied on the public disclosure of the owners and operators of the royalty properties. More current information may be available in subsequent disclosure and on the Group website. The Group's royalties often cover less than 100% and sometimes only a portion of the publicly reported reserves, resources and production of the property. This Annual Report also contains references to past prices of and/or yields on the Group's shares. Readers are reminded that past performance cannot be relied on as a guide to future performance.

## What's inside?

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## A quick read

# Who we are

Anglo Pacific is a royalty company specialising in royalties derived from the mining of natural resources. Within this sector we have a diverse portfolio that spans different commodities including coking coal, iron ore and precious metals.

We also invest internationally from the Americas to Europe and Australasia and our portfolio includes both producing mines and development projects.

Our objective is simple – to continually build a diverse portfolio of royalties that will generate growing, long-term returns for our shareholders.

Market capitalisation

## £361m

FTSE 250 Listed

LSE: APF

TSX: APY

“I am pleased to announce a record year for our royalty income, as Anglo Pacific continues to make progress with its strategy of developing a leading portfolio of royalties.”

**Peter Boycott**  
Chairman

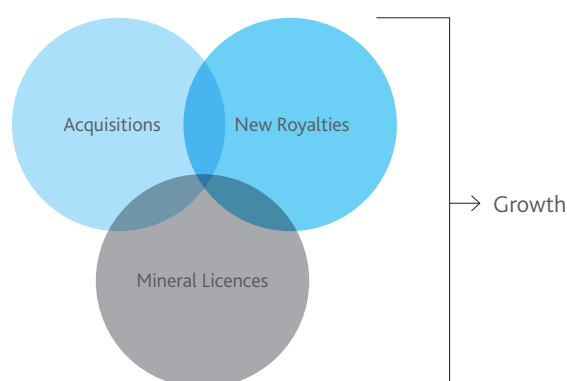
How we performed **page 4**

Chairman's review **page 6**

## Our strategy for growth

We are developing our portfolio through three primary routes:

- 1 **Acquiring existing royalty agreements**
- 2 **Creating new royalties by financing development**
- 3 **Vending mineral licences to third party developers in exchange for new royalties**



We also develop royalty opportunities through our equity investments.

Operational review **page 12**

## Royalties explained

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

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

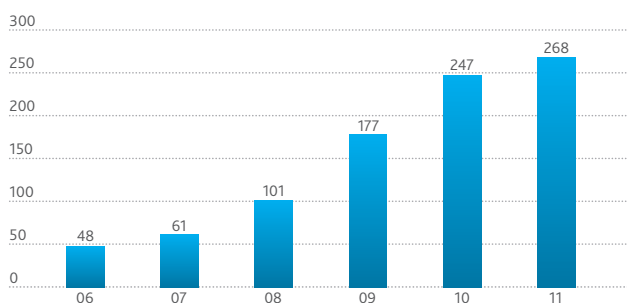
### Creating new royalties

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

### Acquiring existing royalties

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

## Value of Royalties (£m)

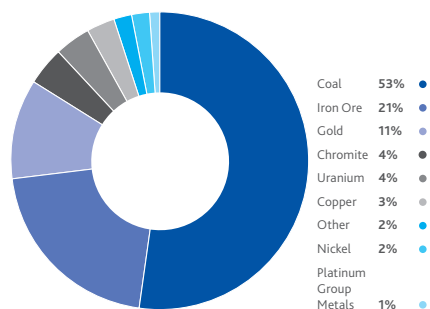


## A quick read

### Where do we operate?



### What commodities are we in?



### Our key achievements in 2011

- ✓ Record royalty income
- ✓ 4 producing royalties
- ✓ Expansion of royalty portfolio
- ✓ Increased dividends to shareholders

▶ Operational review [page 12](#)

#### KEY ROYALTY

### Kestrel Mine, Australia

Kestrel Mine, located in the Bowen Basin, Queensland, is an underground mine operated by Rio Tinto Limited, supplying global markets with up to 4.2 million tonnes of coking and thermal coal per annum.

A major expansion targeting at least 5.7 million tonnes per annum at a cost of A\$2 billion is on schedule for completion by 2013.

## A quick read

### How we performed

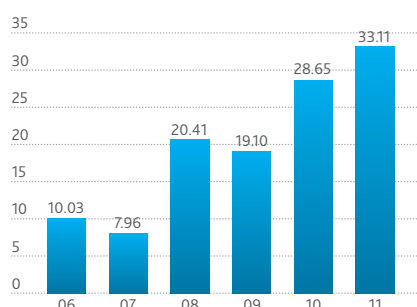
During our record royalty income year, we have increased and diversified our portfolio with three new royalties

Royalty cash flow per share (p)

**33.11p**

15.6%

5 year growth 230.1%

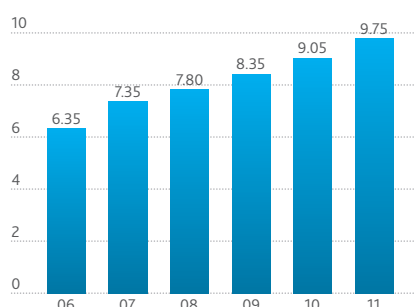


Total dividend per share (p)

**9.75p**

+7.7%

5 year growth 53.5%

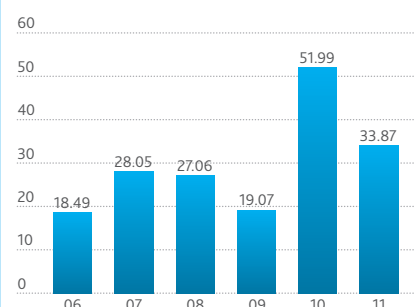


Earnings per share (p)

**33.87p**

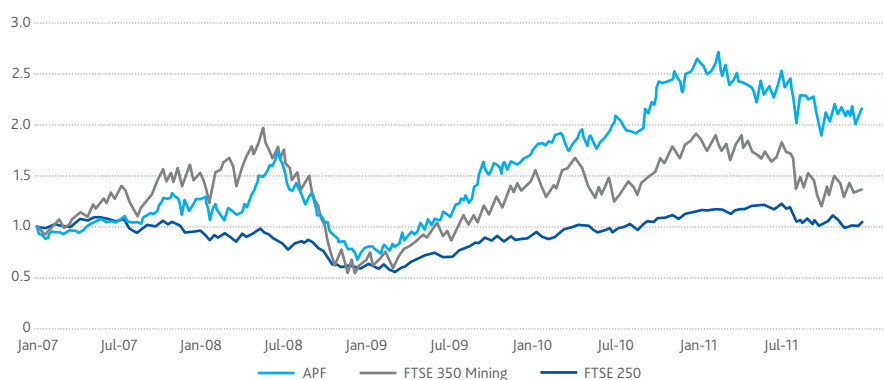
-34.9%

5 year growth 83.2%



Total shareholder return

January 2007 – December 2011

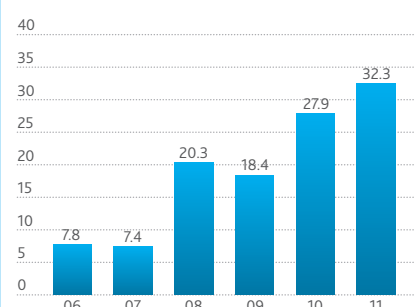


Operating profit (£m)

**£32.3m**

15.8%

5 year growth 311.7%







## A quick read

### Key performance indicators

We have identified four key performance indicators:

- ▶ Value of new royalties acquired
- ▶ Net asset value
- ▶ Earnings per share
- ▶ Dividends per share

Objective	2011	2010
<p>▶ Value of new royalties acquired</p> <p>To expand, strengthen and diversify the royalty portfolio with royalties from long-life, low cost projects</p>	£29.1m	 20.9% £36.8m
<p>▶ Net asset value</p> <p>To consistently grow the Group's net asset value</p>	£316.9m	 8.4% £345.9m
<p>▶ Earnings per share</p> <p>To maximise returns to shareholders</p>	33.87p	 34.9% 51.99p
<p>▶ Dividends per share</p> <p>To maintain a progressive dividend policy</p>	9.75p	 7.7% 9.05p

## Chairman's review

### Operational highlights

Record royalty income and cash flow per share

Expansion of royalty portfolio

4 producing royalties, following El Valle-Boinas/Carles commencing production

Increased dividends to shareholders

Strong cash position

“In the year under review I am pleased to report that the Group has further expanded its royalty portfolio and continues to realise profits from the sale of non-core mining interests despite difficult market conditions.

With the Group reporting record royalty revenues and a substantial liquidity position, the Board will again be recommending an increased final dividend.”

### A year in review

During the first half of 2011, two natural disasters affected the short term outlook for certain commodities to which the Group is exposed.

The extensive flooding in Queensland, Australia, during the first quarter of the year caused substantial disruption to coal deliveries from the Group's Kestrel and Crinum coal interests. This reduction in output at both mines was more than compensated for by higher coking coal prices in the first half of the year resulting in increased royalty cash flows for the Group.

The Fukushima earthquake in March 2011 caused severe disruption in economic activity in Japan and elsewhere. The subsequent nuclear disaster affected the prospects for the nuclear power industry and the near term outlook for the uranium market.

In the second half of 2011, both mining markets and commodities prices were further impacted by fears of recession in Europe and a slackening of demand from China.

Despite these headwinds, the Group was able to realise substantial gains from its strategic mining interests and has maintained a resilient, ungeared balance sheet in the face of increasing recessive forces. The Group continues to report substantial earnings and record royalty cash flows, whilst benefiting from its royalty income based on top line sales revenue at a time when the mining industry is subject to significant operating cost inflation, as well as fluctuating demand.

The Group's strategy remains focused on securing new royalties, both by acquisition and through investment in its mining interests, thereby generating consistent cash flows and supporting increasing dividends to shareholders.

## Chairman's review

“During 2011, the Group acquired an iron ore and a chromite royalty and completed the purchase of an option to acquire a substantial nickel royalty.”

### Royalty portfolio

#### Acquisitions

The announcement of an agreement to acquire an additional iron ore royalty in February 2012, will, following its completion, increase the total royalties in the Group's portfolio to 20, of which four are currently in production.

The new royalties announced during the year and after the period end were:

- On January 12, 2011, the Group completed the previously announced Royalty Option Agreement with Horizonte Minerals PLC (“Horizonte”) for the Group to purchase a net smelter return royalty on all revenues from the advanced exploration stage Araguaia and Lontra Nickel Projects (“Araguaia Project”) in Brazil. The Group paid Horizonte the sum of US\$0.5 million in exchange for the six year option to acquire a 1.5% net smelter return royalty from the Araguaia Project for US\$12.5 million.
- On August 2, 2011, the Group announced the purchase of an existing 1% net smelter return royalty over the Black Label, Black Thor and Big Daddy chromite deposits in Ontario, Canada, from KWG Resources Inc (“KWG”). These projects are operated by Cliffs Natural Resources Inc (“Cliffs”) and form part of Cliffs' growth plans in the “Ring of Fire” area in northern Ontario. The consideration for the acquisition was US\$18 million.
- On August 3, 2011, the Group announced its agreement to provide a non-interest bearing advance of US\$30 million to London Mining PLC (“London Mining”) in exchange for a 1% gross revenue royalty over the Isua iron ore project in Greenland. The agreement contains a number of milestones. In the event of these not being met, the Group retains the right to be repaid in cash or, at London Mining's discretion, in shares at the market price at the time.
- On November 17, 2011, the Group announced that it had signed a letter of intent with Cardero Resource Corp. (“Cardero”) relating to a proposal to develop the Trefi coal project in British Columbia, Canada. On March 6, 2012, Cardero informed the Group of their withdrawal from this proposal.
- On February 6, 2012, the Group announced its agreement to acquire 50% of the Mount Ida 1.5% gross revenue iron ore royalty, in Western Australia, from Red Rock Resources PLC for a total consideration of US\$14 million. The consideration will be paid in three instalments depending on certain milestones being achieved, with the initial payment of US\$6 million on completion of the transaction.

These acquisitions have broadened and diversified the Group's portfolio of royalties, both by commodity and geographically. The Group will continue to focus its efforts on commodities leveraged to the Asian growth story.

### Royalties

Australian Coal  
Royalty Valuation

**£175.1m**

-1.1%

Total Value of Other Royalties

**£93.1m**

+32.8%

## Chairman's review

“The Group's portfolio of producing royalties continues its strong performance with record growth in royalty income when compared with 2010. This demonstrates the strength of both the Group's business model and strategy.”

Royalties	
Royalty Income	
<b>£35.1m</b>	+16.6%
Royalty Cash Flow per Share	
<b>33.11p</b>	+15.6%

#### Producing royalties

##### Kestrel

Rio Tinto Limited reported coal sales from Kestrel for 2011 of 3.8 million tonnes, a reduction compared to 4.4 million tonnes in 2010, and largely due to adverse weather in Queensland during the first half of the year. The lower export levels from Australia combined with record global steel production supported the strength of coking coal prices throughout the year with sale prices for hard coking coal ranging between US\$328 and US\$235 per tonne.

The higher prices for hard coking coal resulted in Kestrel coal royalties for the year ended December 31, 2011 of £26.5 million (A\$41.2 million) compared to £21.9 million (A\$37.0 million) received in 2010.

##### Crinum

As the Crinum longwall leaves the Group's private royalty ground, the royalties for the year ended December 31, 2011 reduced to £6.0 million (A\$9.1 million) compared to £8.0 million (A\$7.6 million) received in 2010. In the Group's coal royalty valuation, future production from Crinum continues to be difficult to evaluate and as a result is ascribed no value.

##### Amapá

Royalty receipts for the year ended December 31, 2011 were £2.7 million (2010: £0.2 million). This is the first year the Group has received a full year of cash flow from Amapá.

##### El Valle

The El Valle Boinas/Carles gold and copper mines were commissioned during the second quarter of 2011, with production to September 30, 2011 of 9,336 ounces of gold, 1.05 million pounds of copper and 28,456 ounces of silver. During the year, maiden receipts of £0.3 million arising from the Group's net smelter return royalty were received and applied against the debenture instrument.

##### Engenho

Royalty payments for the year ended December 31, 2011 were £0.3 million. Delays in permitting the adjacent Crista deposit and other operational matters have resulted in the Engenho operations being put on care and maintenance. On December 20, 2011, Mundo Minerals Limited's Brazilian subsidiary was put into the Brazilian equivalent of the US Chapter 11 process and the Group does not expect any royalty receipts during 2012.

## Chairman's review

### Equity interests

During the year, the Group continued its strategy of taking equity stakes in strategic opportunities with the prospect of potential royalties. This allows the Group to develop a detailed understanding of project risks and form working relationships with management. Where royalties cease to be a financing option, the Group will seek to dispose of the particular equity investment in a manner that is profitable to the Group, while minimising disruption to the investee company. This approach has again proved successful with the Group realising significant gains for shareholders during 2011 while generating a number of royalty opportunities. However, difficult market conditions and a confused outlook for uranium affected valuations at the year end.

### Board and personnel developments

On September 23, 2011, Mr. Matthew Tack resigned as Finance Director. He joined the Group in 2004 and was appointed to the Board in 2006. He is leaving the Group at the end of March 2012 to return to Australia after ten years working in the United Kingdom. Mr. Tack has been an integral part of the development of the Group during the past seven years and we are grateful for the contribution he has made. The Group has recruited a Chief Financial Officer, Mr Kevin Flynn, who commenced duties in January 2012.

### Outlook

With recent signs of recovery in the US economy and much better bank liquidity within the troubled Eurozone, mining markets and commodity prices have improved sharply in the last two months. This has resulted in a significant increase in the value of the Group's equity interests since the year end. Furthermore, with this improving background, the raising of mining finance from conventional lenders or equity issues has become less of a challenge for larger mining companies. However, in the junior mining sector access to finance still remains challenging. In this environment, the Group continues to identify royalty opportunities and receive numerous enquiries for mining finance.

The Group will continue to make the acquisition of new royalties its principal strategic focus, leveraging off its cash resources, strong royalty revenues and pro-active management.

Finally, I would like to thank my Board colleagues and staff for their application and hard work in achieving another good year's results.



P.M. Boycott  
Chairman  
March 9, 2012

### Assets

Total Assets

**£380.2m** -8.5%

Total Mining and Exploration  
Interests



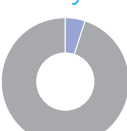


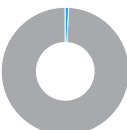


**£64.6m**

Cash and Receivables

**£44.5m** +19.9%

## Principal activities

## The activities of the Group are summarised below:-

<p><b>Coking coal royalties</b></p>  <p><b>64%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>The Group holds half of the private royalty entitlement on the Kestrel and Crinum underground mines in Queensland, Australia, operated by Rio Tinto Limited and BHP Billiton Limited respectively. The royalty is calculated on a two tier royalty rate of 7% of the invoiced value of coal sold below A\$100 per tonne and 10% of the invoiced value of coal above A\$100 per tonne. (Classified as Coal royalties - independent valuation).</p>	<p><b>Operator</b></p> <p><a href="#">Rio Tinto Limited</a> <a href="#">BHP Billiton Limited</a></p>
<p><b>Iron ore royalties</b></p>  <p><b>23%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>1% Gross Revenue Royalty ("GRR") on the Amapá iron ore system in Brazil, operated by Anglo American PLC. (Classified as Intangibles - amortised costs).</p> <p>A 1% GRR on iron ore and non-precious metals, other than copper, on the Tucano project in the Amapá region of Brazil, operated by Beadell Resources Limited. (Classified as Intangibles - amortised cost).</p> <p>2% Net Smelter Return Royalty ("NSR") on the Jogjakarta iron sands project in Indonesia, operated by Indo Mines Limited. (Classified as Royalty instruments - fair value).</p> <p>1.5% GRR on various exploration licences, including the Railway iron ore deposit, in the Pilbara region of Western Australia, owned by BHP Billiton Limited. (Classified as Intangibles - amortised cost).</p> <p>1% GRR over the Isua iron ore project in Greenland, owned by London Mining PLC. (Classified as Intangibles - amortised cost).</p>	<p><b>Operator</b></p> <p><a href="#">Anglo American PLC</a> <a href="#">Beadell Resources Limited</a> <a href="#">Indo Mines Limited</a> <a href="#">BHP Billiton Limited</a> <a href="#">London Mining PLC</a></p>
<p><b>Gold royalties</b></p>  <p><b>5%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle-Boinas/Carles mines in Spain, operated by Orvana Minerals Corp. (Classified as Royalty instruments - fair value).</p> <p>2.5% NSR on the Engenho gold project in Brazil, operated by Mundo Minerals Limited. (Classified as Royalty instruments - fair value).</p> <p>2.5% NSR, escalating to 2.75% for gold prices in excess of US\$1,250 per ounce, on the Malartic-Midway and McKenzie Break projects in Quebec, Canada. (Classified as Royalty instruments - fair value).</p> <p>An option to acquire a 2% NSR on Creso Exploration Inc's Duggan gold project in Ontario, Canada. (Classified as Mining and exploration interest - royalty options - fair value).</p>	<p><b>Operator</b></p> <p><a href="#">Orvana Minerals Corp</a> <a href="#">Mundo Minerals Limited</a> <a href="#">Northern Star Mining Corporation</a> <a href="#">Creso Exploration Inc</a></p>
<p><b>Chromite royalties</b></p>  <p><b>5%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>3% GRR on the Bulqiza chromite project in Albania, operated by Empire Mining Corp. (Classified as Intangibles - amortised costs).</p> <p>1% NSR on the Black Thor, Black Label and Big Daddy chromite projects in the "Ring of Fire" region of Northern Ontario, Canada owned and operated by Cliffs Natural Resources Inc. (Classified as Intangibles - amortised costs).</p>	<p><b>Operator</b></p> <p><a href="#">Empire Mining Corp</a> <a href="#">Cliffs Natural Resources Inc</a></p>
<p><b>Uranium royalties</b></p>  <p><b>2%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>1% NSR over the Four Mile uranium project in South Australia. (Classified as Intangibles - amortised costs).</p> <p>1% NSR over the Salamanca uranium project in Spain, operated by Berkeley Resources Limited. (Classified as Intangibles - amortised costs).</p> <p>The royalty rights to several mineral exploration tenures in the Athabasca Basin region of Canada. (Classified as Intangibles - amortised costs).</p>	<p><b>Operator</b></p> <p><a href="#">Quasar Resources / Alliance Resources JV</a> <a href="#">Berkeley Resources Limited</a></p>
<p><b>Other royalties</b></p>  <p><b>1%</b> of Group Royalties</p>	<p><b>Status</b></p> <p>An option to acquire a 1.5% NSR on the Araguaia nickel project in Brazil, owned by Horizonte Minerals PLC. (Classified as Mining and exploration interest - royalty options - fair value).</p> <p>An option to acquire a 1% NSR on the Highbank Lake and Eastbank PGE exploration properties in Ontario, Canada, owned by Northern Shield Resources Inc. (Classified as Mining and exploration interest - royalty options - fair value).</p>	<p><b>Operator</b></p> <p><a href="#">Horizonte Minerals PLC</a> <a href="#">Northern Shield Resources Inc</a></p>
<p><b>Private coal interests</b></p>  <p><b>2.1m</b> (at cost)</p>	<p><b>Status</b></p> <p>Mineral licences in the Groundhog (Panorama and Discovery, collectively referred to as "Panorama") and Peace River (Trefi) coal deposits in British Columbia, Canada.</p>	<p><b>Operator</b></p> <p><a href="#">Anglo Pacific Group PLC</a></p>
<p><b>Mining and exploration interests</b></p>  <p>Gold 35% Iron Ore 15% Copper 15% Uranium 12% Other 11% Zinc 8% Platinum Group Metals 4%</p>	<p><b>Status</b></p> <p>At December 31, 2011 the Group owned a number of strategic mining and exploration interests held for the purpose of generating additional royalty opportunities including a number of quoted and unquoted coal, uranium, gold, base metals and platinum mining projects.</p>	

## Directors' report

# The Group continues to expand and diversify its royalty portfolio

The directors submit their report and the audited financial statements for the year ended December 31, 2011.

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

### Strategy

Anglo Pacific Group PLC's strategy, conducted through the holding company (the "Company") and its subsidiary undertakings (together, the "Group"), is to secure new royalties by acquisition and through investment in its mining interests in order to generate strong cash flows and continue to pay dividends to its shareholders. The Group remains committed to a progressive dividend policy.

### Principal activities

The principal activities of the Group are set out on [page 10](#). The section entitled "Where we operate" on [page 3](#) sets out the location of the Group's principal activities.

### Results and dividends

The consolidated income statement is set out on [page 30](#) of the financial statements.

The Group profit after tax decreased by 35% to £36.7 million (2010: £56.3 million).

The directors recommend a final dividend of 5.50p per share for the year ended December 31, 2011 which, with the interim dividend of 4.25p per share paid on January 11, 2012, will make total dividends for 2011 of 9.75p per share (2010: 9.05p per share). The final dividend is subject to shareholder approval at the Annual General Meeting to be held on April 19, 2012. The Board proposes to pay the final dividend on July 4, 2012 to shareholders on the Company's share register at the close of business on May 4, 2012. As with previous dividends, depending on the share price at the time the Board will consider whether shareholders will be given the opportunity to elect to receive new shares instead of cash. The Board is seeking to renew its authority to offer this alternative at the Annual General Meeting. Should this alternative be offered, the price will be calculated on the basis of the average mid-market closing price of the ordinary shares for the five business days commencing May 2, 2012. The last date for elections under such an alternative, if offered, will be June 15, 2012.

### Review of the business

This business review comprises the sections on [pages 2 to 4](#) entitled "Who we are", "Where we operate", "How we performed", together with the Chairman's Review on [pages 6 to 9](#) and the Financial and Operational Reviews set out below. The Key Performance Indicators on [pages 5 and 14](#) and the Risks and Uncertainties laid out on [page 14](#) also form part of this review.

### Financial review

The Group's royalty revenues for the year ended December 31, 2011 were £35.1 million compared to £30.1 million for the previous year. The total of these royalty revenues and cash flows from royalty debentures during the year of £0.7 million (2010: £0.9 million), result in total royalty cash flow per share increasing by 16% to 33.11p (2010: 28.65p).

Realised gains on disposal of mining and exploration interests were £20.3 million (2010: £41.0 million). In difficult junior mining markets these gains were the result of the disposal of some of the Group's successful mining investments where the acquisition of royalties was considered unlikely. Overall the Group's profit before tax for the year was £49.0 million (2010: £65.8 million) and Group earnings per share for the year were 33.87p (2010: 51.99p).

The Group's Australian coking coal royalty interests have been independently valued at December 31, 2011 at £175.1 million (2010: £177.1 million). The Group's royalty instruments following fair value adjustments were valued at £24.7 million at December 31, 2011 (2010: £28.1 million).

The total cost of royalties, excluding amortisation, treated as intangibles has increased to £70.5 million at December 31, 2011 (2010: £42.1 million). As part of the annual impairment review a directors' valuation of these royalties has been undertaken using a discounted cash flow valuation model, which uses forecast commodity prices and management's best estimate of an appropriate discount rate taking into account project-specific risk factors. At December 31, 2011 the directors' valuation of these assets was £120.5 million (2010: £54.2 million).

	Coal Royalties £'000	Royalty Instruments £'000	Royalty Intangibles £'000	Royalty Options £'000	Total £'000
<b>2011</b>					
Number	2	4	9	4	19
Amortised cost	196	12,493	68,334	728	81,751
Valuation	175,124	24,736	120,485	728	321,073
<b>2010</b>					
Number	2	4	7	2	15
Amortised cost	166	12,493	42,045	406	55,110
Valuation	177,130	28,061	54,155	406	259,752

The Group's quoted and unquoted equity investments, including royalty options, were valued at £64.6 million at December 31, 2011 (2010: £128.5 million). The private equity interests and royalty options remain accounted for at cost.

The Group's work on the Trefi and Panorama coal projects in British Columbia, Canada continues to be included in the accounts at cost, and the cost of property acquisition, tenure maintenance and deferred exploration totalled £2.1 million at December 31, 2011 (2010: £2.0 million).

As at December 31, 2011, the Group had cash of £32.2 million compared to £28.3 million at December 31, 2010, with no borrowings or hedging. When combined with royalty and trade receivables, total cash and receivables at December 31, 2011 was £44.5 million (2010: £37.1 million). The Group has limited capital expenditure requirements other than for the acquisition of additional royalties. Management believe that the Group's current cash resources and future cash flows will be sufficient to cover the cost of general and administrative expenses, income taxes and dividend payments. The Group remains debt free and its liquid resources are held mostly in Australian and Canadian dollars and with a number of different financial institutions. The Group's mining interests and royalty revenues are also mainly denominated in these two currencies.

## Directors' report

The Group's total assets at December 31, 2011 were £380.2 million, compared to £415.6 million at December 31, 2010. This does not include any increase in value over cost that may be attributable to the Group's royalty intangibles or the Panorama and Trefi coal projects. If royalty intangibles were included at valuation this would enhance assets by a further £52.2 million (2010: £12.1 million).

### Operational review

#### Coking coal royalties

In Australia, coking coal royalty receipts from the Kestrel and Crinum mines, operated by Rio Tinto Limited and BHP Billiton Limited respectively, were £32.4 million (2010: £29.9 million). Lower export levels of coking coal from Australia in the first half of 2011, largely due to adverse weather in Queensland, and record global steel production supported coking coal prices over the first half of the year with spot prices above US\$300 per tonne. Prices fell toward the end of the year with a downturn in steel market sentiment brought about by the protracted Eurozone crisis. Global steel production also retreated in the second half of 2011 which coincided with the recovery of Australian coking coal supply. Coal sales by Kestrel were 3.8 million tonnes in 2011 (2010: 4.4 million tonnes). Throughout the year the sales price range of hard coking coal was US\$328 to US\$235 per tonne.

The coal royalties from the Kestrel and Crinum mines are paid on coal mined under private subterranean rights with a royalty rate prescribed by the Queensland Mineral Resources Act Regulations. These regulations provide that a royalty rate of 7% applies to the value of coal sold below A\$100 per tonne and a rate of 10% applies to the value of coal sold above A\$100 per tonne. The Group owns 50% of the private subterranean rights and therefore receives 50% of the royalties paid on coal sold.

The independent valuation of these interests at December 31, 2011 was £175.1 million (A\$265.9 million) compared to £177.1 million (A\$270.3 million) at December 31, 2010. The valuation is based on the net present value of the pre-tax cash flows discounted at a rate of 7% and the net royalty income is taxed in Australia at a rate of 30%.

#### Iron ore royalties

In Brazil, royalty receipts from the Amapá Iron Ore System ("Amapá") operated by Anglo American PLC were £2.7 million (2010: £0.2 million). The Group holds a 1% gross revenue royalty covering iron ore within the Amapá licences in the Amapá region of northern Brazil. Amapá is 70% owned by Anglo American PLC and 30% by Cliffs Natural Resources Inc. ("Cliffs"), a large US based NYSE listed company. Anglo American PLC's public disclosures show Amapá produced 5.08 million tonnes of pellet and sinter feed in 2011 including increased production of the higher value pellet feed. For further information on the operation and for the latest iron ore reserve and resource estimates please see [www.angloamerican.com](http://www.angloamerican.com).

Also, in Brazil, the Group holds a 1% gross revenue royalty on iron ore and non-precious metals, other than copper, on Beadell Resources Limited's ("Beadell") mineral rights in the State of Amapá (excluding any mineral rights comprising the Tartaruga Project as at October 11, 2010) including the Tucano Concession adjacent to Anglo American PLC's Amapá operation. The rights currently cover approximately 2,500 square kilometers and as well as containing Beadell's Tucano gold project are prospective for iron ore. On August 29, 2011 Beadell announced a maiden JORC compliant iron ore resource for the Tucano Concession the details of which can be found at [www.beadellresources.com.au](http://www.beadellresources.com.au). Beadell is currently stockpiling iron ore from stripping operations related to its gold project and seeking a strategic partner for the development of the iron ore resource. Beadell Resources Limited is listed on the Australian Stock Exchange.

During the year the Group acquired a 1% gross revenue royalty on London Mining PLC's Isua iron ore project in Greenland in exchange for a non-interest bearing advance of US\$30 million. London Mining PLC, which is listed on the London Stock Exchange, has commenced work on a feasibility study for the Isua project with production targeted for 2015. The royalty agreement contains a number of milestones, including the completion of a bankable feasibility study by December 31, 2012 and obtaining an exploitation licence by December 31, 2013. In the event of these not being met, the Group retains the right to be repaid in cash or, at London Mining's discretion, in shares at the market price at the time. Further information on the project and the latest iron ore resource estimate can be found at [www.londonmining.co.uk](http://www.londonmining.co.uk).

On February 6, 2012 the Group announced a proposed transaction to acquire 50% of the 1.5% gross revenue royalty on the Mount Ida magnetite iron ore project from Red Rock Resources PLC, a London Stock Exchange listed company. The acquisition will total US\$14 million paid in three instalments: (i) US\$6 million on completion and agreement of terms of the transaction for a 0.3% gross revenue royalty; (ii) US\$4 million for a further 0.225% gross revenue royalty following a positive definitive feasibility study ("DFS"), a decision to mine and 20% of the pre-production capital costs outlined in the DFS being provided for; and (iii) US\$4 million for a further 0.225% gross revenue royalty, taking the total to 0.75% on commencement of commercial production. The Mount Ida magnetite iron ore project is being developed by Jupiter Mines Limited ("Jupiter"), an Australian Stock Exchange listed company. The project has a JORC compliant Inferred iron ore resource announced by Jupiter on January 19, 2011 and a scoping study was completed in March 2011 outlining the production of high quality magnetite concentrate, to be transported along the existing railway from Menzies to Port Esperance on Western Australia's south coast. A feasibility study is underway for completion by the end of 2012. Additional information on the project and the latest iron ore resource estimate can be found at [www.jupitermines.com](http://www.jupitermines.com).

In Australia the Group holds a 1.5% gross revenue royalty covering three exploration licences in the central Pilbara region of Western Australia. The tenements, covering approximately 263 square kilometres, are owned by a wholly owned subsidiary of BHP Billiton Limited and host a number of known iron occurrences, the most significant being the Railway deposit. The tenements are supported by extensive rail infrastructure including the rail lines from Rio Tinto Limited's West Angelas and Yandicoogina mines and BHP Billiton Limited's rail line serving its current operations at Mining Area C, which lies immediately to the east of the Railway deposit. United Minerals Corporation NL ("UMC") explored the tenements during the period 2007 to 2010. The last update of resources was by UMC on September 21, 2009, when it announced a JORC compliant Indicated iron ore resource. UMC was acquired by BHP Billiton Limited in February 2010. Further information may be found at [www.bhpbilliton.com](http://www.bhpbilliton.com).

The Group owns a 2% net smelter return royalty interest in the Jogjakarta iron sands and pig-iron project ("Jogjakarta"), located in Indonesia and operated by Indo Mines Limited ("Indo") an Australian Stock Exchange listed company. On August 29, 2011 Indo announced the results of a JORC compliant feasibility study; the details of which can be found at [www.indomines.com.au](http://www.indomines.com.au). On September 8, 2011 the company announced that it had successfully produced pig-iron at the Outotec Trial Smelting facility and on February 1, 2012 that it had received the final environmental approval for Jogjakarta.

#### Uranium royalties

The Group owns a 1% net smelter return royalty interest in the Spanish uranium projects operated by Berkeley Resources Limited ("Berkeley") a company listed in Australia and London. In its December

## Directors' report

2011 Quarterly Activities Report, Berkeley reported that discussions were continuing with ENUSA regarding the development of the "State Reserves". Berkeley also announced that its wholly owned Salamanca I uranium project continues on schedule with first production anticipated in 2014. For further information on the projects and the latest uranium resource estimates please see [www.berkeleyresources.com.au](http://www.berkeleyresources.com.au).

The Group owns a 1% net smelter return royalty interest in the developing Four Mile uranium project located in South Australia and operated by a joint venture between Quasar Resources Proprietary Limited ("Quasar") (75%) and Alliance Resources Limited ("Alliance") (25%). Approval for the mine was granted by the Australian government in July 2009; however, the joint venture parties are currently in dispute over a number of matters and development of the mine has been placed on hold until these are resolved. On February 10, 2012, in what the Group sees as a positive development, Alliance announced that notices of discontinuance had been filed ending litigation surrounding the native title agreement for the Four Mile uranium project. Subsequently, Alliance announced on February 20, 2012 that Quasar and Alliance had received an offer of a 10 year mineral lease over the Four Mile uranium project from the South Australian Minister for Mineral Resources and Energy. On January 27, 2010 Alliance announced a JORC compliant Indicated uranium resource and on July 28, 2010 Alliance reported the results of a scoping study. Alliance Resources Limited is an Australian Stock Exchange listed company and further details of the project and the latest uranium resource estimates can be found at [www.allianceresources.com.au](http://www.allianceresources.com.au).

In addition, the Group holds the royalty rights on some mineral exploration licences in the Athabasca Basin region of Canada. The Group has recognised an impairment charge of £1.1 million during the year, as a result of the inherent uncertainty of these licences entering commercial production. The Group will continue to review the development of these licences on an annual basis.

### Gold royalties

The Group owns a 2.5% net smelter return royalty, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle-Boinas/Carles ("EVBC") gold/copper mines located in Spain and operated by Orvana Minerals Corp ("Orvana"), a Toronto Stock Exchange listed company. Commissioning of EVBC commenced June 1, 2011 with production to September 30, 2011 of 9,336 ounces of gold, 1.05 million pounds of copper and 28,456 ounces of silver (Orvana Operational Update November 10, 2011). During the year, the maiden receipts relating to the net smelter return royalty were received. These totalled £0.3 million and consisted of repayments under the debenture instrument. On February 21, 2012 Orvana announced an updated gold and copper resource estimate and production projections for EVBC; further details can be found at [www.orvana.com](http://www.orvana.com).

The Group holds a 2.5% net smelter return royalty on the Engenho gold mine in Brazil, operated by Mundo Minerals Limited ("Mundo"), an Australian Stock Exchange listed company. During the year, receipts relating to the net smelter return royalty on the Engenho gold mine totalled £0.3 million (2010: £0.4 million). These receipts consisted of repayments under the debenture instrument and also included £0.1 million interest. In November 2011, Mundo placed the Engenho gold mine on care and maintenance and on December 20, 2011, Mundo's Brazilian subsidiary was granted court approval for protection under Recuperação Judicial, the Brazilian equivalent of the US Chapter 11 process. As at December 31, 2011 a full provision of £1.6 million was made against the royalty instrument held by the Group in Mundo.

The Group owns a 2.5% escalating net smelter return royalty on the Malartic-Midway and McKenzie Break projects. The projects

are located in Quebec, Canada, and were until recently operated by Northern Star Mining Corp. On January 25, 2011 the company announced that it had been deemed to have filed assignments in bankruptcy. The Group has registered its royalty interests against the relevant tenures and continues to pursue its rights with the receiver to ensure that the royalty remains attached to the property in the event of any disposal. During the year ended December 31, 2010 a full provision of £4.2 million was made against the royalty instrument held by the Group in Northern Star Mining Corp.

The Group also owns an option to acquire a 2% net smelter return royalty on Creso Exploration Inc's Duggan gold property in Ontario, Canada. Exploration work at this property is ongoing.

### Chromite royalties

During the year the Group acquired a 1% net smelter return royalty interest in the Black Thor, Black Label and Big Daddy chromite projects via the purchase of 7207565 Canada Inc. from KWG Resources Inc. (a Toronto Stock Exchange listed company) for US\$18 million. The deposits in the "Ring-of-Fire" region of Northern Ontario, Canada are owned and operated by Cliffs. Cliffs is currently preparing a comprehensive Project Description as required under Canadian guidelines for economic, environmental and social assessments. Further details on the project can be found at [www.cliffsnaturalresources.com](http://www.cliffsnaturalresources.com).

The Group holds a 3% gross revenue royalty over the output from Empire Mining Corp's ("Empire") Bulqiza chromite project in Albania. On November 7, 2011 Empire announced it was ceasing operations in Albania due to material omissions in its renewed exploration licences. Empire has been conducting high level talks with the Albanian government in an effort to rectify the matter. A clarification of Empire's position is expected in the first half of 2012. Empire Mining Corp is listed on the Toronto Stock Exchange.

### Nickel royalty option

The Group holds an option to acquire for US\$12.5 million a 1.5% net smelter return royalty on the Araguaia and Lontra Nickel Projects ("Araguaia Project") which are located in the Carajas Mineral District of Northern Brazil and are owned by Horizonte Minerals PLC ("Horizonte"), a London Stock Exchange listed company. Horizonte acquired the Araguaia Project from Teck Resources Limited in 2010, which resulted in Teck Resources Limited controlling approximately 44% of Horizonte's outstanding share capital. On January 10, 2012 Horizonte announced an updated NI 43-101 / JORC compliant nickel laterite resource; work on a Preliminary Economic Assessment is underway for delivery mid-2012. Further information can be found at [www.horizonteminerals.com](http://www.horizonteminerals.com).

### Other royalty options

The Group also owns options to acquire a 1% net smelter return royalty on each of the Highbank Lake and Eastbank PGE exploration properties in Ontario, Canada, owned by Northern Shield Resources Inc., a Toronto Stock Exchange listed company.

### Coal properties

During the year the Group continued to assess prospective partners for its Panorama and Discovery coal projects in the Groundhog Coalfield, northern British Columbia, Canada (collectively referred to as "Panorama") and its Trefi coal project in the Peace River Coalfield, northwest British Columbia, Canada.

The Panorama coal project has a NI 43-101 / JORC compliant Indicated resource of 13.7 million tonnes of semi-anthracite to anthracite coal and an Inferred resource of 24.1 million tonnes of semi-anthracite to anthracite coal.

The Trefi project has a NI 43-101 / JORC compliant Measured coal resource of 14.25 million tonnes and an Indicated coal resource of 25.1 million tonnes and an Inferred coal resource of 51.6 million tonnes.

## Directors' report

The Group continues to examine possible methods of monetising its interest in both Panorama and Trefi while retaining a royalty.

### Mining and exploration interests

The Group's equity investments in both listed and unlisted mineral exploration and development companies continued to generate opportunities for royalty acquisitions during the year. The Group's equity investments remained focused on copper, precious metals, iron ore and uranium at December 31, 2011. Where royalty opportunities appeared no longer identifiable within an equity investment, the Group disposed of the interest. Despite difficult equity market conditions during the year the Group was able overall to realise significant profits on these disposals.

### Outlook

With recent signs of recovery in the US economy and much better bank liquidity within the troubled Eurozone, mining markets and commodity prices have improved sharply in the last two months. This has resulted in a significant increase in the value of the Group's equity interests since the year end. Furthermore, with this improving background, the raising of mining finance from conventional lenders or equity issues has become less of a challenge for larger mining companies. However, in the junior mining sector access to finance still remains challenging. In this environment, the Group continues to identify royalty opportunities and receive numerous enquiries for mining finance.

### Key performance indicators

The Board has identified four main key performance indicators, all of which are financial:

- (i) Value of new royalties acquired
- (ii) Net asset value
- (iii) Earnings per share
- (iv) Dividends per share

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

### Risks and uncertainties

In addition to normal business risks, the Board has identified, inter alia, four main macro-economic risks that could affect the Group's performance:-

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

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

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

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

### Financial instruments

The Group's principal treasury objective is to provide sufficient liquidity to meet operational cash flow and dividend requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Group operates controlled treasury policies which are monitored by management to ensure that the needs of the Group are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised below, while detailed discussion and sensitivity analysis relating to these risks is contained in note 3 to these accounts.

### Liquidity and funding risk

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

### Credit risk

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

The Group's credit risk is primarily attributable to its other receivables, including royalty receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. Where possible the Group has registered its interests against the relevant mining titles for the royalties it has acquired. In addition, the Group is generally entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

The Group's credit risk on royalty instruments held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in note 17 where the future contractual right to cash flow from these instruments is reflected in their fair value.

The credit risk on bank deposits is limited because the counterparties have high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of currencies and counterparties.

In 2007, the Group created a derivative financial instrument to provide finance to an unlisted mining development company, which has subsequently listed (note 19). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to five years. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group on a regular basis.

### Foreign exchange risk

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

## Directors' report

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

	Net Foreign currency monetary asset					
	AUD	CAD	USD	NOK	EUR	Total
Functional currency of operation	£'000	£'000	£'000	£'000	£'000	£'000
<b>2011</b>						
Sterling	37,928	30,514	3,117	3,191	6	74,756
<b>2010</b>						
Sterling	61,321	37,273	350	–	12	98,956

### Interest rate risk

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

### Other price risk

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

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

## Management

### Directors

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

The following individuals have held office as directors of the Company since January 1, 2011:

#### Executive:

P.M. Boycott	(Chairman)
A.C. Orchard	(Chief Investment Officer)
M.J. Tack	(Finance Director - resigned September 23, 2011)
J. Theobald	(Chief Executive Officer)
B.M. Wides	(Director of International Business Development)

#### Non Executive:

M.H. Atkinson	(Senior Independent Director and Nomination Committee Chairman)
J.G. Whellock	(Audit Committee Chairman)
A.H. Yadgaroff	(Remuneration Committee Chairman)

Peter M. Boycott was appointed to the Board in May 1997 and as Chairman in June 1997. He has an MA in Mechanical Sciences from the University of Cambridge and is a Chartered Accountant. During his career he has been involved as Finance Director and substantial shareholder in a number of private investment and property groups including engineering and manufacturing companies supplying

thermal processing systems to major mining groups. He has been a director of several public companies quoted in Australia and Canada.

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

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

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

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

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

Anthony H. Yadgaroff was appointed director in March 2003 and currently chairs the Group's Remuneration Committee. He is a Member of the Chartered Institute for Securities and Investment, and has specialised in investment research and management consultancy during a forty year City career. Allenbridge Group, which he founded in

## Directors' report

1984 to provide advisory services to private and institutional investors, was acquired by Close Brothers in February 2011. He is Chairman of AllenbridgeEpic Ltd, which advises major UK pension funds with combined assets exceeding £25 billion. He serves on the boards of several charities and non-profit organisations.

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the new UK Corporate Governance Code (the "Code"), the Companies Act 2006 and related legislation. The Code recommends that all directors of FTSE 350 companies should be subject to annual re-election. At the next Annual General Meeting, all of the Company's directors will be offering themselves for re-election.

The directors may exercise all the powers of the Company subject to applicable legislation and regulation and the Articles of Association of the Company. The Company's Articles of Association may be amended by special resolution of the shareholders. At the 2011 Annual General Meeting, the directors were given the power to issue new shares up to an aggregate nominal amount of £725,142. This power will expire at the earlier of the conclusion of the 2016 Annual General Meeting or April 13, 2016. Further, 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 10% of 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 2012 Annual General Meeting or July 13, 2012. At the 2011 Annual General Meeting, the directors were also given the power to make market purchases of ordinary shares up to a maximum number of 10,877,133. This power will expire at the earlier of the conclusion of the 2012 Annual General Meeting or October 13, 2012. Similar authorities will again be sought from shareholders at the next Annual General Meeting.

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

### Directors' interests

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

	Ordinary shares of £0.02 each		
	February 24, 2012	December 31, 2011	December 31, 2010
P.M. Boycott (Executive Chairman)	2,706,947	2,706,947	2,736,947
A.C. Orchard (Executive Director)	357,245	357,245	264,202
J. Theobald (Executive Director)	287,550	287,550	204,919
B.M. Wides (Executive Director)	2,926,153	2,926,153	2,926,153
M.H. Atkinson (Non-Executive Director)	7,422	7,422	3,922
J.G. Whellock (Non-Executive Director)	13,084	13,084	13,084
A.H. Yadgaroff (Non-Executive Director)	172,180	169,932	161,198

### Remuneration of directors

The Remuneration Report on [pages 23 to 25](#) forms part of the Directors' Report and includes details of the nature and amount of each element of the remuneration (including share options) of each of the directors.

The 2011 Remuneration Report will be proposed for approval at the Annual General Meeting to be held on April 19, 2012. In accordance with the Companies Act 2006 (United Kingdom) no entitlement of a person to remuneration is conditional upon the passing of the resolution.

The 2010 Remuneration Report was approved by shareholders at the Group's 2011 Annual General Meeting.

### Corporate governance

A full report on corporate governance can be found on [pages 20 to 22](#) and forms part of this Directors' Report.

### Corporate social responsibility

#### Business conduct

The Group is committed to maintaining the highest standards of integrity in all areas of its business. The Group published a statement of integrity in 2011, a copy of which is available on the Group's website. The Group also has policies and procedures in place to ensure that all of its directors, officers, employees, consultants, advisers, business partners, or anyone else, who may be acting on its behalf, is aware of their responsibilities in this area.

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

#### Health and safety

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

#### Social and community issues

The Group acknowledges that, while its activities have little direct contact with communities, it can positively influence the social practices and policies of companies it conducts business with. Positive social and community relationships are essential to profitable and successful mineral extraction activities, and the Group endeavours to ensure that companies it works with have appropriate procedures in place to facilitate this. The Group also consults with local community groups where it believes its activities could have an impact to provide these potentially impacted groups with the opportunity to engage at the planning stage. With respect to its private coal interests in British Columbia, Canada the Group has engaged with First Nations and will continue to engage and consult as the projects advance.

#### The environment

The Group remains committed to an environmental policy of collaborating fully with statutory authorities, local communities and special interest groups to minimise the effects of its activities on the natural and human environments associated with its operations, where appropriate. The Group complies with all relevant environmental legislation on its private coal interests in British Columbia, Canada and is assisted in this regard by a team of experienced Canadian consultants.

The Group acknowledges that it has some ability to positively influence the environmental practices and policies of companies it conducts business with. Management discussions necessarily address common environmental policy ideals, and the Board remains committed to working with its fellow mining companies to ensure that the environmental impact of mineral exploration and development activities is minimised as much as possible. In today's world, a responsible approach to a project's environmental impact is essential to the success of the project, and, as part of its investment decision process, the Group has access to consultants with the requisite expertise to ensure that it can consider and, if necessary, mitigate any risks in this regard to the fullest extent possible.

## Directors' report

### Employees

The Group has 11 employees, 4 of whom are executive directors. More information regarding the Group's employees can be found on

► pages 15 to 16 and page 50.

### Donations

It is a continuing policy of the Group not to make political or charitable donations. The Group's directors and employees support philanthropic efforts generally using their own personal resources. The Group's philosophy is that charity is a decision best made by shareholders with their own resources, rather than management using the Group's resources to make this decision on their behalf. The Group aims to increase dividends and the value of the Group's shares so that shareholders can make their own charitable decisions.

No donations were made to charities during the year (2010: nil).

No political donations were made during the year (2010: nil).

### Policy on payment of creditors

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

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

During the year to December 31, 2011 the Company took an average of 33 days to settle its bills with suppliers (2010: 23 days). The Company acknowledges the importance of paying invoices promptly, especially those of small businesses.

### Essential contracts

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

### Capital structure

The structure of the Company's ordinary capital at March 2, 2012 was as follows:

	Issued No.	Nominal value per share £	Total £	% of total capital
Ordinary shares	109,189,215	0.02	2,183,784	100%

### Rights and obligations

#### Dividends

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

#### Voting rights

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

#### Restrictions on transfer of holdings

There are no specific restrictions on the size of a holding nor on the transfer of the Company's shares, which are both governed by the general provisions of the Articles of Association of the Company and prevailing legislation. There are no known agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or voting rights.

### Special control rights

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

### Employee share schemes

Details of employee share schemes are set out on ► pages 23 to 24 and at note 2.11 to the financial statements.

### Treasury

No shares are currently held in treasury by the Company.

### Substantial shareholdings

The Company has been notified of the following interests of 3% or more in the share capital of the Company at February 24, 2012.

	Ordinary Shares of 2p each	Representing
Ransomes Dock Ltd	8,841,315	8.10%
AXA Investment Managers UK	5,494,332	5.03%
Rathbone Brothers PLC	5,287,850	4.84%
Legal and General Group PLC	4,359,058	3.99%

### Statement as to disclosure of information to auditors

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

### Auditors

Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 (United Kingdom) a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on April 19, 2012.

### Annual General Meeting

This year's Annual General Meeting will be held at the Institute of Chartered Accountants in England and Wales, 1 Moorgate Place, London EC2R 6EA, United Kingdom on Thursday April 19, 2012 at 11.00 am. The notice of the Annual General Meeting can be found on ► pages 68 to 72. The notice includes explanatory notes to the proposed resolutions. The directors believe that all of the resolutions to be proposed at the Annual General Meeting are in the best interests of the Company and its shareholders as a whole and the directors unanimously recommend that shareholders vote in favour of all of the resolutions.

### Designated Foreign Issuer status

The Company continues to be listed on the TSX and to be a "reporting issuer" in the Province of Ontario, Canada. The Company also continues to be a "designated foreign issuer", as defined in National Instrument 71-102 – Continuous Disclosure and Other Exemptions Relating to Foreign Issuers of the Canadian Securities Administrators. As such, the Company is not subject to the same ongoing reporting requirements as most other reporting issuers in Canada. Generally, the Company will be in compliance with Canadian ongoing reporting requirements if it complies with the UK Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (United Kingdom),

## Directors' report

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.

### Technical reports

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

### Third party information

As a royalty holder, the Group often has limited, if any, access to non-public scientific and technical information in respect of the properties underlying its portfolio of royalties, or such information is subject to confidentiality provisions. As such, in preparing this Annual Report, the Group has relied upon the public disclosures of the owners and operators of the properties underlying its portfolio of royalties, as available at the date of this Annual Report.

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

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

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

Forward-looking statements include statements that are predictive

in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based upon certain material factors that were applied in drawing a conclusion or making a forecast or projection, including assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. The material factors and assumptions upon which such forward-looking statements are based include: the stability of the global economy; the stability of local governments and legislative background; the relative stability of interest rates; the equity and debt markets continuing to provide access to capital; the continuing of ongoing operations of the properties underlying the Group's portfolio of royalties by the owners or operators of such properties in a manner consistent with past practice; the accuracy of public statements and disclosures (including feasibility studies, estimates of reserve, resource, production, grades, mine life and cash cost) made by the owners or operators of such underlying properties; no material adverse change in the price of the commodities underlying the Group's portfolio of royalties and investments; no material adverse change in foreign exchange exposure; no adverse development in respect of any significant property in which the Group holds a royalty or other interest, including but not limited to unusual or unexpected geological formations and natural disasters; successful completion of new development projects; planned expansions or additional projects being within the timelines anticipated and at anticipated production levels; and maintenance of mining title. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which could cause actual results to differ materially from those anticipated, estimated or intended in the forward-looking statements.

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

This Annual Report also contains forward-looking information

## Directors' report

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

### Going concern

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

Registered Office

By Order of the Board



17 Hill Street  
London  
W1J 5LJ

P.T.J. Mason  
Company Secretary  
March 9, 2012

## Corporate governance report

### Principles of Corporate Governance

The Board remains committed to a process of ongoing improvement in its corporate governance practice, not only in step with the evolving nature of good corporate governance practice, but also in step with the growth of the Group. There were two significant developments in this area in 2011 that have impacted the Group. The first was the introduction of The UK Corporate Governance Code (the "Code"). The Company believes that it complies with the Main Principles of the Code, except in respect of a formal annual process to evaluate the performance of the Board and of its Committees and individual directors (Main Principle B.6). In this report, the Company explains how it has applied the Main Principles of the Code. However, the Board believes that corporate governance involves more than a simple "box ticking" approach to establish whether the Group has met the requirements of a number of specific rules and regulations. Rather, the issue is one of applying good corporate governance principles in a sensible and pragmatic fashion, which has proper regard to the Group's particular business profile and size. The key objective is to enhance and protect shareholder value.

The second development was the promotion of the Company to the FTSE 250 Index in April 2011. The Company's shares continue to be listed on both the London and the Toronto Stock Exchanges and the Company's promotion from the FTSE SmallCap Index reflects the strong growth of the Group. However, despite this growth, the Group's organisation remains exceptionally small and compact. At December 31, 2011, apart from the four executive directors, the Group employed only seven staff.

### The Board

#### Leadership

The Board is collectively responsible for the long-term success of the Company and meets regularly to provide entrepreneurial leadership to the Group and to monitor the Group's risk management framework. The Board currently comprises the Chairman, the Chief Executive Officer, two additional executive directors and three non-executive directors. The day to day management of the Group is delegated to the executive directors, including the Chairman, save for certain matters reserved for consideration by the Board. Other responsibilities are given to the Committees of the Board, as set out in the Committee sections below and in their terms of reference, which are available on the Group's website.

The Chairman, Mr P.M. Boycott, is responsible for the leadership and effectiveness of the Board. The post remains an executive role, although the Chairman, together with one other of the executive directors (Mr B.M. Wides), is employed on a three days a week basis. The Chairman and the Chief Executive Officer have distinct roles, which have been defined in writing and agreed by the Board. Further, the Board anticipates that the role of Chairman will in due course become a non-executive one, but the transition is being managed progressively so as to take maximum advantage of the directors' expertise. During 2011, the Chief Executive Officer took over the chairmanship of the Executive Committee. The Board anticipates that the transition should be completed over the next two to three years and that, beyond that, Mr P.M. Boycott and Mr B.M. Wides would act as non-executive directors.

Mr M.H. Atkinson is the Group's Senior Independent Director ("SID"). The role of the SID is to provide a sounding board for the Chairman and to serve as an intermediary for the other directors where necessary. He also takes the lead on meetings of the non-executive directors outside the formal committee structure and works with the Chairman to encourage constructive relations between the executive and non-executive directors and to ensure that the non-executive directors are fully able to use their external experiences to constructively challenge

and develop proposals on strategy and to scrutinise the performance of management. The SID is also available to shareholders if they have concerns that have not been resolved through the normal channels, or where such channels would be inappropriate.

#### Effectiveness

Excluding the Chairman, and following the resignation of Mr Tack in September 2011, the Board is currently comprised of six directors, three of whom are non-executive directors. The Board considers all of its non-executive directors to be independent within the meaning of the Code. Dr J.G. Whellock and Mr A.H. Yadgaroff were appointed to the board on March 3, 2003 and as such, have served as non-executive directors for nine years. As a result, the Board has recently had to re-determine whether these individuals continue to be independent in judgement and character. At present, the Board feels that the personal attributes of the individuals are such that both continue to be independent and to offer much to the Group. With these two directors continuing to be viewed as independent, the Board is currently compliant with the Code's provision that at least half of the board, excluding the chairman, should be comprised of independent non-executive directors.

Further to the Davies Report, FTSE 350 companies have been encouraged to promote greater female representation on boards. The Group supports Lord Davies's published strategy and hopes to make progress in increasing the number of females on the Board. However, the Board is wary of the potential superficiality of quotas and believes that the best approach is to continue to ensure that the appointments process takes account of the benefits of diversity (including gender), that all appointments are made on merit and that the Board represents the best interests of shareholders.

The Board, through its Nomination Committee, keeps under review the need for new director appointments, so as to maintain an appropriate balance of skills and independence within the Group and to ensure that the Board is refreshed, as appropriate. The size of the organisation allows the directors to closely observe the skills, knowledge and behaviour of those employees who have the potential to become future leaders of the Group. New director appointments are made by the Board, having regard to the recommendations of the Nomination Committee. All directors are subject to election by shareholders at the first opportunity after their appointment. Under the terms of the Company's Articles of Association, all directors are required to retire and seek re-appointment by shareholders at an annual general meeting on the third anniversary of their appointment. The current non-executive directors were not appointed to specified terms, but the Board intends to appoint future non-executive directors on a rolling three-year contract. Notwithstanding this, the Board also intends that all of the directors (including the non-executive directors) should now offer themselves for re-election at each annual general meeting.

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

The Group's directors have a wide range of skills as well as experience in financial, commercial and mining activities. Each director takes responsibility for undertaking the appropriate training required for developing and updating their knowledge and capabilities. Where appropriate, the Group provides the resources to meet the directors'

## Corporate governance report

requirements. During the year, directors attended, inter alia, seminars and conferences on mining industry developments, the Bribery Act and economic trends. The nature of the Group's business and the number of its employees allow the directors to have a strong understanding of both the Group's operations and staff.

The executive directors and the Board Committees report and refer to the full Board at regular intervals on all matters relating to the running of the Group. The Chairman, in conjunction with the Company Secretary, is responsible for setting the Board's agenda and for ensuring that the Board receives accurate, timely and clear information. The Chairman is also responsible for ensuring that adequate time is available for discussion of all agenda items and, in particular, strategic issues which are further discussed at annual strategy meetings attended by all of the directors and all of the Company's employees.

The Board approved the appointment of the Group's Corporate Counsel, Mr P.T.J. Mason, as Company Secretary in July 2011. He is responsible for advising the Board, through the Chairman, on all governance matters. All of the directors have access to his services and advice. Further, all of the directors may seek independent professional advice in the performance of their duties, at the Group's expense.

The Code recommends that the board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. The Board does not currently have such formal standalone systems. The presence of an open environment where feedback is continually sought provides an informal process that enables the continual improvement of Board and Committee performance. The performance of individual executive directors is regularly reviewed by the Chairman and the Chief Executive Officer, and is discussed in a structured way by the non-executive directors in the context of determining annual incentive awards. The Board believes that these arrangements are appropriate and effective given the current size of the Board, the compactness of the organisation and the extent of collective decision-making by the executive directors. Each Committee and the Board is satisfied overall with its own effectiveness and the contribution and commitment of each of the directors. The Board will annually review the case for a more formal evaluation process, including the new proposal in the Code for an externally facilitated evaluation of the boards of FTSE 350 companies at least every three years.

### Attendance

Directors' attendance at Board and Committee meetings during 2011 was as follows:

	General	Executive	Audit	Remuneration	Nomination
Total meetings held:	13	8	4	3	2
Attendance:					
P.M. Boycott	13	8	-	-	-
A.C. Orchard	13	8	-	-	-
M.J. Tack <sup>1</sup>	11	6	-	-	-
J. Theobald	12	8	-	-	-
B.M. Wides	13	7	-	-	-
M.H. Atkinson	11	-	4	3	2
J.G. Whellock	13	-	4	3	2
A.H. Yadgaroff	13	-	4	3	2

<sup>1</sup> Mr M.J. Tack resigned as a director on September 23, 2011.

### Committees of the Board

Most of the Board's work is conducted in Committees of either executive directors or non-executive directors. Each Committee deals with specific aspects of the Group's affairs and has written terms of reference, which are available on the Group's website.

The Committees report to the full Board at regular intervals.

#### Executive Committee

The Executive Committee, comprising the executive directors of the Group, is responsible for reaching and implementing decisions on matters not reserved for the full Board. The Committee is now chaired by the Chief Executive Officer and held eight meetings during the period.

#### Remuneration Committee

The Remuneration Committee, comprising solely the independent non-executive directors, is responsible for making recommendations to the Board on the Group's framework of executive director remuneration. The Committee determines the contract terms, remuneration and other benefits for each of the executive directors (including the Chairman), including performance-related incentivisation awards, pension rights and compensation payments. It has access to the advice of independent remuneration consultants when required. The Committee is chaired by Mr A.H. Yadgaroff and held three meetings during the period. The Board itself determines the remuneration of the non-executive directors. The Directors' Remuneration Report is set out on [pages 23 to 25](#).

#### Nomination Committee

The Nomination Committee comprises solely the independent non-executive directors and is chaired by Mr M.H. Atkinson. It meets as required in order to review the structure, size and composition of the Board (including its balance of skills, experience, independence and knowledge) in light of developments in the leadership needs of the Group and in accepted best corporate governance practice. The Committee is responsible for identifying and nominating candidates for the approval of the Board. It may commission external advice or services as required. The Committee held two meetings during the period.

#### Audit Committee

The Audit Committee comprises solely the independent non-executive directors and is chaired by Dr J.G. Whellock. The Committee meets at least twice a year and may be attended, by invitation, by the Chairman, the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. The external auditors meet the Committee, in the absence of any executive directors, at least once a year. The Committee's terms of reference are available on the Group's website. Its prime task is to review the half-yearly and annual accounts, in the light of advice from the external auditors, before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The Committee is responsible for monitoring the controls in place to ensure the integrity of the information reported to the shareholders. The Committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. The Committee also regularly reviews the case for an internal audit function in light of the growing size and complexity of the Group's business; its present view is that this is not yet justified given the compact size of the Group and the directors' involvement with individual transactions.

The Committee advises the Board on the appointment, performance, objectivity and independence of the external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The Committee accepts that some non-audit work is most appropriately

## Corporate governance report

undertaken by the auditors, but such work requires the prior approval of the Chairman of the Audit Committee. The Group does use other accounting firms for non-audit work, bearing in mind the need for experience, objectivity and value for money in each particular case.

During the year, the Committee met four times to consider and recommend the half-yearly and annual accounts and the annual report and to consider and review the annual audit approach and the Group's internal control and risk management. The external auditors attended each meeting at which they presented their audit strategy and their findings and conclusions in respect of the half-yearly and annual accounts. In addition, the Committee reviewed a number of regular items, including the Group's anti-corruption and whistle blowing policies and procedures.

### Internal control

The Board retains overall responsibility for the Group's system of internal control and risk management. A statement of directors' responsibilities in respect of the financial statements is set out on [page 26](#).

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

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 annually to undertake a full assessment process, in conjunction with the Company Secretary, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. In addition, regular reports about significant risks and associated control and monitoring procedures are made to the Audit Committee. They are responsible for reviewing the risk assessment for completeness and accuracy. The consolidated results of these reviews are reported to the Board to enable the directors to review the effectiveness of the system of internal control. The process adopted by the Group accords with the guidance contained in the document "Internal Control Revised Guidance for Directors on the Combined Code" issued by the Financial Reporting Council.

The Audit Committee receives reports from the external auditors on a regular basis and from the executive directors of the Group. The Board receives regular reports from all of its Committees.

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2011 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

The directors confirm that the Board has reviewed the effectiveness of the system of internal control as described during the period and concluded that the controls and procedures are adequate.

### Relations with shareholders

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

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2011 Annual General Meeting where investors were able to hear at first hand a review of the Group's results for 2010 and to ask about current business activity. This year's Annual General Meeting will be held on April 19, 2012. The notice of the Annual General Meeting may be found on [pages 68 to 72](#), and the Board hopes that it will again be well-attended. It is anticipated that the chairmen of the Audit, Remuneration and Nomination Committees, as well as the executive directors, will be available to answer any shareholder questions.

### Other statutory and regulatory information

Additional information on substantial shareholdings, voting rights and the appointment and powers of the Company's directors, amongst other things, can be found on [pages 16 and 17](#) of the Directors' Report.

### The Remuneration Committee comprises:

A.H. Yadgaroff (chairman)

M.H. Atkinson

J.G. Whellock

All the members of the Remuneration Committee are non-executive directors and are considered to be independent by the Board.

The Remuneration Committee is responsible for determining the Group's policy on remuneration of its executive directors, including service contracts and compensation in the event of early termination. The terms of reference of the Remuneration Committee are available on the Group's website at [www.anglopacifigroup.com](http://www.anglopacifigroup.com).

### The remuneration strategy

The Group is characterised by a high market capitalisation relative to the size of its organisation, by long investment horizons, and by the absence of a comparable peer-group for the purpose of benchmarking performance. The Group's success is highly dependent on the collective expertise, judgement and drive of the executive directors, particularly in the acquisition of further royalties.

The Remuneration Committee's strategy accordingly puts strong emphasis on incentivising and retaining the executive directors with a remuneration package that comprises a fixed monthly basic salary, a significant performance-related incentive award, and a joint share ownership plan designed primarily to encourage long-term retention. The Remuneration Committee has considered the scope for a long-term incentive plan, but the long investment horizons and absence of comparable UK companies make this difficult. Instead, a proportion of the overall package is in the form of shares, designed to ensure a strong alignment with the interests of shareholders. In determining remuneration, consideration is also given to reward levels throughout the Group as well as in the external employment market.

## Directors' remuneration report

The components of the package are set out below.

### Executive directors' remuneration

#### (i) Basic salary

The basic salary component is low relative to that paid by FTSE 250 companies of a similar size and nature, and the Remuneration Committee's aim over time is to continue steadily to narrow the gap with the lower quartile of basic salaries paid by such companies.

#### (ii) Annual incentive award

The Group continues to operate an annual performance-related incentive plan, which creates a pool divisible between all executive directors at the discretion of the Remuneration Committee from time to time. The maximum award payable is capped at 150% of basic salary. The Remuneration Committee considers the performance of the executive directors against a number of criteria, including the movement in the Company's share price, the acquisition of new royalties, and the other three main key performance indicators outlined on [page 14](#).

A proportion of this award is normally payable in shares.

#### (iii) Share schemes

The Group operates two share schemes: an HMRC-approved Company Share Option Plan (the "CSOP") and a Joint Share Ownership Plan (the "JSOP").

#### Company Share Option Plan

The CSOP is open to certain employees and directors of the Company, as selected by the Board at its absolute discretion. The CSOP was approved by shareholders at the Annual General Meeting held on April 21, 2010.

Share options are granted at the prevailing market price on the date of grant. The vesting period for the option plan is three years and, if an option remains unexercised after a period of 10 years from the date of grant, the option will lapse. The exercise condition of the option plan stipulates that the Group's absolute total shareholder return must grow at a rate of 3% per annum (not compounded) in excess of the UK Retail Price Index over the vesting period.

The market price of the shares at December 31, 2011 was 276p and the range during the year was 226p to 369p.

The table below shows, for the directors who served during the year, the options outstanding at December 31, 2011 for which nil has been paid.

### Company Share Option Plan

	No. of Options	Exercisable between	Exercise price
<b>A.C. Orchard</b>			
As at January 1, 2011	12,024	20/05/13 – 20/05/20	249.50p
– Surrendered	–	–	–
– Granted	–	–	–
As at December 31, 2011	12,024	20/05/13 – 20/05/20	249.50p
<b>M.J. Tack</b>			
As at January 1, 2011	12,024	20/05/13 – 20/05/20	249.50p
– Forfeited	12,024	20/05/13 – 20/05/20	249.50p
– Granted	–	–	–
As at December 31, 2011	–	–	–
<b>J. Theobald</b>			
As at January 1, 2011	12,024	20/05/13 – 20/05/20	249.50p
– Surrendered	–	–	–
– Granted	–	–	–
As at December 31, 2011	12,024	20/05/13 – 20/05/20	249.50p

In accordance with the rules of the CSOP, all of Mr M.J. Tack's outstanding options were forfeited following his resignation on September 23, 2011.

#### Joint Share Ownership Plan

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

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

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

The JSOP awards are limited in value such that the initial value of shares acquired jointly with the Co-owner under the award will not exceed 400% of the employee's gross annual salary. In the first year of the JSOP (2010), the Board (on the recommendation of the Remuneration Committee), awarded shares equivalent to 350% of basic salary to Mr A.C. Orchard, Mr M.J. Tack and Mr J. Theobald; and in 2011, a further award of 175% of basic salary was made to each of these individuals.

## Directors' remuneration report

The beneficial interests, under the JSOP, as at December 31, 2011, of the directors who served during the year were as undernoted for which nil has been paid.

	No. of Shares	Exercisable between	Grant price	Hurdle price
<b>A.C. Orchard</b>				
As at January 1, 2011	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Granted	77,837	28/03/14 – 28/03/15	326.00p	422.50p
As at December 31, 2011	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at December 31, 2011	77,837	28/03/14 – 28/03/15	326.00p	422.50p
<b>M.J. Tack</b>				
As at January 1, 2011	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Granted	77,837	28/03/14 – 28/03/15	326.00p	422.50p
– Forfeited	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Forfeited	77,837	28/03/14 – 28/03/15	326.00p	422.50p
As at December 31, 2011	–	–	–	–
<b>J. Theobald</b>				
As at January 1, 2011	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Granted	77,837	28/03/14 – 28/03/15	326.00p	422.50p
As at December 31, 2011	169,350	20/05/13 – 20/05/14	248.00p	315.00p
As at December 31, 2011	77,837	28/03/14 – 28/03/15	326.00p	422.50p

In accordance with the rules of the JSOP, all of Mr M.J. Tack's beneficial interests in shares awarded under the JSOP were forfeited following his resignation on September 23, 2011.

### (iv) Pension rights

The Company operates a Money Purchase Group Personal Pension Scheme which all employees and executive directors are eligible to join. Pension scheme assets are held by AEGON Scottish Equitable PLC. During the year the Group paid pension contributions in respect of directors as follows:

	2011 £	2010 £
A.C. Orchard	14,500	10,500
M.J. Tack <sup>1</sup>	10,875	10,500
J. Theobald	15,333	8,000

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

### Executive directors' service contracts

Although all of the executive directors' service contracts are for an indefinite term, it is the Group's policy that the service contracts do not have a notice period of more than one year. In the event of termination, the service contracts allow the Company to make a payment in lieu of notice. The service contracts of Mr J. Theobald and Mr A.C. Orchard also provide for an additional termination payment equivalent to six months' basic salary, whereas the service contracts of Mr P.M. Boycott and Mr B.M. Wides simply limit payment for loss of office to twelve months' basic salary. The service contracts provide that any such payments will be without prejudice to the director's duty to mitigate his loss. No executive director has provisions in his service contract that relate to a change of control of the Company. The details of the service contracts of the executive directors in office at December 31, 2011 are as follows:

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

### Non-executive directors' terms of appointment

The Group's non-executive directors have letters of appointment for an indefinite term, although they may be terminated by either party subject to 30 days' notice. None of the letters have provisions that relate to a change of control of the Company. The fees of non-executive directors are determined by the Board having regard to the commitment of time required and the level of fees in similar companies. Non-executive directors are not eligible to participate in the Company's annual performance-related incentive award, share option schemes or pension scheme. The details of the non-executive directors' letters of appointment in office at December 31, 2011 are as follows:

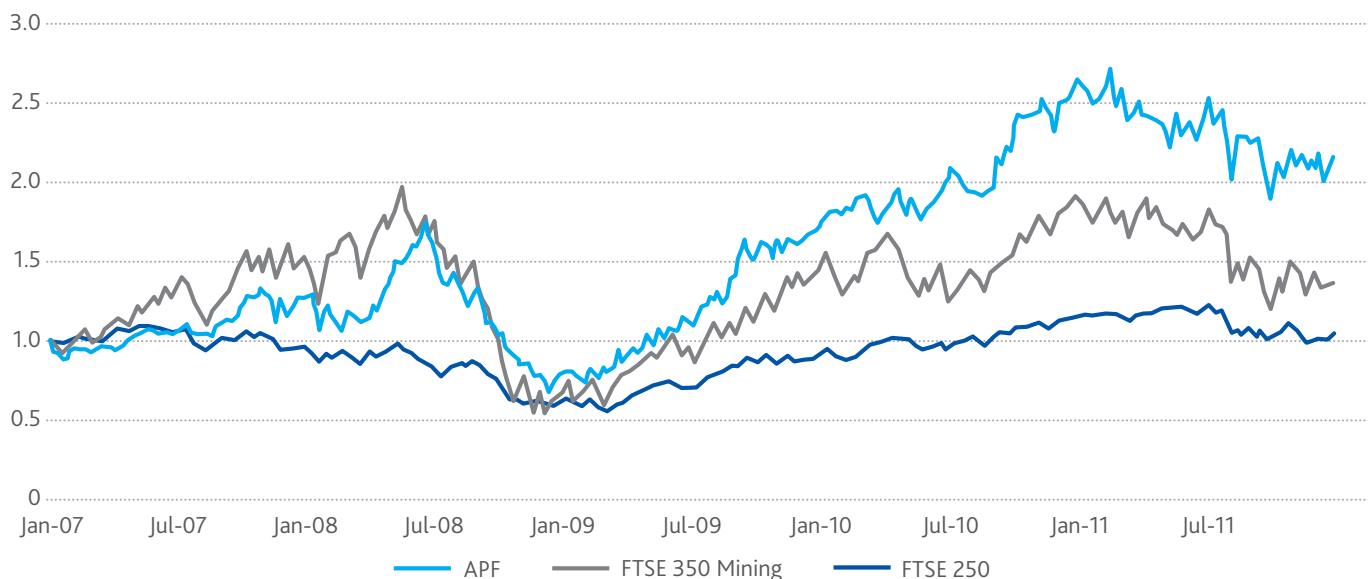
	Contract date	Notice period
M.H. Atkinson	February 9, 2006	30 days
J.G. Whellock	May 19, 2003	30 days
A.H. Yadgaroff	May 19, 2003	30 days

### External appointments

It remains the Group's policy that all earnings from non-executive directorships held by the Group's executive directors be retained by the Group.

## Directors' remuneration report

### Total shareholder return



The above graph shows the Company's total shareholder return performance over the last five years against the FTSE 350 Mining Index and the FTSE 250 Index, which have been rebased at the start of the period in order to provide a graphical measure of comparative performance. The Board considers these indices to be the nearest relevant indices appropriate to the Group. The Company was admitted to the FTSE 250 Index in April 2011.

### Directors' emoluments and compensation

	2011 £	2010 £
Salaries and benefits	515,983	502,317
Annual incentive award	432,000	690,375
Fees	216,000	210,750
	1,163,983	1,403,442

The remuneration of the directors was as follows:–

	Salary £	Annual incentive award £	Fees £	2011 Total £	2010 Total £
P.M. Boycott	108,900	110,000	–	218,900	262,317
A.C. Orchard	145,000	80,000	–	225,000	305,625
M.J. Tack <sup>1</sup>	108,750	48,000	–	156,750	240,000
J. Theobald	153,333	84,000	–	237,333	284,750
B.M. Wides	–	110,000	108,000	218,000	202,750
M.H. Atkinson	–	–	36,000	36,000	36,000
J.G. Whellock	–	–	36,000	36,000	36,000
A.H. Yadgaroff	–	–	36,000	36,000	36,000
	515,983	432,000	216,000	1,163,983	1,403,442

<sup>1</sup> Mr M.J. Tack resigned as a director on September 23, 2011.

### Audit

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

### Approval

This report was approved by the Board and authorised for issue on March 9, 2012 and signed on its behalf by:

P.T.J. Mason  
Company Secretary  
March 9, 2012

## Directors' responsibilities in the preparation of financial statements

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

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

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

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

The directors who were in office at the date of this statement confirm that, so far as they are each aware:

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

### Directors' statement pursuant to the Disclosure and Transparency Rules

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, [www.anglo-pacificgroup.com](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.

By order of the Board

P.M. Boycott  
Chairman

March 9, 2012



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

We have audited the financial statements of Anglo Pacific Group PLC for the year ended December 31, 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on [page 26](#), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at December 31, 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on [pages 20 to 22](#) with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the directors' statement, set out on [page 19](#), in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Christopher Smith

Senior Statutory Auditor  
for and on behalf of

Grant Thornton UK LLP  
Statutory Auditor,  
Chartered Accountants

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

March 9, 2012

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

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

We conducted our audits of the Group's financial statements for each of the two years ended December 31, 2011 in accordance with ISAs. If we had been required to conduct the audits of the Group's financial statements for each of the two years ended December 31, 2011 in accordance with Canadian GAAS there would have been no material differences in the form or content of our audit reports.

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

Grant Thornton UK LLP  
Statutory Auditor,  
Chartered Accountants

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

March 9, 2012

## Consolidated income statement

for the year ended December 31, 2011

	Notes	2011 £'000	2010 £'000
Royalty income	5	35,103	30,133
Finance income	6	1,507	1,170
Amortisation of royalties	18	(1,018)	(85)
Operating expenses	7(a)	(3,262)	(3,276)
<b>Operating profit</b>		<b>32,330</b>	<b>27,942</b>
Share of profits of associates		–	265
Gain on sale of mining and exploration interests	5	20,303	41,025
Other income	9	634	33
Other losses	10	(4,261)	(3,416)
<b>Profit before tax</b>		<b>49,006</b>	<b>65,849</b>
Income tax expense	11	(12,337)	(9,566)
<b>Profit attributable to equity holders</b>		<b>36,669</b>	<b>56,283</b>
<b>Total and continuing earnings per share</b>			
Basic earnings per share	12	33.87p	51.99p
Diluted earnings per share	12	33.87p	51.99p

The notes on pages 37 to 66 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 £37,005,000 (2010: £43,526,000).

## Consolidated statement of comprehensive income

for the year ended December 31, 2011

	Notes	2011 £'000	2010 £'000
<b>Profit for the year</b>		<b>36,669</b>	<b>56,283</b>
<b>Other comprehensive income:</b>			
Net (loss)/gain on revaluation to coal royalties	16	(2,844)	355
Net (loss)/gain on revaluation of available for sale investments		(51,669)	48,227
Net exchange gain on translation of foreign operations		2,188	28,873
Share of other comprehensive expenses of associates		–	(40)
Deferred tax	23	5,532	(14,651)
<b>Net (loss)/gain recognised directly in equity</b>		<b>(10,124)</b>	<b>119,047</b>
Reclassification and adjustment on disposal of available for sale investments		(10,090)	(26,651)
<b>Total transferred from other comprehensive income</b>		<b>(10,090)</b>	<b>(26,651)</b>
<b>Total comprehensive (expense)/income for the year</b>		<b>(20,214)</b>	<b>92,396</b>

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

## Consolidated balance sheet and company balance sheet as at December 31, 2011

		Group		Company	
	Notes	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Non-current assets					
Property, plant and equipment	15	2,152	2,144	875	882
Coal royalties	16	175,124	177,130	–	–
Royalty instruments	17	24,736	28,061	24,736	28,061
Intangibles	18	69,138	42,741	3,997	3,997
Mining and exploration interests	19	64,551	128,479	56,369	108,113
Other receivables	21	–	–	9,038	41,284
Investments in subsidiaries	20(a)	–	–	33,545	18,312
		335,701	378,555	128,560	200,649
Current assets					
Trade and other receivables	21	12,298	8,813	1,922	521
Cash and cash equivalents	22	32,197	28,258	43,672	3,986
		44,495	37,071	45,594	4,507
Total assets		380,196	415,626	174,154	205,156
Non-current liabilities					
Deferred tax	23	58,822	63,838	4,401	9,479
		58,822	63,838	4,401	9,479
Current liabilities					
Income tax liabilities		3,731	4,987	413	–
Trade and other payables	24	781	913	694	859
		4,512	5,900	1,107	859
Total liabilities		63,334	69,738	5,508	10,338
Capital and reserves attributable to shareholders					
Share capital	25	2,184	2,175	2,184	2,175
Share premium	25	25,539	24,207	25,539	24,207
Coal royalty revaluation reserve		86,669	88,883	–	–
Investment revaluation reserve		(4,843)	51,780	(5,268)	50,403
Share based payment reserve		177	65	177	65
Foreign currency translation reserve		41,640	39,686	82	82
Special reserve	27	632	632	632	632
Investment in own shares		(2,601)	(1,295)	–	–
Retained Earnings	28	167,465	139,755	145,300	117,254
Total equity		316,862	345,888	168,646	194,818
Total equity and liabilities		380,196	415,626	174,154	205,156

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on pages 30 to 66 were approved by the Board and authorised for issue on March 6, 2012 and are signed on its behalf by:

Peter Boycott Chairman John Theobald Chief Executive Officer

## Consolidated statement of changes in equity

for the two years ended December 31, 2011

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2010</b>	<b>2,149</b>	<b>20,718</b>	<b>88,582</b>	<b>36,850</b>	<b>78</b>	<b>18,804</b>	<b>632</b>	<b>–</b>	<b>92,223</b>	<b>260,036</b>
Profit for the year	–	–	–	–	–	–	–	–	56,283	56,283
<i>Other comprehensive income:</i>										
Coal Royalties:										
Royalties valuation movement taken to equity	–	–	355	–	–	26,879	–	–	–	27,234
Deferred tax on valuation	–	–	(54)	–	–	(7,928)	–	–	–	(7,982)
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	48,227	–	524	–	–	–	48,751
Deferred tax on valuation	–	–	–	(6,646)	–	(24)	–	–	–	(6,670)
Transferred to income statement on disposal	–	–	–	(26,651)	–	–	–	–	–	(26,651)
Share of comprehensive expenses of associates	–	–	–	–	–	(40)	–	–	–	(40)
Foreign currency translation	–	–	–	–	–	1,471	–	–	–	1,471
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>301</b>	<b>14,930</b>	<b>–</b>	<b>20,882</b>	<b>–</b>	<b>–</b>	<b>56,283</b>	<b>92,396</b>
Dividends paid	–	–	–	–	–	–	–	–	(6,725)	(6,725)
Scrip Dividend	14	2,025	–	–	–	–	–	–	(2,039)	–
Issue of share capital under share based payment	12	1,464	–	–	(13)	–	–	(1,295)	13	181
<b>Total transactions with owners of the company</b>	<b>26</b>	<b>3,489</b>	<b>–</b>	<b>–</b>	<b>(13)</b>	<b>–</b>	<b>–</b>	<b>(1,295)</b>	<b>(8,751)</b>	<b>(6,544)</b>
<b>Balance at December 31, 2010</b>	<b>2,175</b>	<b>24,207</b>	<b>88,883</b>	<b>51,780</b>	<b>65</b>	<b>39,686</b>	<b>632</b>	<b>(1,295)</b>	<b>139,755</b>	<b>345,888</b>

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

for the two years ended December 31, 2011

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2011</b>	2,175	24,207	88,883	51,780	65	39,686	632	(1,295)	139,755	345,888
Profit for the year	–	–	–	–	–	–	–	–	36,669	36,669
<i>Other comprehensive income:</i>										
Coal Royalties:										
Royalties valuation movement taken to equity	–	–	(2,844)	–	–	838	–	–	–	(2,006)
Deferred tax on valuation	–	–	630	–	–	(247)	–	–	–	383
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	(51,669)	–	(235)	–	–	–	(51,904)
Deferred tax on valuation	–	–	–	5,136	–	13	–	–	–	5,149
Transferred to income statement on disposal	–	–	–	(10,090)	–	–	–	–	–	(10,090)
Foreign currency translation	–	–	–	–	–	1,585	–	–	–	1,585
<b>Total comprehensive (expense)/income</b>	–	–	<b>(2,214)</b>	<b>(56,623)</b>	–	<b>1,954</b>	–	–	<b>36,669</b>	<b>(20,214)</b>
Dividends paid	–	–	–	–	–	–	–	–	(8,978)	(8,978)
Issue of share capital under share based payment	9	1,332	–	–	112	–	–	(1,306)	19	166
<b>Total transactions with owners of the company</b>	<b>9</b>	<b>1,332</b>	–	–	<b>112</b>	–	–	<b>(1,306)</b>	<b>(8,959)</b>	<b>(8,812)</b>
<b>Balance at December 31, 2011</b>	<b>2,184</b>	<b>25,539</b>	<b>86,669</b>	<b>(4,843)</b>	<b>177</b>	<b>41,640</b>	<b>632</b>	<b>(2,601)</b>	<b>167,465</b>	<b>316,862</b>

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

## Company statement of changes in equity

for the two years ended December 31, 2011

	Share capital £'000	Share premium £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2010</b>	<b>2,149</b>	<b>20,718</b>	<b>36,845</b>	<b>78</b>	<b>82</b>	<b>632</b>	<b>82,479</b>	<b>142,983</b>
<i>Changes in equity for 2010</i>								
Available-for-sale investments:								
Valuation movement taken to equity	–	–	46,569	–	–	–	–	46,569
Deferred tax on valuation	–	–	(6,290)	–	–	–	–	(6,290)
Transferred to income statement on disposal	–	–	(26,721)	–	–	–	–	(26,721)
Net income recognised direct into equity	–	–	13,558	–	–	–	–	13,558
Profit for the period	–	–	–	–	–	–	43,526	43,526
Total recognised income and expenses	–	–	13,558	–	–	–	43,526	57,084
Dividends paid	–	–	–	–	–	–	(6,725)	(6,725)
Scrip Dividend	14	2,025	–	–	–	–	(2,039)	–
Issue of share capital under share based payment	12	1,464	–	(13)	–	–	13	1,476
<b>Balance at December 31, 2010</b>	<b>2,175</b>	<b>24,207</b>	<b>50,403</b>	<b>65</b>	<b>82</b>	<b>632</b>	<b>117,254</b>	<b>194,818</b>
Balance at January 1, 2011	2,175	24,207	50,403	65	82	632	117,254	194,818
<i>Changes in equity for 2011</i>								
Available-for-sale investments:								
Valuation movement taken to equity	–	–	(50,203)	–	–	–	–	(50,203)
Deferred tax on valuation	–	–	5,078	–	–	–	–	5,078
Transferred to income statement on disposal	–	–	(10,546)	–	–	–	–	(10,546)
Net income recognised direct into equity	–	–	(55,671)	–	–	–	–	(55,671)
Profit for the year	–	–	–	–	–	–	37,005	37,005
Total recognised income and expenses	–	–	(55,671)	–	–	–	37,005	(18,666)
Dividends paid	–	–	–	–	–	–	(8,978)	(8,978)
Issue of share capital under share based payment	9	1,332	–	112	–	–	19	1,472
<b>Balance at December 31, 2011</b>	<b>2,184</b>	<b>25,539</b>	<b>(5,268)</b>	<b>177</b>	<b>82</b>	<b>632</b>	<b>145,300</b>	<b>168,646</b>

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

## Consolidated cash flow statement and company cash flow statement

for the year ended December 31, 2011

		Group		Company	
	Notes	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Cash flows from operating activities					
Profit before taxation		49,006	65,849	40,110	45,290
Adjustments for:					
Interest received	6	(1,507)	(1,170)	(2,786)	(1,787)
Unrealised foreign currency loss		1,712	980	–	–
Depreciation of property, plant and equipment	15	21	19	21	19
Amortisation of Intangibles – royalties	18	1,018	85	–	–
Gain on disposal of mining and exploration interests		(20,303)	(41,025)	(20,744)	(41,185)
Provision for non-recovery of interest receivable	10	709	–	709	–
Loss on revaluation of assets held as fair value through profit or loss	10	–	810	–	810
Royalty instrument provision	10	1,563	4,194	1,563	4,194
Loss on impairment of royalty intangible	10	1,088	–	–	–
Loss on write down of mining and exploration interests	10	42	–	–	–
Intercompany dividends		–	–	(19,200)	(7,500)
Share of associates profit		–	(265)	–	–
Gain on derecognition of associate		–	(539)	–	–
Share based payment	8a	130	185	130	185
		33,479	29,123	(197)	26
(Increase)/Decrease in trade and other receivables excluding amounts due from subsidiary companies		(3,483)	(3,731)	(2,110)	1,093
(Decrease)/Increase in trade and other payables		(132)	523	(165)	660
Receipts from royalty instruments	13	742	881	742	881
Cash generated from operations		30,606	26,796	(1,730)	2,660
Income taxes paid		(13,083)	(7,422)	(2,692)	(2,395)
Net cash generated from/(used in) operating activities		17,523	19,374	(4,422)	265
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests		51,491	85,664	40,604	84,414
Purchases of mining and exploration interests		(28,101)	(47,665)	(27,488)	(35,564)
Purchases of royalty interests		(28,395)	(36,804)	–	(1,701)
Purchases of property, plant and equipment		(29)	(329)	(14)	(5)
Exploration and evaluation expenditure		(108)	(19)	–	–
Interest received		536	525	2,524	1,142
Investment in subsidiaries		–	–	(15,233)	(17,000)
Net cash (used in)/generated from investing activities		(4,606)	1,372	393	31,286
Cash flows from financing activities					
Proceeds from issue of share capital		–	–	–	1,260
Dividends paid		(8,978)	(6,683)	(8,978)	(6,683)
Net financing of related entities		–	–	52,693	(28,766)
Net cash (used in)/generated from financing activities		(8,978)	(6,683)	43,715	(34,189)
Net increase/(decrease) in cash and cash equivalents		3,939	14,063	39,686	(2,638)
Cash and cash equivalents at beginning of year		28,258	14,195	3,986	6,624
Cash and cash equivalents at end of year	22	32,197	28,258	43,672	3,986

The notes on pages 37 to 66 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

for the year ended December 31, 2011

## 1 General information

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

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

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

#### 2.1.1 Changes in accounting policies and disclosures

*(a) New and amended standards adopted by the Group*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2011 that would be expected to have a material impact on the Group.

*(b) Significant new standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011 and not early adopted*

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

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

- IFRS 9 'Financial Instruments' – effective January 1, 2013
- IFRS 10 'Consolidated Financial Statements' – effective January 1, 2013
- IFRS 11 'Joint Arrangements' – effective January 1, 2013
- IFRS 12 'Disclosure of Interests in Other Entities' – effective January 1, 2013
- IFRS 13 'Fair Value Measurement' – effective January 1, 2013
- IAS 19 'Employee Benefits' (Revised June 2011) – effective January 1, 2013
- Consequential amendments to IAS 27 (Revised), 'Separate Financial Statements' – effective January 1, 2013
- Consequential amendments to IAS 28 (Revised), 'Investments in Associates and Joint Ventures' – effective January 1, 2013

The Group's management have yet to assess the impact of IFRS 13 and IAS 19. In respect of the other Standards, the directors anticipate that their adoption in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

### 2.2 Consolidation

*(a) Subsidiaries*

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

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### *(b) Associates*

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

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

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

### *(c) Joint ventures*

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

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

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

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

### *(d) Transactions and loss of control or significant influence*

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

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

## 2.3 Segment reporting

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

## 2.4 Foreign currencies

### *(a) Functional and presentation currency*

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

### *(b) Transactions and balances*

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

### *(c) Group companies*

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

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

### 2.5 Property, plant and equipment (excluding coal royalties)

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

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

Producing assets	Units of production
Coal tenures	Units of production
Fixtures and equipment	4 to 10 years

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

### 2.6 Coal royalties

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

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

### 2.7 Intangibles

#### (a) Exploration and evaluation costs

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

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

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

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

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

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

#### (b) Royalty interests

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

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 2.8 Impairment of non-financial assets

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

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

### 2.9 Financial instruments

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

#### *Cash and cash equivalents*

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

#### *Loans and receivables*

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

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

#### *Mining and exploration interests*

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

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

Interests classified as available-for-sale are measured at subsequent reporting dates at their fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity within the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Unquoted investments are measured at cost where fair value cannot be reliably determined. When a market price can be established these investments are revalued to fair value accordingly.

For those mining and exploration interests which contain a convertible embedded derivative, these derivatives are separated and recognised at fair value through profit or loss with gains and losses arising from changes in fair value being recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, commodity prices, production profiles and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using transaction price as the best evidence of fair value at acquisition (see note 19). Options can be carried at cost if they are linked to unquoted equity where fair value cannot be reliably measured.

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

#### *Royalty instruments*

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

Royalty instruments are classified upon initial recognition as available-for-sale or as assets at fair value through profit or loss, depending on the characteristics of the particular instrument and its purpose. Some royalty contracts include clauses relating to the possibility of conversion to equity in the company granting the royalty. These clauses are treated as embedded derivatives and are classified as fair value through profit or loss.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

For royalty instruments which contain an embedded derivative, these derivatives are separated and measured as assets at fair value through profit or loss, gains and losses arising from changes in fair value are recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, production profiles, commodity prices and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using transaction price as the best evidence of fair value at acquisition; however, embedded derivatives are valued at acquisition and are recognised separately from the host royalty instrument (see note 17).

All royalty instruments, except those held at fair value through profit or loss, are assessed for impairment at least at each reporting date and the assessment includes variables such as the instrument's valuation in active markets, production profiles, commodity prices and management representations.

### *Financial liabilities and equity*

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

### *Trade payables*

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

### *Equity instruments*

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

## **2.10 Current and deferred income tax**

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

## **2.11 Share based payments**

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

### 2.12 Reserves

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Coal royalty revaluation reserve" represents revaluation of the coal royalty from the opening carrying value, excluding the effects of deferred tax and foreign currency changes.
- "Investment revaluation reserve" represents gains and losses due to the revaluation of the investments in mining and exploration interests and other royalties from the opening carrying values, including the effects of deferred tax and foreign currency changes.
- "Share based payment reserve" represents equity-settled share based employee remuneration until such share options are exercised.
- "Foreign currency reserve" represents the differences arising from translation of investments in overseas subsidiaries.
- "Special reserve" represents the level of profit attributable to the Group for the period ended June 30, 2002 which was created as part of a capital reduction performed in 2002.
- "Investment in own shares" represents the shares held by the Anglo Pacific Group Employee Benefit Trust for awards made under the Joint Share Ownership Plan (note 26).
- "Retained earnings" represents retained profits.

### 2.13 Revenue recognition

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

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

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

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

### 2.14 Leases

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

### 2.15 Dividend distribution

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

## 3 Financial risk management

The Group's principal treasury objective is to provide sufficient liquidity to meet operational cash flow and dividend requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Group's activities expose it to a variety of financial risks including liquidity risk, credit risk, foreign exchange risk, interest rate risk and price risk. The Group operates controlled treasury policies which are monitored by the 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.

#### *Liquidity and funding risk*

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

#### *Credit risk*

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

The Group's credit risk is primarily attributable to its other receivables, including royalty receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. Where possible the Group has registered its interests against the relevant mining titles for the royalties it has acquired. In addition, the Group is generally entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

The Group's credit risk on royalty instruments held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in note 17 where the future contractual right to cash flow from these instruments is reflected in their fair value.

The credit risk on bank deposits is limited because the counterparties have high credit-ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of currencies and counterparties.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

In 2007, the Group created a derivative financial instrument to provide finance to an unlisted mining development company, which has subsequently listed (note 19). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to five years. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group on a regular basis.

### Foreign exchange risk

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

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

	2011						2010					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets	1	37,928	30,514	3,117	3,191	6	3,501	61,321	37,273	350	–	12
Financial liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Short term exposure	1	37,928	30,514	3,117	3,191	6	3,501	61,321	37,273	350	–	12

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

It assumes a +/- 10% change of the Sterling / Australian Dollar exchange rate for the year ended December 31, 2011 (2010: 10%). A +/- 10% is considered for the Sterling / Canadian Dollar exchange rate (2010: 10%). The sensitivity analysis is based on the Group's foreign currency financial instruments held at balance sheet date.

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

	2011						2010					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	–	765	1,267	–	–	–	(1)	3,233	1,578	–	–	–
Equity	–	3,793	3,051	312	319	1	350	6,132	3,727	35	–	1

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

	2011						2010					
	GBP	AUD	CAD	USD	NOK	EUR	GBP	AUD	CAD	USD	NOK	EUR
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	–	(765)	(1,267)	–	–	–	1	(3,233)	(1,578)	–	–	–
Equity	–	(3,793)	(3,051)	(312)	(319)	(1)	(350)	(6,132)	(3,727)	(35)	–	(1)

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

### Interest rate risk

The Group is exposed to interest rate risk in respect of the cash balances held with banks and other highly rated counterparties. If the interest rates the Group received had increased by one percent during the year, the net result for the year would have been increased by £268,000 (2010: £1,215,000). If the interest rates the Group received had decreased by one percent during the year, the net result for the year would have been reduced by £268,000 (2010: £486,000). There would have been no impact on equity.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
<b>2011</b>				
<i>Assets</i>				
Cash	2.00%	22,463	9,734	32,197
Trade receivables		–	–	–
Other receivables		–	10,111	10,111
Total Financial Assets		22,463	19,845	42,308
<i>Financial Liabilities</i>				
Trade payables		–	100	100
Other payables		–	312	312
Total Financial Liabilities		–	412	412
Net Financial Assets		22,463	19,433	41,896
<b>2010</b>				
<i>Assets</i>				
Cash	0.40%	24,603	3,655	28,258
Trade receivables		–	–	–
Other receivables		–	8,425	8,425
Total Financial Assets		24,603	12,080	36,683
<i>Financial Liabilities</i>				
Trade payables		–	131	131
Other payables		–	244	244
Total Financial Liabilities		–	375	375
<b>Net Financial Assets</b>		<b>24,603</b>	<b>11,705</b>	<b>36,308</b>

### Other price risk

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

A sensitivity analysis based on a 26% increase or decrease in listed equity prices has been performed (2010: 15%). If the quoted stock price for these securities had increased or decreased by this percentage the net result for the year would have been increased / reduced by £13.4 million (2010: £12.9 million). Equity would have changed by £16.2 million (2010: £18.3 million).

The royalty portfolio exposes the Group to other price risk through fluctuations in commodity prices, particularly the prices of iron ore, gold and uranium. As the directors obtain independent commodity price forecasts, the generation of which takes into account fluctuations in prices, no detailed analysis of the impact of fluctuations on the valuations of the royalties has been undertaken.

The Group is exposed to other price risk through its convertible instruments (note 19(b)) that can be converted into equity or royalties. The underlying value of the equity may change resulting in an increase or decrease in the value of the instrument. As the equity is currently unlisted it is not possible to quantify this risk at this stage.

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### Capital management and procedures

The Group's capital management objectives are:

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

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

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

### Financial Assets

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

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Available-for-sale</i>				
Royalty instruments	24,736	24,736	28,061	28,061
Mining and exploration interests	64,303	56,121	128,231	107,865
<i>Fair value through profit or loss</i>				
Royalty instruments	–	–	–	–
Mining and exploration interests	248	248	248	248
Trade and other receivables	10,111	9,038	8,258	41,284
Cash and cash equivalents	32,197	43,672	28,258	3,986

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

### Fair value hierarchy

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

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

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

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2011 and December 31, 2010:

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

Group Assets	Note	2010			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	28,061	28,061
Mining and exploration interests – quoted	(b)	121,863	–	–	121,863
Mining and exploration interests – unquoted	(c)	–	6,210	–	6,210
Mining and exploration interests – royalty options	(d)	–	406	–	406
<b>Total</b>		<b>121,863</b>	<b>6,616</b>	<b>28,061</b>	<b>156,540</b>
<b>Net fair value</b>		<b>121,863</b>	<b>6,616</b>	<b>28,061</b>	<b>156,540</b>

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2011 and December 31, 2010:

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

Company Assets	Note	2010			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	28,061	28,061
Mining and exploration interests – quoted	(b)	101,983	–	–	101,983
Mining and exploration interests – unquoted	(c)	–	5,724	–	5,724
Mining and exploration interests – royalty options	(d)	–	406	–	406
<b>Total</b>		<b>101,983</b>	<b>6,130</b>	<b>28,061</b>	<b>136,174</b>
<b>Net fair value</b>		<b>101,983</b>	<b>6,130</b>	<b>28,061</b>	<b>136,174</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 are unchanged compared to the previous reporting period.

### (a) Royalty instruments

The Group's royalty streams arising from its four royalty instruments have been classified as available for sale, with value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At reporting date the royalty streams have been valued on the net present value of the pre-tax cash flows discounted at a rate management considers reflects the risk associated with each of the projects. Note 17 details the discount rates used.

The option to convert to shares has been treated as fair value through profit or loss as designated on initial recognition at the date of acquisition and has been valued at December 31, 2011 utilising an option model. The key assumptions, in addition to those utilised in the royalty stream valuations such as mine life and expected cash flows, include the price, volatility of the project's listed equity and where applicable the conversion price and redemption value of redeemable shares.

### (b) Mining and exploration interests – quoted

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

### (c) Mining and exploration interests – unquoted

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

### (d) Mining and exploration interests – royalty options

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

### Fair value measurements in Level 3

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

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

Note	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
	Net smelter return royalty	Optionality to convert debenture	
	£'000	£'000	£'000
At January 1, 2011	28,061	–	28,061
Revaluation gains or losses recognised in:			
Other comprehensive income	(1,762)	–	(1,762)
Royalty instrument provision (note 17(a))	(1,563)	–	(1,563)
At December 31, 2011	24,736	–	24,736

The following table presents the changes in Level 3 instruments for the year ended December 31, 2010.

Note	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
	Net smelter return royalty	Optionality to convert debenture	
	£'000	£'000	£'000
At January 1, 2010	21,169	810	21,979
Revaluation gains or losses recognised in:			
Profit or loss (a)	–	(810)	(810)
Other comprehensive income	11,086	–	11,086
Royalty instrument provision (note 17(a))	(4,194)	–	(4,194)
At December 31, 2010	28,061	–	28,061

(a) Gains and losses on the optionality to convert debentures are presented in 'other losses'.

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

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

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

### 4 Critical accounting estimates and judgements

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

#### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

- (a) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 16, note 17, note 18 and note 19.
- (b) Recoverability of deferred tax assets – note 2.10 and note 23.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 4.2 Critical judgements in applying the Group's accounting policies

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

(a) Classification of mining and exploration interests – note 2.9 and note 19.

(b) Classification of royalty instruments and royalty interests.

The directors review each royalty acquired to determine whether there is a contractual right to receive cash which would meet the definition of a financial asset, or if the royalty receivable for the interest acquired is derived from the rights attached to the underlying asset/mineral resource. In the latter case these are treated as an intangible asset – note 2.7(b) and note 18.

Where a royalty agreement contains a convertible option within it, the contracts are reviewed to determine whether the assets should be classified as a derivative at fair value through profit or loss or can be classified as an available for sale financial asset with an embedded derivative – note 2.9 and note 17.

(c) Classification of the Group's investment in Royalco Resources Limited as available for sale mining and exploration interest – note 19a.

(d) Review of assumptions underlying the independent coal industry advisors' valuation of the Kestrel and Crinum coal royalty – note 16.

(e) Review of assumptions underlying the valuation of royalty instruments and their associated embedded derivatives – note 17.

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

(f) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 16, note 17, note 18 and note 19.

The directors expect that Empire Mining Corp will satisfactorily resolve the licensing of the Bulqiza chromite project in Albania, and therefore, have not impaired the 3% gross revenue royalty the Group holds over this project.

(g) Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 2.10, note 11 and note 23.

(h) Treatment of unrealised losses on mining and exploration interests – note 19.

The directors review the fair value of all quoted mining and exploration interests in light of market conditions and assess unrealised losses as either permanent or temporary in nature. As at December 31, 2011 the Group's unrealised losses resulted in a negative investment revaluation reserve of £4.8 million. The directors consider these losses to be temporary in nature and therefore, the movement in fair value has been recognised directly in equity through the investment revaluation reserve.

### 5 Segment information

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

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

The royalties segment encompasses all Group activities relating directly to the royalties received from mining operations. The mining and exploration interests segment encompasses all Group activities relating directly to the acquisition, disposal and continued monitoring of the Group's investments in listed and unlisted entities operating in mining and mineral exploration. The segment information provided to the Executive Committee for the reportable segments for the year ended December 31, 2011 is as follows:

	Australia		Americas		Europe		All other segments	Total
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	£'000	£'000
Royalty income	32,409	–	2,694	–	–	–	–	35,103
Finance income	–	–	–	–	–	–	1,507	1,507
Gain on sale of mining and exploration interests	–	6,714	–	12,663	–	926	–	20,303
Other income	–	615	–	–	–	–	19	634
<b>Total segment income</b>	<b>32,409</b>	<b>7,329</b>	<b>2,694</b>	<b>12,663</b>	<b>–</b>	<b>926</b>	<b>1,526</b>	<b>57,547</b>
Profit before tax	32,409	7,329	(1,684)	12,621	–	926	(2,595)	49,006
Amortisation	–	–	(1,018)	–	–	–	–	(1,018)
Impairment of royalty intangibles	–	–	(1,088)	–	–	–	–	(1,088)
Income tax expense	(8,699)	–	(384)	115	–	–	(3,369)	(12,337)
<b>Total assets</b>	<b>200,863</b>	<b>35,672</b>	<b>39,589</b>	<b>20,034</b>	<b>36,708</b>	<b>9,075</b>	<b>38,255</b>	<b>380,196</b>
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	–	10,714	–	18,391	–	–	29,105
<b>Total liabilities</b>	<b>57,494</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2,652</b>	<b>–</b>	<b>3,188</b>	<b>63,334</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2010

The segment information for the year ended December 31, 2010 is as follows:

	Australia		Americas		Europe		All other segments	Total
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	£'000	£'000
Royalty income	29,930	–	203	–	–	–	–	30,133
Finance income	–	–	–	–	–	–	1,170	1,170
Gain on sale of mining and exploration interests	–	31,581	–	12,255	–	(2,811)	–	41,025
Other income	–	–	–	–	–	–	33	33
<b>Total segment income</b>	<b>29,930</b>	<b>31,581</b>	<b>203</b>	<b>12,255</b>	<b>–</b>	<b>(2,811)</b>	<b>1,203</b>	<b>72,361</b>
Profit before tax	29,930	32,385	(4,686)	12,255	–	(2,811)	(1,224)	65,849
Amortisation	–	–	(85)	–	–	–	–	(85)
Income tax expense	(7,803)	–	–	–	–	–	(1,763)	(9,566)
<b>Total assets</b>	<b>201,890</b>	<b>75,280</b>	<b>27,650</b>	<b>35,122</b>	<b>19,590</b>	<b>17,671</b>	<b>38,423</b>	<b>415,626</b>
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	13,664	–	21,439	–	1,701	–	–	36,804
<b>Total liabilities</b>	<b>56,669</b>	<b>–</b>	<b>855</b>	<b>–</b>	<b>2,716</b>	<b>–</b>	<b>9,498</b>	<b>69,738</b>

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

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

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

The royalty income in Australia of £32,409,000 (2010: £29,930,000) is derived from a single coal royalty.

### 6 Finance income

	2011 £'000	2010 £'000
<b>Group</b>		
Interest on bank deposits	536	486
Interest on royalty instruments	971	684
	1,507	1,170

### 7a Expense by nature

	2011 £'000	2010 £'000
<b>Group</b>		
Employee benefit expense (note 8a)	2,008	1,896
Listing fees	243	249
Operating lease payments	168	144
Other expenses	843	987
	3,262	3,276

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 7b Auditors' remuneration

	2011 £'000	2010 £'000
<b>Group</b>		
Fees payable to the Company's auditor for the audit of parent company and consolidated financial statements	48	48
Fees payable to the Company's auditor and its associates for other services:		
– The audit of the Company's subsidiaries pursuant to legislation	22	3
– Other services pursuant to legislations	13	11
– Tax services	8	75
	91	137

### 8a Employee benefits expense

	Group		Company	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Wages and salaries	1,639	1,511	1,495	1,356
Share based awards (note 26)	130	185	130	185
Social security costs	181	166	176	166
Other pension costs	58	34	58	34
	2,008	1,896	1,859	1,741

### 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 £58,000 (2010: £34,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2011, contributions of £12,000 (2010: £15,000) due in respect of the current reporting period had not been paid over to the schemes.

### 8c Average number of people employed

	2011	2010
<b>Group</b>		
Number of employees	11	8
	2011	2010
<b>Group</b>		
Average number of people (including executive directors) employed:		
Executive directors	5	5
Administration	6	3
	11	8

### Company

The average number of administration staff employed by the Company during the year, including executive directors was 10 (2010: 8). Directors' salaries are shown in the Directors' Remuneration Report on [pages 23 to 25](#), including the highest paid director.

### 9 Other income

	2011 £'000	2010 £'000
<b>Group</b>		
Dividends received from mining and exploration interests	615	–
Other income	19	33
	634	33

# Notes to the consolidated financial statements

for the year ended December 31, 2011

## 10 Other (losses)/gains – net

	2011 £'000	2010 £'000
<b>Group</b>		
Gain on derecognition of associate	–	539
Net foreign exchange (loss)/gain	(859)	1,049
Provision for non-recovery of interest receivable (note 21)	(709)	–
Loss on financial asset at fair value through profit and loss	–	(810)
Loss on permanent write down of royalty instrument (note 17)	(1,563)	(4,194)
Loss on impairment of royalty intangible (note 18)	(1,088)	–
Loss on permanent write down of mining and exploration interests	(42)	–
	(4,261)	(3,416)

## 11 Income tax expense

	2011 £'000	2010 £'000
<b>Group</b>		
Current tax expense	11,848	8,565
Deferred tax charged to income – current year (note 23)	489	1,001
Total income tax expense	12,337	9,566

	2010 £'000	2009 £'000
<b>Group</b>		
Factors affecting the tax charge for the year:		
Profit on activities before tax	49,006	65,849
Prima facie tax payable at UK rate of 26.5% (2010: 28%) and Australian rate of 30% (2010: 30%)	19,283	19,128
Adjustment for tax exempt income	(7,460)	(10,475)
Utilisation of losses brought forward	54	213
Adjustment for foreign taxed income	–	29
Non-deductible expenses	460	671
Total income tax expense	12,337	9,566

Refer to note 23 for information regarding the Group's deferred tax assets and liabilities.

## 12 Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £36,669,000 (2010: £56,283,000) and the weighted average number of shares in issue during the year of 108,263,282 (2010: 108,257,718).

The diluted earnings per ordinary share is calculated on a profit after tax of £36,669,000 (2010: £56,283,000) and 108,274,402 shares (2010: 108,266,665). The numbers used in calculating basic and diluted earnings per share are restated below:

	2011 £'000	2010 £'000
<b>Net profit attributable to shareholders</b>		
Earnings - basic	36,669	56,283
Earnings - diluted	36,669	56,283

	2011	2010
<b>Weighted average number of shares in issue</b>		
Ordinary shares in issue	108,263,282	108,257,718
Employee Share Option Scheme	11,120	8,947
	108,274,402	108,266,665

## Notes to the consolidated financial statements

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### 13 Royalty cash flow per share

	2011	2010
<b>Group</b>		
Basic royalty cash flow per share	33.11p	28.65p
Diluted royalty cash flow per share	33.11p	28.65p

The Group's management considers royalty cash flow per share to be a useful measure of the performance of the Group's assets. Changes in equity market conditions lead to annual fluctuations in gains on sale of mining and exploration interests, and while these gains can be significantly value accretive for shareholders, the Group's management focus remains on increasing the Group's cash flows from royalties. In addition, the classification of the Group's royalty instruments as repayable debentures results in cash flows which are classified as repayments until the principal and interest are repaid. As a result, the combination of royalty income and cash received from the debenture repayments during the year form the numerator for this metric. Both of these components are calculated before tax.

The numbers used in calculating the basic and diluted royalty cash flow per share are stated below:

	2011 £'000	2010 £'000
Royalty income	35,103	30,133
Receipts from royalty instruments	742	881
Total Royalty cash flow	35,845	31,014
	<b>2011</b>	<b>2010</b>
<b>Weighted average number of shares in issue</b>		
Ordinary shares in issue	108,263,282	108,257,718
Employee Share Option Scheme	11,120	8,947
	108,274,402	108,266,665

### 14 Dividends

On January 12, 2011 an interim dividend of 3.95 pence per share was paid to shareholders in respect of the year ended December 31, 2010. On July 6, 2011 a final dividend of 5.10 pence per share was paid to shareholders to make a total dividend for the year of 9.05 pence per share. Total dividends, excluding scrip, paid during the year were £8.98 million (2010: £6.68 million).

On January 11, 2012 an interim dividend of 4.25 pence per share was paid to shareholders in respect of the year ended December 31, 2011. This dividend has not been included as a liability in these financial statements. The directors propose that a final dividend of 5.50 pence per share be paid to shareholders on July 4, 2012, to make a total dividend for the year of 9.75 pence per share. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed final dividend for 2011 is payable to all shareholders on the Register of Members on May 4, 2012. The total estimated dividend to be paid is £6.0 million. This will be reduced to the extent that shareholders elect to receive scrip instead of cash under any scrip dividend alternative. The Board will consider whether shareholders will again be given the opportunity to elect to receive a scrip dividend instead of cash depending on the share price at the time.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 15 Property, plant and equipment

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

Group	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
<b>Gross carrying amount</b>				
At January 1, 2010	821	846	156	1,823
Additions	–	324	5	329
Reclassification from exploration and evaluation costs	–	92	–	92
At December 31, 2010	821	1,262	161	2,244
<b>Depreciation and impairment</b>				
At January 1, 2010	(2)	–	(79)	(81)
Depreciation	–	–	(19)	(19)
At December 31, 2010	(2)	–	(98)	(100)
<b>Carrying amount December 31, 2010</b>	<b>819</b>	<b>1,262</b>	<b>63</b>	<b>2,144</b>

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

Company	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
<b>Gross carrying amount</b>				
At January 1, 2010	821	–	156	977
Additions	–	–	5	5
At December 31, 2010	821	–	161	982
<b>Depreciation and impairment</b>				
At January 1, 2010	(2)	–	(79)	(81)
Depreciation	–	–	(19)	(19)
At December 31, 2010	(2)	–	(98)	(100)
<b>Carrying amount December 31, 2010</b>	<b>819</b>	<b>–</b>	<b>63</b>	<b>882</b>

The Group's property plant and equipment are carried at cost less depreciation with the exception of leases relating to the talc deposit on Shetland, Scotland held by the parent company. The producing asset on Shetland is included at a directors' valuation of £0.8 million (2010: £0.8 million) plus additions which are carried at cost. An external valuation was carried out on March 26, 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

### 16 Coal royalties

	Group £'000	Company £'000
At January 1, 2010	149,896	–
Revaluation adjustment	355	–
Foreign currency translation	26,879	–
At December 31, 2010	177,130	–
Revaluation adjustment	(2,844)	–
Foreign currency translation	838	–
At December 31, 2011	175,124	–

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

The coal royalty was valued during December 2011 at £175.1 million (A\$265.9 million) by Resource Management International Pty Ltd, independent coal industry advisors, on a net present value of the pre-tax cash flow discounted at a rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation adjustment represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes. Were the coal royalty to be realised at the revalued amount there are £2.4 million (A\$3.7 million) of capital losses potentially available to offset

## Notes to the consolidated financial statements

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against taxable gains. These losses have been included in the deferred tax calculation (note 23). Were the coal royalty to be carried at cost the carrying value would be £0.2 million (2010: £0.2 million). The directors do not presently have any intention to dispose of the coal royalty.

### 17 Royalty instruments

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

Project	Commodity	Cost '000	Royalty Rate	Escalation	Option Price	Discount Rate	Royalty Valuation £'000	Option Valuation £'000
Engenho <sup>1</sup>	Gold	A\$4,000	2.50%	–	A\$0.35	19%	–	–
El Valle-Boinas/ Carles mines	Gold	C\$7,500	2.50%	3% >US\$1,100/oz	C\$0.958	10%	14,320	–
Malartic-Midway and McKenzie Break <sup>2</sup>	Gold	C\$8,000	2.50%	2.75% >US\$1,250/oz	C\$0.70	12%	–	–
Jogjakarta	Iron Sands	A\$5,000	2.00% <sup>3</sup>	–	A\$0.10 - A\$0.50	15%	10,416	–
							24,736	–

1 Engenho royalty instrument was fully provided for as at December 31, 2011 refer to note 17(a).

2 Malartic-Midway and McKenzie Break royalty instrument was fully provided for as at December 31, 2010 refer to note 17(a).

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

#### (a) Available for sale

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

	Group £'000	Company £'000
<b>Fair value</b>		
At January 1, 2010	21,169	21,169
Revaluation adjustment	11,086	11,086
	32,255	32,255
Royalty instrument provision	(4,194)	(4,194)
At December 31, 2010	28,061	28,061
Revaluation adjustment	(1,762)	(1,762)
	26,299	26,299
Royalty instrument provision	(1,563)	(1,563)
At December 31, 2011	24,736	24,736

The total royalty instrument provision of £5.76 million (2010: £4.19 million) relates to the Group's convertible debentures with Northern Star Mining Corp. and Mundo Minerals Limited which give rise to the royalties over the Malartic-Midway and McKenzie Break and the Engenho projects respectively (note 10).

On January 25, 2011 Northern Star Mining Corp. announced that it had been deemed to have filed assignments in bankruptcy. The Group has registered its royalty interests against the Malartic-Midway and McKenzie Break tenures and continues to pursue its rights with the receiver to ensure that the royalty remains attached to the property in the event of any disposal. Given the inherent uncertainty over the Group's ability to retain the royalty through the bankruptcy, a provision against the royalty instrument has been made.

On October 18, 2011 Mundo Minerals Limited ("Mundo") announced the decision to place the Engenho project on care and maintenance by December 2011. Mundo further announced on December 16, 2011 that its Brazilian subsidiary which holds the mining licences relating to the Engenho project was seeking protection from its creditors under a Brazilian Chapter 11 equivalent. The Group will pursue its rights under the terms of the convertible debenture. Given the inherent uncertainty over the Group's ability to retain the royalty through the bankruptcy, a provision against the royalty instrument has been made.

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### (b) Fair value through profit and loss

The Group's option to convert the outstanding balance of the debentures into common shares of the grantors is an embedded derivative requiring a separate valuation to the NSR royalty. As at December 31, 2010 and December 31, 2011 the directors considered the likelihood of the options being exercised to be remote and therefore, assessed the fair value of the options to be nil. The options are classified as fair value through profit and loss, with gains and losses arising from changes in fair value directly recognised in the income statement as detailed below:

	Group £'000	Company £'000
<b>Fair Value</b>		
At January 1, 2010	810	810
2010 revaluation adjustment	(810)	(810)
At December 31, 2010 and December 31, 2011	–	–

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Total royalty instruments</b>	<b>24,736</b>	<b>24,736</b>	28,061	28,061

## 18 Intangibles

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

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
<b>Gross carrying amount</b>			
At January 1, 2010	769	5,326	6,095
Additions	19	36,804	36,823
Reclassification to property, plant and equipment	(92)	–	(92)
At December 31, 2010	696	42,130	42,826
<b>Amortisation and impairment</b>			
At January 1, 2010	–	–	–
Amortisation charge	–	(85)	(85)
At December 31, 2010	–	(85)	(85)
<b>Carrying amount December 31, 2010</b>	<b>696</b>	<b>42,045</b>	<b>42,741</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2011

Company	Royalty interests £'000	Total £'000
<b>Gross carrying amount</b>		
At January 1, 2011	3,997	3,997
Additions	–	–
<b>Carrying amount December 31, 2011</b>	<b>3,997</b>	<b>3,997</b>
<b>Company</b>		
<b>Carrying amount</b>	<b>–</b>	<b>–</b>
At January 1, 2010	2,296	2,296
Additions	1,701	1,701
<b>Carrying amount December 31, 2011</b>	<b>3,997</b>	<b>3,997</b>

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

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

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

The net smelter royalties on the exploration licences in the Athabasca Basin region of Canada have been impaired as a result of the inherent uncertainty of these licences entering commercial production. The impairment charge has reduced the carrying value to nil (note 10). The Group will continue to review the development of these licences on an annual basis.

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

### 19 Mining and exploration interests

(a) Available for sale	Group £'000	Company £'000
<b>Fair value</b>		
At January 1, 2010	108,685	101,900
Additions	46,958	34,968
Disposals	(69,589)	(64,846)
Reclassification as investment in associate	4,151	–
Revaluation adjustment	37,502	35,843
Foreign currency translation	524	–
At December 31, 2010	128,231	107,865
Additions	28,129	27,488
Disposals	(41,484)	(30,407)
Provision for permanent write down	(42)	–
Revaluation adjustment	(50,296)	(48,826)
Foreign currency translation	(235)	–
At December 31, 2011	64,303	56,120

The Group's investments are acquired as part of the Group's strategy to acquire new royalties and are not held for the purpose of trading. Gains may be realised where it is deemed appropriate. The fair values of listed securities are based on quoted market prices. Unquoted investments and royalty options are initially recognised using cost where fair value cannot be reliably determined. In the absence of an active market for these securities, the Group considers each unquoted security to ensure there has been no material change in the fair value since initial recognition. Further guidance on fair value measurement is provided in note 3.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

The Group's investment in Northern Star Mining Corp has been fully provided for as a result of Northern Star Mining Corp's shares being suspended from trade on the Toronto Stock Exchange on January 25, 2011 following the announcement of its filing for bankruptcy. The Group ranks equally with all other shareholders and continues to pursue the recovery of its share of funds to be returned to shareholders by the trustee in bankruptcy.

As at September 30, 2010, the Group concluded it had lost significant influence over Royalco Resources Limited ("Royalco") despite maintaining a 32.03% equity interest and having a common director. This conclusion was reached following the Group's inability to influence significant financial and operational policy decisions made by Royalco, together with losing its ability to obtain timely financial information.

On losing significant influence over Royalco, the Group's 32.03% equity interest was remeasured to its fair value of £4,151,000 being the closing market price of Royalco's shares quoted on the Australian Stock Exchange as at September 30, 2010. The remeasurement to fair value resulted in a gain of £498,000 being recognised in the income statement. In addition a gain of £40,000 previously recognised in other comprehensive income was reclassified to the income statement.

Despite maintaining a 33.78% (2010: 32.03%) equity interest in Royalco Resources Limited ("Royalco") and having a common director, the Group continues to be unable to influence significant financial and operation policy decision made by Royalco. As a result the Group continues to conclude that it does not have significant influence over Royalco and consistent with 2010 continues to include its investment in Royalco in available-for-sale mining and exploration interests.

	Group £'000	Company £'000
<b>(b) Fair value through profit and loss</b>		
At January 1, 2011 and December 31, 2011	248	248

A non-repayable convertible instrument was acquired by the Group in 2007. The convertible instrument was designated as fair value through profit or loss. This convertible instrument was created to provide finance to a listed mining development company and is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to five years. The instrument was initially recognised using cost as fair value could not be reliably determined. The Group considers that there had been no material change in the fair value of the instrument at the reporting date, and this will be re-examined on a regular basis considering factors such as the presence of an active market for the equity and valuations of the potential royalty streams. The Group has no present intention of exercising the conversion of the instrument in the next 12 months.

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

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	62,389	54,656	121,863	101,983
Unquoted investments	1,434	985	6,210	5,724
Royalty Options	728	728	406	406
	<b>64,551</b>	<b>56,369</b>	<b>128,479</b>	<b>108,113</b>
Number of investments	42	33	40	26

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 20a Investments in subsidiaries

	Investments in subsidiaries £'000
<b>Company</b>	
Cost:	
At January 1, 2010	6,010
Additions	17,000
Disposals	(4,353)
At December 31, 2010	18,657
Capital injection into existing subsidiary	15,233
At December 31, 2011	33,890
Provisions:	
At January 1, 2010	345
At December 31, 2010 and December 31, 2011	345
Net book value:	
At January 1, 2010	5,665
At December 31, 2010	18,312
At December 31, 2011	33,545

The Group's full listing of subsidiaries is provided in note 32.

### 20b Joint ventures

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

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

	2011 £'000	2010 £'000
Non-current assets	–	–
Current assets	7	4
Non-current liabilities	–	–
Current liabilities	1	7
Income	–	–
Expenses	12	41

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

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 21 Trade and other receivables

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Current</b>				
Income tax receivable	–	–	268	268
Prepayments and accrued income	158	146	120	106
Royalty receivables	10,111	–	8,258	–
Other receivables	2,738	2,485	167	147
Provision for non-recovery of interest receivable	(709)	(709)	–	–
	12,298	1,922	8,813	521

Trade and other receivables principally comprise amounts relating to royalties receivable for the quarter October 1, 2011 to December 31, 2011. The directors consider that the carrying amount of trade and other receivables is approximately their fair value. Other than the interest receivable provided for, all other amounts are considered short term and none are past due.

Interest receivable under the royalty instrument held by Mundo Minerals Limited has been fully provided for as at December 31, 2011.

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Non-current</b>				
Amounts due from subsidiaries	–	9,038	–	41,284
	–	9,038	–	41,284

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.

### 22 Cash and cash equivalents

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

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and in hand	31,116	42,595	19,311	3,547
Trading deposits with brokers	1,081	1,077	8,947	439
Cash and cash equivalents	32,197	43,672	28,258	3,986

### 23 Deferred tax

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

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January	63,838	9,479	47,883	3,189
Released to income for the year	489	–	1,001	–
(Credit)/Charge to equity for the year	(5,766)	(5,078)	6,700	6,290
Foreign currency translation	261	–	8,254	–
At 31 December	58,822	4,401	63,838	9,479

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

Group	Coal royalties		Available-for-sale investments			Total £'000
	Revaluation of coal royalty £'000	Effects of tax losses £'000	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	Accrual of royalty receivable £'000	
At January 1, 2010	44,456	(757)	2,665	410	1,109	47,883
Released to income for the year (note 11)	–	–	–	–	1,001	1,001
Charge/(Credit) to equity for the year	106	(52)	2,230	4,416	–	6,700
Foreign currency translation	8,064	(136)	–	23	303	8,254
At December 31, 2010	52,626	(945)	4,895	4,849	2,413	63,838
Released to income for the year (note 11)	–	–	–	–	489	489
(Credit)/Charge to equity for the year	(855)	225	2	(5,138)	–	(5,766)
Foreign currency translation	251	(4)	–	(13)	27	261
At December 31, 2011	52,022	(724)	4,897	(302)	2,929	58,822

This provision represents the Group's full potential liability to deferred taxation. This may be reduced by tax losses available to the Group. Australian capital losses are disclosed in note 16. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

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

Company	Available-for-sale investments		Total £'000
	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	
At January 1, 2010	2,665	524	3,189
Charge to equity for the year	2,230	4,060	6,290
At December 31, 2010	4,895	4,584	9,479
Charge/(Credit) to equity for the year	2	(5,080)	(5,078)
At December 31, 2011	4,897	(496)	4,401

### 24 Trade and other payables

	2011		2010	
	Group £'000	Company £'000	Group £'000	Company £'000
Other taxation and social security payable	302	301	364	364
Trade payables	100	90	131	120
Other payables	312	245	244	223
Accruals and deferred income	67	58	174	152
	781	694	913	859

Trade and other payables principally comprise amounts outstanding for other taxation, investment purchases and ongoing costs. The average credit period taken for trade purchases is 33 days (2010: 23 days). The directors consider that the carrying amount of trade and other payables is approximately their fair value. All amounts are considered short term and none are past due.

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for the year ended December 31, 2011

### 25 Share capital and share premium

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
<b>Group and Company</b>				
<b>At January 1, 2010</b>	<b>107,439,463</b>	<b>2,149</b>	<b>20,718</b>	<b>22,867</b>
Scrip dividends	750,256	14	2,025	2,039
Issue of share capital under share based payment	581,613	12	1,464	1,476
<b>At December 31, 2010</b>	<b>108,771,332</b>	<b>2,175</b>	<b>24,207</b>	<b>26,382</b>
Issue of share capital under share based payment	417,883	9	1,332	1,341
<b>At December 31, 2011</b>	<b>109,189,215</b>	<b>2,184</b>	<b>25,539</b>	<b>27,723</b>

### 26 Share based payments

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

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

#### (a) Company Share Ownership Plan

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

Prior to the approval of the CSOP, the Group operated an Inland Revenue approved option plan that provided for options to be granted at a price equal to the quoted market price of the Group's shares on the date of grant. The vesting period for options granted under this plan was three years and subject to the exercise condition of the Group's earnings per share growing at a rate of 2% in excess of the UK Retail Price Index over the vesting period. All options granted under this plan were either exercised or surrendered during the period to December 31, 2010.

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

	2011		2010	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	60,120	2.4950	71,367	1.2611
Granted during the year	19,367	3.0981	60,120	2.4950
Exercised during the year	–	–	(36,923)	0.8125
Surrendered during the year	–	–	(34,444)	1.7419
Forfeited during the year	(12,024)	2.4950	–	–
Outstanding at 31 December	67,463	2.6681	60,120	2.4950

Out of the 67,463 outstanding options (2010: 60,120), nil options (2010: nil) were exercisable. Options exercised in 2010 resulted in 36,923 shares being issued at a weighted average price of £0.8125 each. The related weighted average share price at the time of exercise was £2.515 per share. There were no related transaction costs.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

Expiry date	Exercise price in £ per share	Shares	
		2011	2010
2019	2.4950	48,096	60,120
2021	3.2570	9,210	–
2021	2.9535	10,157	–
		67,463	60,120

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was £1.741 per option granted in March 2011 and £1.482 per option granted in September 2011 (2010: £1.326). The significant inputs into the model were weighted average share price of £3.257 and £2.953 (2010: £2.495) at the grant date in March and September 2011 respectively, exercise price shown above, volatility of 40% (2010: 40%), expected option life of three years (2010: three years) and an annual risk-free interest rate of 2.3% and 1.1% for the options granted in March and September 2011 respectively (2010: 2.3%). See note 8a for the total expense recognised in the income statement for share options granted to directors and employees.

In accordance with the rules of the CSOP, Mr M.J. Tack forfeited all outstanding options at the time of his resignation on September 23, 2011.

### (b) Joint Share Ownership Plan

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

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

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

JSOP awards made during the year were as follows:

	Grant price in £ per share	Hurdle price in £ per share	Shares		Expiry Date
			2011	2010	
Outstanding at 1 January	2.480	3.150	508,050	–	2014
Awarded in May 2010	2.480	3.150	–	508,050	2014
Awarded in March 2011	3.260	4.225	356,208	–	2015
Awarded in September 2011	2.919	4.625	61,675	–	2015
Forfeited during the year			(247,187)	–	
Outstanding at 31 December			678,746	508,050	

The weighted average fair value of shares awarded during the period determined using the Monte Carlo valuation model was £0.79 per share granted in March 2011 and £0.55 per share granted in September 2011 (2010: £0.58). The significant inputs into the model were weighted average share price of £3.26 and £2.87 (2010: £2.48) at the grant date in March and September 2011 respectively, share price hurdle shown above, volatility of 40% (2010: 40%), expected option life of four years and an annual risk-free interest rate of 2.3% and 1.1% for the shares granted in March and September 2011 (2010: 2.3%). See note 8a for the total expense recognised in the income statement for share options granted to directors and employees.

In accordance with the rules of the JSOP, Mr M.J. Tack forfeited all outstanding options at the time of his resignation on September 23, 2011.

### (c) Shares in lieu of remuneration

On December 8, 2010 following the recommendation of the Remuneration Committee, the Group issued 36,640 Ordinary Shares of 2p each in the Company at a price of 327.5p per share to the Executive Directors as part of their remuneration. No shares were issued in lieu of remuneration during the year ended December 31, 2011.

## Notes to the consolidated financial statements

for the year ended December 31, 2011

### 27 Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended June 30, 2002. At December 31, 2011, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At January 1, 2011 and December 31, 2011	632	632

### 28 Retained earnings

	Group £'000	Company £'000
Balance at January 1, 2010	92,223	82,479
Surrender of options from share based payment	13	13
Dividends paid	(8,764)	(8,764)
Profit for the financial year	56,283	43,526
Balance at December 31, 2010	139,755	117,254
Surrender of options from share based payment	19	19
Dividends paid	(8,978)	(8,978)
Profit for the financial year	36,669	37,005
<b>Balance at December 31, 2011</b>	<b>167,465</b>	<b>145,300</b>

### 29 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:

	2011 £'000	2010 £'000
<b>Group</b>		
Within one year	168	168
In the second to fifth years inclusive	436	557
After five years	125	175
	729	900

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

#### Capital commitments

At the year end the Group had capital commitments of £nil (2010: £1,199,000) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2010: £nil).

## Notes to the consolidated financial statements

for the year ended December 31, 2011

Subsidiary undertakings have commitments as detailed below:

### Shetland Talc Limited

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

### 30 Related party transactions

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

	Subsidiaries		Associates	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Funding transactions	51,984	(28,766)	–	–
Management fee	2,384	2,209	–	23
Amounts owed by related parties at year end	9,039	41,284	–	–

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 23 to 25](#).

	2011 £'000	2010 £'000
Short-term employee benefits	1,384	1,456
Post-employment benefits	44	29
Share based payment	104	185
	1,532	1,670

### Directors' transactions

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

	2011 £'000	2010 £'000
Allenbridge Group PLC	2,489	8,000
JW Technologies	1,130	–
	3,619	8,000

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

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

As at December 31, 2011 a total of £nil was owing to both Allenbridge Group PLC and JW Technologies (2010: £nil).

## Notes to the consolidated financial statements

for the year ended December 31, 2011

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

	2011 £'000	2010 £'000
P.M. Boycott	246,164	225,243
A.C. Orchard	9,105	6,373
M.J. Tack <sup>1</sup>	10,520	6,547
J. Theobald	3,378	1,766
B.M. Wides	264,817	242,780
M.H. Atkinson	355	321
J.G. Whellock <sup>2</sup>	1,184	1,093
A.H. Yadgaroff	14,875	14,083
	550,398	498,206

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

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

### 31 Events occurring after year end

On November 17, 2011, the Group announced that it had signed a letter of intent with Cardero Resource Corp. ("Cardero") relating to a proposal to develop the Trefi coal project in British Columbia, Canada. On March 6, 2012, Cardero informed the Group of their withdrawal from this proposal.

### 32 Principal subsidiaries and associates

	Country of registration and operation	Principal activity	Proportion of shares held at December 31, 2011
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100% <sup>†</sup>
Alkormy Pty Ltd	Australia	Investments	100% <sup>†</sup>
Argo Royalties Pty Ltd	Australia	Investments	100% <sup>†</sup>
Starmont Ventures Pty Ltd	Australia	Investments	100% <sup>†</sup>
Gordon Resources Pty Ltd	Australia	Owner of coal royalty	100% <sup>†</sup>
Jandale Holdings Pty Ltd	Australia	Joint venture company	100% <sup>†</sup>
Anglo Pacific Finance Ltd	Ireland	Treasury	100%
Anglo Pacific Group Employee Benefit Trust	Guernsey	Administering Group incentive plans	100%
Centaurus Royalties Ltd	England	Owner of iron ore royalties	100%
Southern Cross Royalties Ltd	England	Owner of uranium royalties	100%
Shetland Talc Ltd	Scotland	Mineral exploration	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100% <sup>†</sup>
Panorama Coal Corporation	Canada	Owner of coal tenures	100%
Trefi Coal Corporation	Canada	Owner of coal tenures	100%
Polaris Royalty Corporation	Canada	Intermediate holding company	100% <sup>†</sup>
Albany River Royalty Corporation	Canada	Owner of chromite royalty	100% <sup>†</sup>

<sup>†</sup> Denotes held by a subsidiary company.

## Shareholder statistics

(a) Size of Holding (at February 17, 2012)

Category UK and Canada	Number of Shareholders	%	Number of Shares	%
1 – 1,000	734	29.79	402,742	0.37
1,001 – 5,000	1,040	42.21	2,574,151	2.36
5,001 – 10,000	228	9.25	1,686,213	1.54
10,001 – and over	462	18.75	104,526,109	95.73
	2,464	100.00	109,189,215	100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at February 17, 2012 was 46.24%.

## Notice of Annual General Meeting

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

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Anglo Pacific Group PLC (the "Company") will be held at the Institute of Chartered Accountants in England and Wales, 1 Moorgate Place, London EC2R 6EA, United Kingdom on Thursday April 19, 2012 at 11.00 am to consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 14 will be proposed as ordinary resolutions and resolutions 15 and 16 will be proposed as special resolutions:-

1. To receive and adopt the Company's audited accounts and the reports of the directors and the auditors for the year ended December 31, 2011.
2. To approve the Directors' Remuneration Report for the year ended December 31, 2011.
3. To declare a final dividend of 5.50p per ordinary share of the Company recommended by the directors.
4. To re-elect M.H. Atkinson as a director of the Company.
5. To re-elect P.M. Boycott as a director of the Company.
6. To re-elect A.C. Orchard as a director of the Company.
7. To re-elect J. Theobald as a director of the Company.
8. To re-elect J.G. Whellock as a director of the Company.
9. To re-elect B.M. Wides as a director of the Company.
10. To re-elect A.H. Yadgaroff as a director of the Company.
11. To re-appoint Messrs Grant Thornton UK LLP as auditors of the Company to hold office until the conclusion of next the general meeting at which accounts are laid before the Company.
12. To authorise the directors to agree the remuneration of the auditors of the Company.
13. THAT the board of directors of the Company (the "Directors") be and they are hereby authorised to offer the holders of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") (subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to treasury shares or any legal or practical problems arising under the laws of any territory or the requirements of any regulatory body or stock exchange in any territory or otherwise) the right to elect to receive new Ordinary Shares instead of cash in respect of all or part of the final dividend for the year ended December 31, 2011 and all other dividends declared up to the beginning of the next Annual General Meeting of the Company.
14. THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £727,928 provided that this authority (unless previously revoked or renewed) shall expire on the earlier of April 19, 2017 and the conclusion of the Annual General Meeting of the Company held in 2017, save that the Company may before such expiry (or the expiry of any renewal of this authority) make any offer or agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall be in substitution for the authority conferred by a resolution dated April 13, 2011 to the extent unused and shall supersede and revoke any other earlier authorities under section 551 of the Act.
15. THAT, subject to the passing of resolution 14, the Directors be and they are hereby generally empowered pursuant to section 570 and section 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, Ordinary Shares) wholly for cash (a) by selling equity securities held by the Company as treasury shares; or (b) by allotting new equity securities pursuant to the authority conferred by resolution 14, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:—
  - (a) the allotment of equity securities in connection with an offer of equity securities:
    - (i) to the holders of Ordinary Shares in proportion (as nearly may be practicable) to their respective holdings; and
    - (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange; and
  - (b) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal amount of £218,378, and this power shall (unless renewed, varied or revoked by the Company) expire at the close of business on the date which is 15 months after the date on which this resolution is passed or, if earlier, at the conclusion of the Annual General Meeting of the Company next held following the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.

## Notice of Annual General Meeting

16. THAT the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms and in such manner as the Directors think fit, subject to the following restrictions and provisions:-
- (a) the aggregate maximum number of Ordinary Shares hereby authorised to be purchased is 10,918,921;
  - (b) the maximum price which may be paid for an Ordinary Share is an amount being not more than the higher of:
    - (i) 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased, and
    - (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,in each case exclusive of any associated expenses;
  - (c) the minimum price which may be paid for an Ordinary Share is its nominal value (exclusive of any associated expenses);
  - (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2013 or eighteen months from the date on which this resolution is passed, whichever shall be the earlier;
  - (e) the Company may enter into a contract to purchase Ordinary Shares under this authority before the expiry of such authority, and may make a purchase of Ordinary Shares pursuant to any such contract which purchase would or might be completed wholly or partly after the expiration of this authority; and
  - (f) any Ordinary Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of any applicable laws or regulations, held as treasury shares.

Registered Office

By Order of the Board



17 Hill Street  
London  
W1J 5LJ

P.T.J. Mason  
Company Secretary

March 9, 2012

## Notice of Annual General Meeting

### Explanatory notes to the proposed resolutions:

#### *Resolution 1 – Annual report and accounts*

The directors are required to present to shareholders at the Annual General Meeting the Company's audited accounts and the directors' and auditors' reports for the year ended December 31, 2011.

#### *Resolution 2 – Directors' Remuneration Report*

UK listed companies are required to put before their shareholders in general meeting a resolution inviting shareholders to approve the Directors' Remuneration Report. The Directors' Remuneration Report, which can be found on pages 23 to 25 of the Annual Report 2011, details the directors' remuneration for the period ended December 31, 2011 and sets out the Company's overall policy on directors' remuneration. This resolution is advisory and does not affect the actual remuneration paid to any individual director. It serves to provide shareholder feedback to the Remuneration Committee.

As required by the Directors' Remuneration Report Regulations 2002, the Company's independent auditors, Grant Thornton LLP, have audited those parts of the Directors' Remuneration Report capable of being audited and their report can be found on page 28 of the Annual Report 2011.

#### *Resolution 3 – Approval of final dividend*

A final dividend can only be paid after it has been approved by the shareholders. A final dividend of 5.50p per ordinary share for the year ended December 31, 2011 is recommended by the directors for payment to shareholders who are on the register of members at the close of business on May 4, 2012.

#### *Resolutions 4-10 – Re-election of directors*

The Company's articles of association require the directors to submit themselves for election at the first opportunity after their appointment and from then on for re-election every three years. However, the new UK Corporate Governance Code published by the Financial Reporting Council recommends that all directors of FTSE 350 companies should be subject to annual re-election. Biographical details of each director appear on pages 15 and 16 of the Annual Report 2011 and details of their service contracts with the Company appear on page 24.

The board is of the opinion that the performance of each of the directors continues to be effective and to demonstrate commitment to his role. The board unanimously recommends the re-election of all of the directors.

#### *Resolutions 11 and 12 – Reappointment and remuneration of auditors*

The auditors of a company must be reappointed at each general meeting at which accounts are presented. Resolution 11, on the audit committee's recommendation, proposes the reappointment of the Company's existing auditors, Grant Thornton LLP, until the next general meeting at which accounts are presented. Resolution 12 is a separate resolution which gives authority to the directors to determine the auditors' remuneration.

#### *Resolution 13 – Authority to offer scrip dividend*

This resolution seeks to renew the authority granted at last year's Annual General Meeting for the directors to offer shareholders the option to take dividends in ordinary shares instead of cash.

#### *Resolution 14 – Authority to allot shares*

This resolution seeks a new authority, to replace the existing authority, for the directors to allot shares in the Company up to an aggregate nominal amount of £727,928, representing approximately one third of the Company's issued ordinary share capital at March 9, 2012. The authority contained in this resolution will expire at the conclusion of the 2013 Annual General Meeting or at the close of business on the date which is 15 months following the passing of this resolution (whichever is earlier). The directors consider that this authority is desirable to allow the Company to retain flexibility, although they have no present intention of exercising it.

#### *Resolution 15 – Disapplication of pre-emption rights (special resolution)*

This resolution seeks authority for the directors, pursuant to the authority to allot granted by resolution 14, to allot equity securities (as defined in the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings. Other than in connection with a rights or other similar issue, the authority contained in this resolution will be limited to an aggregate nominal amount of £218,378, representing 10% of the Company's issued ordinary share capital at March 9, 2012. No shares are currently held in treasury by the Company.

This resolution replaces the present authority granted at last year's Annual General Meeting, which is set to expire at the end of this year's Annual General Meeting. Similarly, the authority granted by this resolution will expire on the date which is 15 months after the date on which the resolution is passed or, if earlier, at the conclusion of the Annual General Meeting next held following the passing of the resolution. The directors confirm that they have no present intention of exercising this authority. However, the authority sought under this resolution provides the Company with the ability to continue to make acquisitions of royalties on low-cost, long-life mining assets.

#### *Resolution 16 – Authority to purchase own shares (special resolution)*

The directors are of the opinion that it would be advantageous for the Company to be in a position to purchase its own shares should market conditions and price justify such action. The directors have no present intention of exercising this power and intend to exercise it only if they

## Notice of Annual General Meeting

believe that the effect of such purchases will be to increase earnings per share. They will also have regard to whether, at the time, this represents the best use of the Company's resources and is to the benefit of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision.

Subsequently, this resolution seeks authority from shareholders to empower the directors to make limited on-market purchases. The resolution limits this authority to a maximum number of ordinary shares that may be acquired of 10,918,921 being 10% of the Company's issued ordinary share capital at March 9, 2012. The authority conferred by this resolution will expire at the conclusion of the 2013 Annual General Meeting or 18 months from the date of the passing of the resolution (whichever is earlier).

Any shares purchased under this authority will either be cancelled or held as treasury shares. As at March 9, 2012 there were options outstanding over 67,463 ordinary shares, which represent 0.06% of the Company's issued share capital at that date and would represent 0.07% of the Company's issued share capital if the authority to purchase the Company's ordinary shares were to be exercised in full.

### Directors' recommendation

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

### Explanatory notes to the notice of meeting:

1. A member entitled to attend, speak and vote at the above meeting may appoint one or more persons as his proxy to attend, speak and vote instead of him at the meeting, provided that, if more than one proxy is appointed each proxy is appointed to exercise rights attaching to different shares held by that member. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he so wishes.
2. In order to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available at [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA19) not later than 48 hours before the time fixed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
5. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. A person to whom this Notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Notes 1 and 3 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.
7. As at March 9, 2012 the Company's issued share capital amounted to 109,189,215 ordinary shares carrying one vote each. Therefore, the total voting rights in the Company as at March 9, 2012 were 109,189,215 votes.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered in the register of members of the Company as at 6:00pm UK time on April 16, 2012 (or in the event that the meeting is adjourned, only those shareholders registered in the register of members of the Company as at 6.00pm UK time on the day which is three days prior to the adjourned meeting) shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

## Notice of Annual General Meeting

9. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
10. Information regarding the Annual General Meeting, including information required by section 311A of the Act, and a copy of this notice of Annual General Meeting is available from the Company's website [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com).
11. Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.
13. Under section 319A of the Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Except as provided above, members who wish to communicate with the Company in relation to the Annual General Meeting should do so using the following means: (a) by writing to the Company Secretary at the Company's registered office address at 17 Hill Street, London W1J 5LJ; or (b) by writing to the Registrars, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA. No other methods of communication will be accepted. In particular, members may not use any electronic address provided in this notice or in any related documents (including the accompanying circular and proxy form) to communicate with the Company for any purpose other than those expressly stated in this notice or in such other related documents.
14. The executive directors' service contracts and the letters of appointment of the non-executive directors will be available for inspection at the Company's registered office during normal business hours on any weekday (excluding public holidays) until the time of the Annual General Meeting and will be available at the Institute of Chartered Accountants in England and Wales, 1 Moorgate Place, London EC2R 6EA at least 15 minutes prior to, and during, the Annual General Meeting.
15. The results of the voting at the Annual General Meeting will be announced through a Regulatory Information Service and will appear on the Company's website at [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com).
16. Your personal data includes all data provided by you, or on your behalf, which relates to you as a shareholder, including your name and contact details, the votes you cast and your Reference Number (attributed to you by the Company). The Company determines the purposes for which and the manner in which your personal data is to be processed. The Company and any third party to whom it discloses the data (including the Registrars) may process your personal data for the purposes of compiling and updating the Company's records, fulfilling its legal obligations and processing the shareholder rights you exercise.

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