ANGLO PACIFIC

2014

Annual Report & Accounts

ANGLO PACIFIC GROUP PLC

Transforming through growth and diversification

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Performance measures

Throughout the Strategic Report, we use a number of financial measures to assess our performance. The measures are defined on page 107.

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 other than for purposes outlined in this Annual Report. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, cash flow, requirement for and terms of additional financing, performance, prospects, opportunities, priorities, targets, goals, objectives, strategies, growth and outlook of the Group including the outlook for the markets and economies in which the Group operates, costs and timing of acquiring new royalties, mineral reserve and resources estimates, estimates of future production, production costs and revenue, future demand for and prices of precious and base metals and other commodities, for the current fiscal year and subsequent periods.

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

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

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

US Employment Retirement Income Security Act

Fiduciaries of (i) US employee benefit plans that are subject to Title I of the US Employment Retirement Income Security Act of 1974 (ERISA), (ii) individual retirement accounts, Keogh and other plans that are subject to Section 4975 of the US Internal Revenue Code of 1986, as amended (the Internal Revenue Code), and (iii) entities whose underlying assets are deemed to be ERISA 'plan assets' by reason of investments made in such entities by such employee benefit plans, individual retirement accounts, Keogh and other plans (collectively referred to as Benefit Plan Investors) should consider whether holding the Company's ordinary shares will constitute a violation of their fiduciary obligations under ERISA or a prohibited transaction under ERISA or the Internal Revenue Code. Shareholders should be aware that the assets of the Company may be or become treated as 'plan assets' that are subject to ERISA fiduciary requirements and/or the prohibited transaction rules of ERISA and the Internal Revenue Code. The Company's ordinary shares are subject to transfer restrictions and forced transfer provisions that are intended to prevent, among other things, the assets of the Company from being deemed to be 'plan assets' under ERISA. Shareholders who believe these provisions may be applicable to them should review these restrictions which are set forth in the Company's Articles of Association and should consult their own counsel regarding the potential implications of ERISA, the prohibited transaction provisions of the Internal Revenue Code or any similar law in the context of an investment in the Company and the investment of the Company's assets.

Our aim

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

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

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

Mining royalties explained

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

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

Types of royalties

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

GRR : Gross Revenue royalty

GRR examples in royalty portfolio on page 5

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

NSR : Net Smelter Return royalty

NSR examples in royalty portfolio on page 5

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

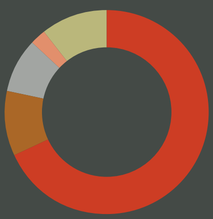
Primary versus secondary royalties

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

Anglo Pacific at a glance

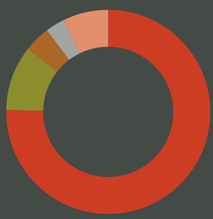
- Listing: London Stock Exchange (primary) and Toronto Stock Exchange (secondary)
- 10 principal royalty assets across five continents
- Over 80% of royalties by value, across five commodities, are in production
- Key royalty asset in Kestrel, a Tier 1 coking coal mine in Australia operated and majority-owned by Rio Tinto
- Net assets at December 31, 2014 of £161.3m
- Acquisition of Narrabri royalty for US$65.0m in March 2015 along with US$95.0m financing package

Diversified portfolio of royalties



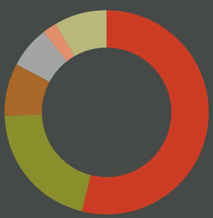
COMMODITY EXPOSURE 31/12/2014

Coking coal	68.3%
Iron ore	10.2%
Gold	8.7%
Uranium	2.5%
Other	10.3%



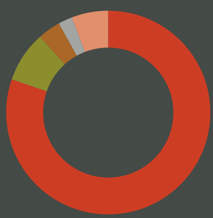
GEOGRAPHIC EXPOSURE 31/12/2014

Australia	75.3%
Brazil	10.2%
Spain	4.4%
Canada	3.0%
Other	7.1%



COMMODITY EXPOSURE POST NARRABRI

Coking coal	54.2%
Thermal coal	20.6%
Iron ore	8.1%
Gold	6.9%
Uranium	2.0%
Other	8.2%

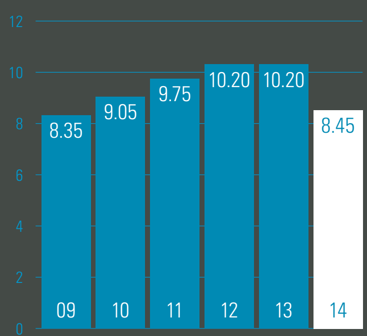


GEOGRAPHIC EXPOSURE POST NARRABRI

Australia	80.4%
Brazil	8.1%
Spain	3.5%
Canada	2.4%
Other	5.6%

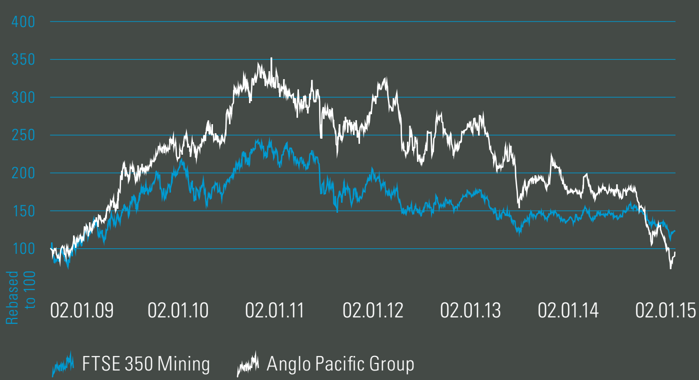
Delivering long-term returns to shareholders

Affordable and maintainable dividends



DIVIDEND PER SHARE
(p)

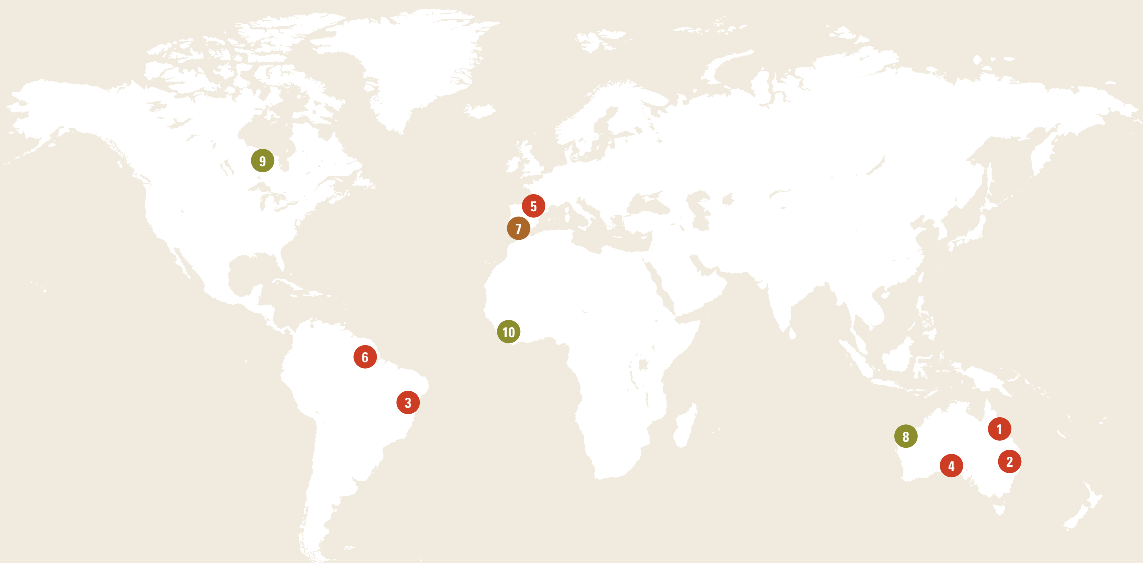
FTSE 350 Mining Index vs Anglo Pacific Group 2009 - 2015



GROUP OVERVIEW

Our royalty portfolio

Our principal royalties



PRODUCING ROYALTIES

1 Kestrel
2 Narrabri
3 Maracás
4 Four Mile
5 El Valle-Boinás/Carlés
6 Amapá & Tucano

DEVELOPMENT ROYALTIES

7 Salamanca

EARLY-STAGE ROYALTIES

8 Pilbara
9 Ring of Fire
10 Dugbe 1

Royalty description

	Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
PRODUCING	1 Kestrel	Coking & thermal coal	Rio Tinto	Australia	7 – 15% GRR [1]	Investment property
	2 Narrabri	Thermal & PCI coal	Whitehaven Coal	Australia	1% GRR	Royalty intangible
	3 Maracás	Vanadium	Largo Resources	Brazil	2% NSR	Royalty intangible
	4 Four Mile	Uranium	Quasar Resources	Australia	1% NSR	Royalty intangible
	5 El Valle-Boinás /Carlés	Gold, copper and silver	Orvana Minerals	Spain	2.5 – 3% NSR [2]	Royalty financial instrument
	6 Amapá & Tucano	Iron ore	Zamin Ferrous / Beadell Resources	Brazil	1% GRR [3]	Royalty intangible
DEVELOPMENT	7 Salamanca	Uranium	Berkeley Resources	Spain	1% NSR	Royalty intangible
EARLY-STAGE	8 Pilbara	Iron ore	BHP Billiton	Australia	1.5% GRR	Royalty intangible
	9 Ring of Fire	Chromite Resources	Cliffs Natural	Canada	1% NSR	Royalty intangible
	10 Dugbe 1	Gold Resources	Hummingbird	Liberia	2 – 2.5% NSR [4]	Loan [5]

1. *Kestrel: 7% of value up to A$100/tonne, 12.5% of the value over A$100/tonne and up to A$150/tonne, 15% thereafter.*
2. *EVBC: 2.5% escalates to 3% when the gold price is over US$1,100 per ounce.*
3. *Tucano: 1% GRR is only on iron ore and other non-precious metals (other than copper). The Company is also entitled to royalties over a number of concessions governed by a joint exploration agreement between Zamin and Beadell. The royalty rate for these royalties is either 0.7% or 1% depending on the concession.*
4. *Dugbe 1: 2% except where both the average gold price is above US$1,800 per ounce and sales of gold are less than 50,000 ounces, in which case it increases to 2.5% in respect of that quarter.*
5. *This becomes a royalty upon the operator obtaining a mining licence.*

Chairman's statement

Narrabri

Acquisition of the Narrabri royalty in March 2015, a first major step down the diversification route

2014 has been a challenging year for Anglo Pacific and its shareholders. We have suffered, not just from the wider travails of the mining sector, but also from an over-reliance on one asset, our Kestrel royalty, where, during the year, mining took place mostly outside our royalty lands. While this trend at Kestrel is expected to reverse during the current year and beyond, in 2014 it resulted in a fall of £11.2m in royalty income to £3.5m and an operating loss of £2.8m (2013: operating profit £10.6m).

Non-cash impairments and revaluations totalling £43.4m (2013: £56.9m) led to an overall loss before tax of £42.4m (2013: loss £52.9m).

Dividends

One direct consequence of the fall in our royalty income was our decision to review our dividend policy. As stated in our announcement of February 4, 2015, we, as a Board, are committed to a progressive dividend policy but one that is affordable and appropriate. We are, therefore, recommending a final dividend for the year ended December 31, 2014, of 4p per share. Longer term, we intend to adopt a policy of paying dividends of at least 65% of adjusted earnings, with an expectation that there will be a minimum annual total dividend of 8p per share per annum.

The over-reliance on Kestrel has reinforced the need to diversify our royalty portfolio. It was, therefore, with great pleasure that we were able to announce the acquisition of the Narrabri royalty in February 2015, which is a first major step down the diversification route and will hopefully provide a springboard for further progress down that path in the months and years ahead. Increased diversification will help smooth our income flow year on year and enable us to pay maintainable and progressive dividends to our shareholders.

Share price

In the fundraising associated with the Narrabri royalty acquisition, it was encouraging to see the level of support from existing shareholders. We are very grateful for the confidence shown to both the Company and its strategy, particularly given the performance of the Company's share price, which has more than halved during the year. The Board is confident that as soon as there is a more positive sentiment towards the mining sector there should be a recovery in our share price, underpinned as it is by a healthy dividend yield and the current discount to net asset value. The Board demonstrated this confidence by committing significant sums to the recent fundraising.

Opportunities

We see ourselves as ideally placed to take advantage of future opportunities as they present themselves

Board

2014 has seen significant changes to the Board. The sad death of Peter Boycott, the retirements of Brian Wides, John Whellock and Michael Atkinson, the appointment of Robert Stan and my appointment as Non-Executive Chairman were dealt with in last year's Annual Report. I should like, however, to pay a particular tribute to Brian Wides. Brian joined the Board in 1997 and held many positions including Finance Director, Chief Executive and finally Acting Chairman. The Anglo Pacific of today is the result of Brian's energy, industry knowledge and commercial acumen, working in tandem with Peter Boycott, with whom he formed a formidable partnership.

Since then Paul Cooke has stepped off the Board and I should like to thank him for his contribution to the Group during his time with us. We have appointed Rachel Rhodes and David Archer as Non-Executive Directors. Rachel is a chartered accountant and has over 15 years of mining experience including time with Anglo American PLC and London Mining PLC. David has over 34 years of resources industry experience covering most parts of the world. He is currently chief executive of AIM-listed Savannah Resources PLC with involvement in a mineral sands project in Mozambique and a copper project in Oman. Rachel and David have already made significant contributions to the deliberations of the Board.

Anthony Yadgaroff has advised that he intends to step down from the Board on December 31, 2015 after almost 13 years' service. I should like to take the opportunity now to thank him for his hard work, diligence and sage advice during that period.

Our Strategic Report

Our 2014 Strategic Report, from pages 8 to 35, was reviewed and approved by the Board of Directors on March 24, 2015.

Outlook

While the mining sector continues to have its challenges, that in itself brings opportunities for Anglo Pacific. With the addition of the Narrabri royalty and the associated fundraising, we have demonstrated our ability to source and conclude significant acquisitions. We, therefore, see ourselves as ideally placed to take advantage of future opportunities as they present themselves.

In conclusion, I should like to thank all Directors and staff for their diligence and hard work during what has been a challenging year.

On behalf of the Board

W.M. Blyth
Chairman
March 24, 2015

Market overview

Current market opportunity for royalty and streaming companies

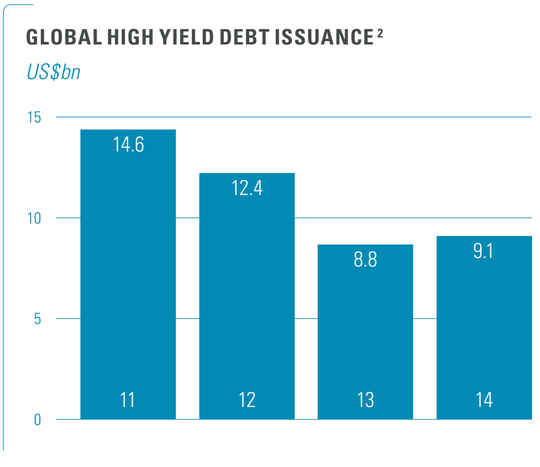
Over the past few years, the mining industry has faced increased funding challenges. Many mining projects have suffered from high cost inflation and budget overruns. The Directors believe that M&A activity at the peak of the last economic cycle resulted in a substantial increase in leverage across global miners, which in a falling commodity price environment has resulted in substantial declines in earnings and reduced balance sheet flexibility. This is reflected in the net debt to EBITDA multiple for the Bloomberg World Mining Index, which increased from 0.8x in 2010 to 1.8x in 2014. The Directors believe that this has had an impact on share price performance. As two of the most capital intensive sectors within the mining industry, the Directors believe that base metals and bulk materials producers have been under additional pressure.

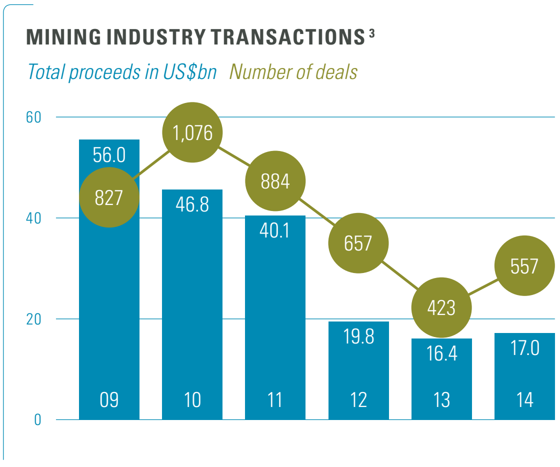
Falling commodity prices have put junior miners under increasing financial strain with limited access to capital. This was further compounded by the operations of junior miners typically being carried out at a higher cost of capital than major mining companies.

During 2014, the sell-off in the mining sector had a significant impact on the mining equity markets. Global mining equity issuance in 2014 amounted to US$17.0bn, representing a small increase of 4% from 2013 and a decrease of 14% from 2012.[1]

Lending to the global mining industry has also been impacted. For example, there has been a notable decrease in high yield debt issuance by the mining industry over the past two years, down 38% from US$14.6bn in 2011 to US$9.1bn as of the end of 2014.

Accordingly, given the funding challenges facing the mining industry, demand has increased for alternative forms of financing, including royalty financing. The financing provided by the royalty and streaming industry has grown considerably in recent years, with upfront payments totalling more than US$2bn in each of 2012 and 2013.





Source:

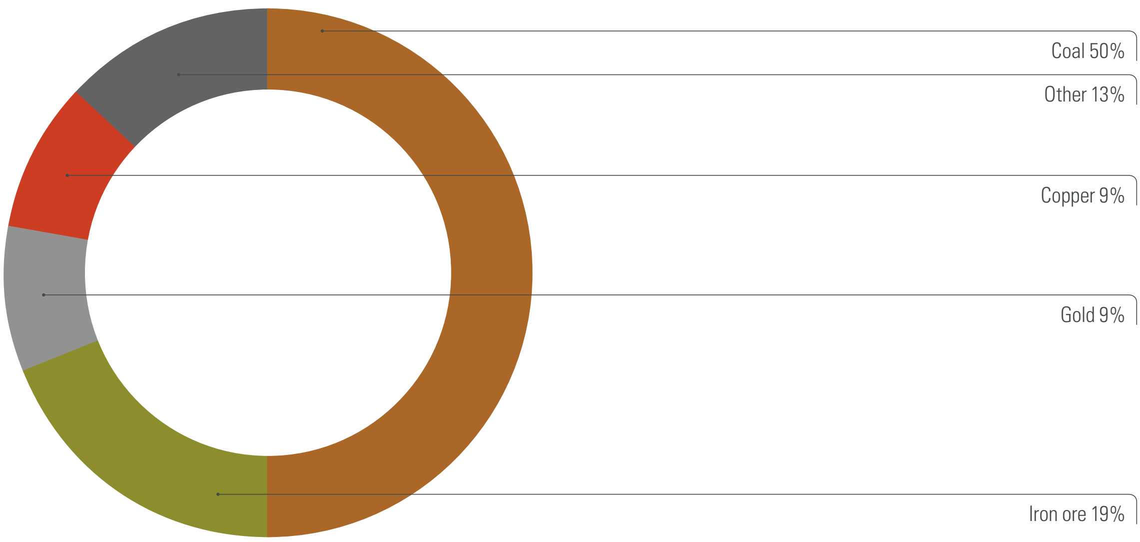
1. Global mining equity issuance: Dealogic
2. Global mining high yield debt issuance: Company filings, Bloomberg, LCD News
3. Royalty and stream payments in 2012 and 2013: Company filings of Silver Wheaton Corp, Sandstorm Gold Ltd, Franco-Nevada Corp, Anglo Pacific Group PLC, Royal Gold, Inc.

Non-precious royalties and Anglo Pacific's competitive landscape

Financing provided by the royalty and streaming industry has grown considerably in recent years. Nevertheless, the industry's historical focus on precious metals is disproportionately channelling investment into only a small part of the mining industry. The aggregate market capitalisation of the top listed precious metals royalty companies in 2013 was approximately US$20bn yet gold and silver producers constituted only approximately 11% of global mining production by value[4]. Anglo Pacific intends to focus on those non-gold and silver producers that comprise approximately 89% of global mining production by value[5] and which the Directors believe are not well serviced by the royalty and streaming industry. The Directors believe that the universe of opportunities should be significantly larger in these markets than that for precious metals.

The non-precious royalty space does not benefit from dedicated gold-denominated funds and so companies operating in the sector typically seek capital backing from investors with more alternatives as to where they are able to invest. Furthermore, there is much less competition for non-gold and silver royalties and Anglo Pacific believes there will continue to be a favourable supply/demand imbalance, particularly in relation to secondary royalties. The lower competition that results from the imbalance should lead to better pricing for the buyer. In contrast, there is a relatively large universe of companies focused on the silver and gold sector and they compete vigorously for the limited supply of new royalties coming onto the market, driving down the yields which the royalties produce. The Directors believe that this may result in non-precious royalties generally transacting at higher yields than precious royalties.

2013 GLOBAL MINING PRODUCTION BY VALUE



Source:

4. *Aggregate market cap of the top listed precious metals royalty companies in 2013: Silver Wheaton Corp, Franco-Nevada Corp, Royal Gold Inc, Factset (21 March 2014)*
5. *Global mining production by value: Global Mining Perspective, Arctic Cluster of Raw Materials Conference, IntierraRMG report (26 September 2013), BMO Global Commodities Research (10 November 2013)*

STRATEGIC REPORT

Our strategy

The Group is progressing towards achieving its strategy, as demonstrated by the recently announced Narrabri royalty acquisition.

1

AIM

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

2

STRATEGY

Achieving our aim through acquisition of both primary and secondary royalties

3

➤ *See our latest acquisition on page 18*

CRITERIA

Achieving strategy through acquisitions which satisfy these criteria

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

4

GOAL

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

ESTABLISHED NATURAL RESOURCES JURISDICTIONS

The Group continues to review potential business opportunities globally and in order to manage its risk profile, the Group intends to focus predominantly on mines in established, relatively low-risk mining jurisdictions, primarily those in North America, South America, Europe and Australia. As at December 31, 2014, 93% of the Group's existing assets were based in such jurisdictions.

LONG-LIFE ASSETS

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

HIGH-QUALITY AND LOW-COST ASSETS

The Group is also focused on ensuring that new royalties are over high-quality and low-cost operations. This helps ensure longevity of cash flows by reducing the risk of mining operations ceasing to be economically viable. Within its existing portfolio, the Group has exposure to low cash cost assets in the Kestrel and Maracás mines. Kestrel's costs are expected to fall further in 2015 once the mine achieves its forecast run of mine production of 5.7Mt per year. The recently acquired Maracás royalty demonstrates management's stated aim to focus on low-cost operations, as the mine's forecast cash cost is lower than historical vanadium prices since 2007.

NEAR-TERM PRODUCING ASSETS

Building on the critical mass and revenue stream derived from its existing portfolio of royalties, the Group is seeking to grow its portfolio by investing in producing or near-term producing assets.

PRODUCTION AND EXPLORATION UPSIDE POTENTIAL

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

STRONG OPERATIONAL MANAGEMENT TEAMS

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

DIVERSIFICATION OF ROYALTY PORTFOLIO

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

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

Principal risks and uncertainties

Whilst limiting a number of the risks associated with traditional mining and commodity investments, royalty ownership is exposed to a number of risk factors. An optimised selection of royalty investments within a balanced portfolio should nevertheless help to mitigate these. Anglo Pacific also undertakes measures to seek to further mitigate the key risks related to its strategy as much as possible.

Risk description	*Mitigation*
External risks	
Commodity prices Changes in the prices of the commodities that underlie the Group's royalties are outside the control of the Group and may directly impact revenue and profitability.	A fall in commodity price is, partially, mitigated by virtue of the relatively low fixed cost base of the Group as it is not an operator nor has it any hedging contracts to fulfil. Although commodity price increases will enhance profits, periods of commodity price declines can represent an ideal time for royalty investment.
Dependence on operators It may be difficult or impossible for the Group to ensure that the projects on which it has royalties are developed or operated in the Group's best interest. The Group has, and will continue to have, limited access to information, data and disclosure regarding the operation of the underlying projects, which affects the Group's ability to assess the underlying performance. The Group depends on the operator for the accurate calculation and timely payment of royalties.	The Group conducts detailed due diligence on all investments, which will often include a site visit by suitably qualified personnel that will highlight any economic, operational or environmental concerns. Further, newly created royalties can be tailored to allow for performance milestones to try to ensure that the operator performs as intended. Certain of the Group's royalty agreements provide the Group with change of control protection and audit rights, both of which provide some assurance over the receipt and accuracy of royalty income.
Achieving investment projections The Group's success largely depends upon its ability to acquire royalties at appropriate valuations. This success is based on the accuracy of investment assumptions regarding the estimates of mineral reserves and resources and the production estimates of mine operators as well as the Group's ability to make accurate assumptions regarding the valuation, timing and amount of revenues to be derived from its royalties, particularly with respect to royalties on development stage properties. Unknown defects in or disputes relating to the royalties the Group holds may prevent it from realising all of the anticipated benefits from its royalties.	The Directors have significant experience of investing in the mining industry and have considerable expertise in assessing the forward demand for commodities. The Group uses consensus or lower forecasts when valuing all royalty investments, which reduces the risk of underperformance, and a site visit is undertaken, where possible, to assess the viability of the underlying project. The Executive Committee regularly reviews the Group's financial performance, including the royalty income, on a month by month basis for any sign of underperformance.
Financial covenants associated with secured debt The Group's borrowings are secured and subject to certain financial covenants, the failing of which could impact on the ability of the Group to continue to run its business independently. Indebtedness may increase the Group's vulnerability to general adverse economic and industry conditions or require the Group to dedicate a substantial portion of its cash flow from operations and proceeds of any equity issuances to payments on its indebtedness, rather than, for example, on new acquisitions or dividend payments, any of which may place the Group at a competitive disadvantage to its competitors that may have less debt.	The Group has a conservative approach to borrowings and sets internal leverage limits which are relatively low compared to the financial limits permitted by the loan agreements. The Group prepares regular cash flow projections which include forward covenant projections such that timely action can be taken if headroom deteriorates.

Risk description	*Mitigation*

Financial risks

Liquidity risk	The Group seeks to ensure that it can meet all of its obligations as they fall due by preparing regular cash flow projections and highlighting any currency requirements well in advance of settlement. The Group has a strong balance sheet, with US$24.0m currently undrawn on the US$30.0m three-year revolving credit facility secured in February 2015 and potential access to the capital markets to provide additional funding to meet its obligations as well as its investment objectives.
Credit risk	The Group operates controlled treasury policies which spreads the concentration of the Group's cash balances amongst separate financial institutions with high credit ratings. The Group's credit risk on monies advanced to explorers and operators is taken into account when assessing the fair value of these assets at each reporting date. For receivables, the Group presents these on the balance sheet net of any amount for doubtful debt. As these primarily relate to the Kestrel royalty, the credit risk is minimal due to the world class nature of the operator.
Foreign exchange risk	The Group's main foreign currency exposure is to the US dollar as this is the currency in which most of the Group's royalty revenue is derived. With respect to royalty acquisitions, the Group is exposed to foreign exchange risk when raising equity in pound sterling and transacting in US dollars. The Directors take this into account as part of the financing strategy of each royalty acquisition.
Interest rate risk	The Group has limited exposure to interest rate risk, and its three-year revolving credit facility is unhedged.
Other pricing risk	The value of the Group's royalties is underpinned by commodity prices which may affect the future expected cash flows. This is taken into account at each reporting date in assessing for impairment. The Group has a portfolio of junior mining equity investments which fluctuate in value based on the active quoted share price. The reduction in value of the portfolio over the last few years has resulted in a full impairment of unrealised losses such that any further pricing risk should be much less material to the Group.

Chief Executive Officer's statement

Although it came after the year end, undoubtedly the highlight of the past 12 months was the successful acquisition and fundraising for the Narrabri royalty.

Starting to deliver on our strategy

The Narrabri acquisition, and associated fundraise, achieved several objectives at once:

- We should significantly enhance our income for 2015, a year during which we expect Kestrel's royalties to recover year on year but during which our income will still be below its ultimate expected run rate.
- We diversified our dependence away from a sole asset, from coking coal and from one operator, whilst maintaining our focus on high-quality jurisdictions like Australia.
- We brought a number of significant new institutional shareholders on to the shareholder register who we hope will be supportive for future opportunities.
- We acquired a very long-life and high-quality royalty which should be generating royalty income until close to 2040, well after mining moves permanently outside our private royalty lands at Kestrel.
- We have also bolstered our financial resources such that we now have significant capacity in order to continue to deliver on our strategy to acquire new royalties, which in turn will support our dividend policy.

The Strategic Report includes a case study on ➤ *page 18* which illustrates the strategic criteria achieved by the acquisition of the Narrabri royalty.

The Narrabri acquisition came on the back of the smaller Maracás royalty acquisition in the middle of last year, which itself was followed by the retention of a royalty over the assets of Atrum Coal in Canada in the third quarter following the sale of our Panorama coal licences.

I am pleased to report that, following the completion of the Narrabri royalty acquisition, the Group will have six royalties which are in production compared to just three when I joined 18 months ago. Thus the transformation strategy is beginning to bear fruit, though there are many more steps on the road ahead.

Challenging environment

Despite this achievement, 2014 as a year was a challenging one for our Company and for the natural resources sector. The continued weakening of growth in emerging economies, together with a slower than expected recovery in the world economy, saw further softening in the demand for commodities. As a result, there were sharp declines in the prices for most of the commodities the Group's royalties are generated from.

Even with the Group's derisked royalty model, which limits our direct exposure to operating or capital cost inflation of the underlying mine operations, the effects of such a difficult macro-economic climate on the mine operators meant the Group was not immune to challenges. During the year, London Mining PLC, the operator of the Isua project, entered administration, whilst Zamin Group fell behind in their efforts to reconstruct the Santana port, essential for exporting their iron ore from the Amapá mine. These developments resulted in the Group recognising £24.6m in impairment charges against the carrying value of the royalties connected to these, and other, projects.

In addition to the reduced income at Amapá, production at Kestrel remained largely outside the Group's private royalty area for much of the year which, when combined with lower metallurgical coal prices, resulted in royalty related income falling from £14.7m in 2013 to £3.5m in 2014. Despite supplementing the reduced income levels with some £8.7m in cash generated through the disposal of non-core

Anglo Pacific is well placed to make countercyclical investments at prices well below the recent norm.

equity interests, together with monetising the Panorama coal assets, with Kestrel performing well below expectations in the last quarter of 2014, it was appropriate to revisit the Group's dividend policy as described by your Chairman in his report.

The dividend should be protected by the gradual return to mining within our royalty lands in 2015 at Kestrel. We estimate, based on Rio Tinto's forecast, that 20-25% of mining at Kestrel will be within our royalty lands in the first half of 2015, increasing to 70-75% in the second half and, longer term, over 90% by 2017.

Positioned to take advantage of opportunities

The acquisition of the Maracás royalty during the year and the Narrabri royalty subsequent to the year end, both of which are in production, support the Group's ability to deliver on its revised dividend policy.

We also entered into a new $30.0m revolving credit facility in March 2015, as part of the Narrabri transaction which replaced the existing $15.0m, shorter-term facility. This has a three-year term, is secured on certain of the Group's assets and has a margin of 250 basis points over LIBOR. Although large amounts of structured debt is not something which we consider appropriate for our assets, we do need to take advantage, prudently, of low-cost financing opportunities available to us.

We are pleased to announce today the appointment of Macquarie Bank and Peel Hunt as brokers to work alongside BMO Capital Markets. We believe the three of them provide us with good coverage in the major mining and financial centres of the world.

Outlook

We are optimistic for the long-term outlook of coking coal, produced by Kestrel, and thermal coal, produced by Narrabri. We are not calling the bottom but the risk is now to the upside. The global power and steel industries rely on coal, but roughly half the industry is uncompetitive at current prices. This is an unsustainable situation and prices will likely recover in the years ahead as high cost production capacity is closed.

Whilst we are very comfortable with our current coal exposure, we will focus in the months ahead on diversifying the portfolio away from coal and other bulk commodities. In this respect, base commodities like copper will be where we hope to put more capital to work and we have several interesting opportunities currently in the pipeline.

Anglo Pacific is well placed to make countercyclical investments at prices which are now well below the recent norm. Acquiring royalties that exceed our minimum internal return targets should provide shareholders with confidence in the Group's ability to meet its revised dividend policy, along with the potential for upside should commodity prices recover in the medium term.

Following the payment of the interim dividend in February along with the completion of the Narrabri acquisition, the Group currently has over £3.5m in cash and $24m undrawn on our revolving credit facility. With the additional income which Narrabri and Kestrel should bring in 2015, we are well funded to maintain our dividend payments and to take advantage of opportunities which may present themselves in the short term.

We look forward to building on our recent progress in the months ahead.

J.A. Treger
Chief Executive Officer
March 24, 2015

Our business model

Creating value for our *shareholders*

Generating long-term cash returns

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

Lower risk through top-line, revenue participation in mining companies

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

Lower volatility through commodity and geographic diversification

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

Exposure to increases in mineral reserves and production

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

Exposure to commodity price upside

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

Creating value for our *counterparties*

ANGLO PACIFIC + PARTNERS = VALUE CREATION

SECONDARY ROYALTIES

PRIMARY ROYALTIES

We serve as a partner to the mine operator

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

An alternative form of financing to conventional equity, which can be an expensive form of finance

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

Flexible financing structures to suit the mine operator, often structured as non-debt instruments, therefore do not impact on credit ratings

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

Source of liquidity for holders of existing royalties

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

Case study: Narrabri royalty acquisition

"The Narrabri acquisition is a first major step down the diversification route and will hopefully provide a springboard for further progress."

W.M. Blyth, Chairman

TRANSACTION HIGHLIGHTS

- 1% gross revenue royalty over all coal produced from Narrabri royalty area
- US$65.0m consideration (US$60.0m cash, US$5.0m in Anglo Pacific Group shares)
- Majority owned and operated by ASX listed Whitehaven Coal Limited
- 57.0Mt of proved and 83.0Mt of probable reserves at Narrabri North, 94.0Mt of probable reserves at Narrabri South
- Estimated reserve life of 22 years
- Targeting 6.5Mt run of mine in FY2015 and 7.0Mt in FY2017

STRATEGIC RATIONALE

The Group's acquisition of the Narrabri royalty meets the following strategic criteria:

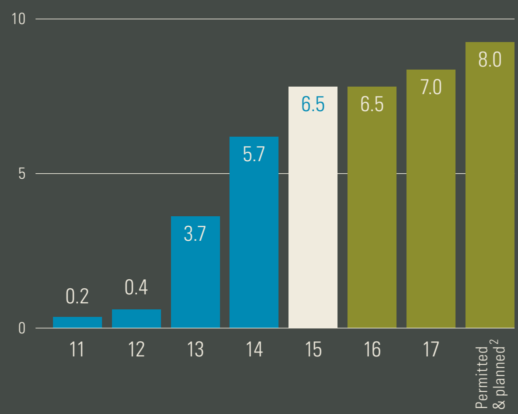
See how the criteria fits into our strategy on page 10

Criteria	Achievement
ESTABLISHED NATURAL RESOURCES JURISDICTION	Located in the Gunnedah Basin in New South Wales, Australia, an established mining jurisdiction
LONG-LIFE ASSETS	Long mine life (22 years of reserves at Narrabri North) with Narrabri South expansion potential
HIGH-QUALITY AND LOW-COST ASSETS	Attractive position in the global thermal and PCI coal producer cost curve
NEAR-TERM PRODUCING ASSETS	Royalty on producing asset ~£3.0m in royalty income in the last 12 months, expected to ramp up in FY2015
PRODUCTION AND EXPLORATION UPSIDE POTENTIAL	Production at Narrabri North is in ramp up and there is upside potential from undeveloped Narrabri South
STRONG OPERATIONAL MANAGEMENT TEAMS	Whitehaven Coal has an established track record of operational expertise
DIVERSIFICATION OF ROYALTY PORTFOLIO	Reduced dependence on Kestrel as the primary source of royalty income
	Thermal coal fundamentally different to coking coal

ESTABLISHED NATURAL RESOURCES JURISDICTION

HISTORICAL AND FORECAST PRODUCTION [1]

Million tonnes ROM

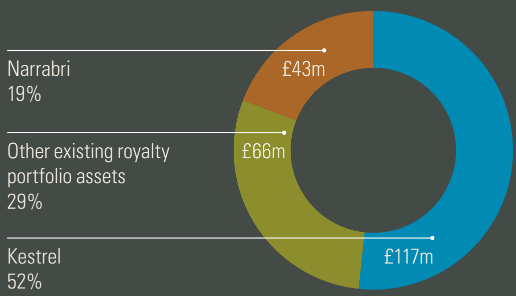


Production and exploration upside potential

Whitehaven expects 2015 production to exceed 6.5Mt ROM

PRO FORMA GROUP ROYALTY ASSETS 2014

GBP millions



Diversification of royalty portfolio

Reduced dependence on Kestrel as the primary source of royalty income

Notes: Whitehaven fiscal year ending 30 June
1. Whitehaven disclosure
2. Whitehaven has stated that in the longer term, production is planned to reach the permitted 8.0Mt pa level

Corporate social responsibility

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

During the year, the Board commissioned a review of all of Anglo Pacific's current corporate social responsibility ('CSR') practices and activities. Its purpose was to identify best practice. Where the review highlighted scope for improvement, we made practical and effective changes within Anglo Pacific.

The review took into account international guidance. The standards considered included: the Extractive Industries Transparency Initiative; the Global Reporting Initiative Mining and Metal Sectors Supplement; the United Nations' Guiding Principles on Human Rights; and the Voluntary Principles on Security and Human Rights. We also reviewed the CSR reporting and CSR commitments of the mines that we are invested in. Further, we evaluated the implications of the United Kingdom Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 for our own CSR reporting.

Following this extensive review, we extended and strengthened our due diligence process to reflect current best practices. The mechanism that we use to monitor CSR issues has been given greater granularity. In particular, it directs us to consider the governance, policy provision, management, measurement and reporting of each material issue. We apply this to consideration of new investments and use it in the monitoring of existing investments.

At the same time we have improved our office practices. These improvements include but are not confined to measures to conserve energy, water and paper. For instance, all our lights are now on sensors and we have acted to maximise recycling and reduce waste generation. We also prioritise local sourcing and will be setting targets for continuing improvement on an annual basis.

We are confident that the changes made in the light of the review will enable us to achieve continuous improvement in our CSR practice.

Integrity

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

We have policies and procedures in place to ensure that all of our Directors, officers, employees, consultants, advisors, business partners, and anyone else who may be acting on our behalf, are aware of their responsibilities in this area. We actively promote a transparent approach to all of our business dealings and expect our employees to adopt a zero tolerance attitude to corruption. Our employees are encouraged to report any potential or apparent misconduct in accordance with our internal whistle-blowing policy and any employee that refuses to pay bribes, or raises any issues honestly, and in good faith, will be supported by the Group.

We choose our business partners and counterparties carefully, based on merit, and only work with persons of known integrity, who we believe will act consistently with our own standard. We do not make facilitation payments. Where we do business in countries with laws that are less restrictive than our own policies and procedures, we will seek to follow our own policies and procedures, promoting our standard of integrity wherever possible.

Environment

Anglo Pacific is committed to an environmental policy of collaborating fully with statutory authorities, local communities and other interested parties in order to limit any potential adverse impacts of its activities on the natural and human environments associated with its operations. The nature of our royalty investments is such that we do not operate any of the properties underlying our royalty portfolio and, consequently, we do not always have the ability to influence the manner in which the operations are carried out. Nevertheless, a responsible approach to a project's environmental impact and its sustainability management is essential to the success of the project over its life.

As part of our investment decision process, we give careful consideration to the environmental aspects of any potential asset purchase during the due diligence phase. In particular, we typically engage with consultants who have the requisite expertise to ensure that we can consider and, if necessary, mitigate any risks in this regard to a properly maintainable level.

In 2014, as part of its due diligence on the Maracás royalty transaction, Anglo Pacific looked at Largo's environmental and community policies. Largo's environmental sustainability policy seeks to preserve the region's natural resources and monitor the quality of soil, water, air and the protection of flora and fauna. An independent consultant was also engaged to review general site safety at the mine. As part of its recent acquisition of a royalty on the Narrabri Mine, Anglo Pacific engaged an independent consultant to review the environmental aspects of the mine and comment on aspects likely to affect the surrounding community, including subsidence, noise and air quality.

Where we do engage in exploration efforts as part of advancing a property, we undertake to do so in accordance with the highest industry standards. We expect our employees to address environmental and sustainability responsibilities within the framework of normal operating procedures and to look to minimise waste as much as economically practicable. The Audit Committee is responsible for periodically reviewing the Group's environmental practices and for monitoring their effectiveness.

Social and community issues

Anglo Pacific acknowledges that, whilst its activities have little direct contact with communities, it can positively influence the social practices and policies of companies it conducts business with. Positive social and community relationships are essential to profitable and successful mining activities. We endeavour to ensure that companies we work with have appropriate procedures in place to facilitate this. More specifically, Anglo Pacific's investment decision process for potential asset purchases routinely involves due diligence including the full range of CSR issues, including the social and community aspects of the project. As part of its recent acquisition of a royalty on the on the Narrabri Mine, for instance, Anglo Pacific extensively reviewed Whitehaven Coal's policies on community development, Aboriginal engagement, safety and environmental responsibilities. Where we believe our own operational activities may have an impact on local community groups, we consult with these groups and provide them with the opportunity to engage at the planning stage. The Audit Committee is responsible for periodically reviewing the Group's social and community practices and for monitoring their effectiveness.

Diversity

Our people are instrumental to our success, and we respect and value the individuality and diversity that every employee brings to the business. As at December 31, 2014, the Group had 13 employees, five of whom were female. In terms of the Company's Board of Directors, there were seven Directors, six of whom were male and one of whom was female. Prior to any appointment to the Board, the Nomination Committee gives due regard to diversity and gender with a view to appointing the best placed individual for the role. We recognise that we have more to do in encouraging and supporting gender diversity and hope to be able to identify and develop talent at all levels in the organisation as the Company continues to grow.

More information on the Nomination Committee's approach to diversity can be found on ➤ *page 40*.

Human rights

The debate on the role of business and human rights has gained increasing prominence in recent years. Anglo Pacific welcomes this focus as respect for human rights is implicit across the Group's employment practices. Further, a commitment to human rights is an important part of any successful organisation, and, as part of our investment decision process, we have access to consultants with the requisite expertise to ensure that we can consider and, if necessary, help to mitigate any such risks.

Health and safety

The health and safety of our employees is a fundamental responsibility. The small size of our 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 any mining project, and, as part of our investment decision process, we have access to consultants with the requisite expertise to ensure that we can consider and, if necessary, help to mitigate any such risks.

Donations

Our philosophy on charity has historically been that this is a decision best made by shareholders with their own resources. The Group has revised its policy and will now consider supporting select charities at the discretion of the Directors. In 2014, the Group made donations totalling £4,050 to various charities supporting mining communities.

Greenhouse gas emissions

The UK Government requires that UK listed companies should report their global levels of greenhouse gas emissions in their Annual Report. Anglo Pacific is a relatively small organisation, with 13 employees, which means that any emission sources within our operational and financial control, such as business travel, purchase of electricity, heat or cooling by the Group, are not material in their impact.

Until December 2014, the Group paid for the consumption of utilities through its annual service charge, and therefore did not receive detailed information on its carbon emissions. Anglo Pacific did not operate (or control) any of the properties where royalty interests are held, which means that the Group does not have any greenhouse gas measures to quantifiably report from operations.

Following our move to a new office, we have visibility over our power consumption and will monitor this in 2015.

The information on pages 8 to 35 represents the Group's Strategic Report and has been approved by the Board.

J.A. Treger
Chief Executive Officer
March 24, 2015

6 producing royalties

Over 80% of the royalty portfolio by value are in production and 93% of the portfolio are located in well established mining jurisdictions

Producing royalties

Kestrel, Coking coal, Australia

What we own

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

The royalty rate to which the Group is presently entitled is prescribed by the Queensland Mineral Resources Regulations. These regulations currently stipulate that the basis of calculation is a three-tiered fixed percentage of the invoiced value of the coal as follows:

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

Performance

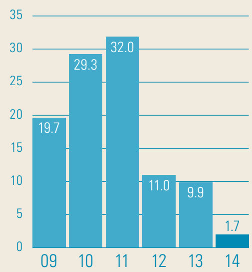
The Group received royalty income of £1.7m during the year from Kestrel, compared to £9.9m in 2013. The significant decrease in royalty income in 2014 was due to production at Kestrel remaining largely outside the Group's private royalty land.

On August 18, 2014 the Group announced that it had entered into an agreement with Kestrel Coal Pty Ltd, a subsidiary of Rio Tinto, and its Kestrel joint venture partners, Queensland Coal Pty Ltd and Mitsui Kestrel Coal Investment Pty Ltd, for the provision of certain information in respect of Kestrel.

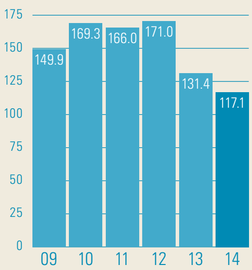
The information to which the Group is entitled under the agreement includes, on a quarterly basis: (i) the invoiced payable tonnes (including product splits); (ii) the royalty payable; (iii) the split between the public and private royalty payable; (iv) the estimated private royalty payable for the next quarter; and (v) the forecast production tonnages, split on a public and private royalty basis, for the next four quarters. The forecast information provides the Group and its investors with more visibility on expected growth in royalty income from this key asset.

We estimate, based on Rio Tinto's forecast, that 20-25% of mining at Kestrel will be within our royalty lands in the first half of 2015, increasing to 70-75% in the second half and, longer term, over 90% by 2017.

COAL ROYALTY INCOME
£m



COAL ROYALTY VALUATION
£m



Valuation

The Kestrel royalty was independently valued at A$223.0m (£117.1m) and accounts for 59% of the Group's total assets. The value of the land is calculated by reference to the discounted expected royalty income from mining activity. This is an independent valuation conducted by suitably qualified consultants. A discount rate of 7% is applied. The Group monitors the accuracy of this valuation by comparing the actual cash received to that forecasted.

The decline in coking coal prices over the last two years has impacted on the valuation of expected future cash receipts and, therefore, valuation.

Business review

El Valle-Boinás/Carlés ('EVBC'), Gold, copper and silver, Spain

What we own

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

The EVBC royalty was originally structured as a non-interest bearing, convertible debenture, but following an amendment in 2012, the convertible element has been removed. The royalty is secured by way of 'censos' on the mining concessions and there is an intercreditor arrangement in place with Credit Suisse AG, which has provided finance to Orvana.

Performance

The Group received royalty income of £1.7m from EVBC during the year. This compares to £4.0m received in 2013, of which £2.0m represented the repayment of the original debenture instrument.

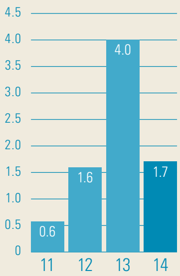
On October 27, 2014, Orvana announced EVBC production for the 12 month period ending September 30, 2014 of 62,957 ounces of gold, 156,977 ounces of silver and 5.6Mlbs of copper. Orvana also announced EVBC production guidance for the 12 month period ending September 30, 2015, of 63,000 to 72,000 ounces of gold, 6.0 to 7.0Mlbs of copper and 150,000 to 180,000 ounces of silver.

On August 13, 2014, Orvana released an updated Mineral Resources and Reserves estimates for EVBC, showing a 66% decrease in gold ounces and a 59% decrease in copper tonnes in the Reserves, and a decrease in gold ounces and copper tonnes of 32% and 22% respectively of Measured and Indicated resources. On the same day, Orvana announced an updated life-of-mine plan which reduced the expected mine life to approximately four years, compared with the nine years previously disclosed.

The expected performance of EVBC under the new mine plan announced on August 13, 2014, provides the Group with confidence in the ability of this mine to generate royalty income during its remaining mine life.

On December 9, 2014, Orvana announced that the focus on improved execution and grade optimisation had contributed to stronger EVBC operating results in recent months, with gold production of 33,529 ounces in the second half of fiscal 2014 compared with 29,428 ounces produced in the first half of fiscal 2014, an increase of 14%. On January 16, 2015, Orvana announced its FY2015 first quarter production results for EVBC. The mine produced 15,276 ounces of gold, 1.85Mlbs of copper and 43,946 ounces of silver.

EVBC ROYALTY INCOME
£m



Orvana also announced that it plans to make further investments in the growth of its business, which includes an increase of EVBC reserves and resource estimates through the potential to upgrade Inferred Mineral Resources to Mineral Reserves and the potential to identify new resources at EVBC and surrounding areas.

Valuation

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

Maracás, Vanadium, Brazil

What we own

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

The Group acquired the Maracás royalty on June 10, 2014, for US$22.0m and 500,000 warrants which entitle the holder to acquire one Anglo Pacific ordinary share at a strike price of £2.50 which are exercisable over five years, and a further US$3.0m cash when the project reaches certain annualised production milestones.

Performance

The Maracás project has completed commissioning and achieved first production of vanadium pentoxide (V_2O_5) on August 2, 2014. Largo has a target to reach name plate production capacity of 21.1Mlbs (9,600t) of V_2O_5 equivalent within 12 months and average annual production of approximately 25.1Mlbs (11,400t) V_2O_5 equivalent over a 29-year mine life. Largo has also entered into an off-take agreement with Glencore International AG for all vanadium products produced at the Maracás project for the first six years of commercial production. On September 3, 2014, Largo announced it had made its first shipment of V_2O_5 from the project.

After achieving first production in August 2014, the Maracás project continues to successfully ramp up production to name plate capacity. On January 15, 2015, Largo announced that production output was running between approximately 55%-75% of capacity and that approximately 1,140 tonnes (2.5Mlbs) had been shipped to date from the mine.

Business review

On December 9, 2014, Largo announced it had commenced a pre-feasibility study on the potential to produce saleable platinum concentrates at Maracás. This was based on preliminary investigations conducted by Largo which indicated that it may be possible to produce platinum in addition to vanadium pentoxide from the non-magnetic material separated during the benefication process. Platinum production represents a source of potential upside for our royalty which was not taken into account at the time of acquisition.

The Group expects to receive the first royalty payments in relation to Maracás in the first half of 2015.

Valuation

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

Four Mile, Uranium, South Australia

What we own

The Group has a 1% life of mine NSR royalty on the Four Mile uranium mine in South Australia. Four Mile is operated by Quasar Resources Pty Ltd ('Quasar') on behalf of its JV partners: Quasar (75%) and ASX-listed Alliance Resources Limited ('Alliance') (25%).

Performance

Production commenced on April 14, 2014 and on October 6, 2014, Alliance announced that the first shipment of 300,000 lbs of uranium ore concentrate had occurred in September. Total production from commencement of mining to December 31, 2014, was 1.66Mlbs of uranium ore concentrate. Alliance announced on November 7, 2014, that Quasar intends to produce 2.6Mlbs of uranium ore concentrate in 2015, and intends to stockpile all 2014 and 2015 production. As a result, the Group does not anticipate receiving any royalty payments until this inventory is sold in 2016.

On March 20, 2015, Alliance announced an updated 'Exploration Target' for the Four Mile Northeast (FMNE) uranium prospect of 11 to 14 million tonnes of mineralisation at a grade range of 0.27% to 0.30% U_3O_8, containing 70 to 80Mlb U_3O_8. The potential quantity and grade is conceptual in nature.

Valuation

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

Amapá and Tucano, Iron ore, Brazil

What we own

Amapá

The Group has a 1% life of mine GRR on all iron ore and other non-precious minerals produced from the Amapá Iron Ore System ('Amapá') in northern Brazil, owned and operated by Zamin. Amapá consists of the mine in Pedra Branca do Amapári and the port in Santana, which are linked by a railway. The mine produces a mix of sinter feed, pellet feed and spiral concentrates.

Tucano

The Group has a 1% life of mine GRR on all iron ore and other non-precious metals (other than copper) produced from the Tucano Project, owned by ASX-listed Beadell Resources Limited ('Beadell'). Tucano was acquired by Beadell in 2010 and is located adjacent to Amapá in northern Brazil. Tucano is focused on gold mining, with first gold being poured in 2012. However, it also produces an iron ore concentrate from the tailings created by its gold processing plant. The iron ore is sold to Zamin pursuant to an off-take agreement for 500ktpa of ~65% Fe concentrate.

The Group is also entitled to royalties over a number of concessions governed by a joint exploration arrangement between Zamin and Beadell.

Performance

Shipments of iron ore from Amapá were suspended in March 2013 due to a serious incident at the Santana port, which impacted key infrastructure at the loading bay. A small number of shipments were made during 2014 from stockpiles at the port.

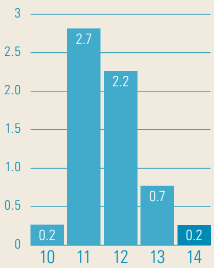
In the second half of 2014, Zamin suspended production at the mine whilst the Santana port is rebuilt. In light of production being suspended and the continued delays in the rebuilding of the port facilities, the Directors have recognised an impairment charge of £8.4m to the Group's carrying value of the Amapá royalty.

Valuation

The Group acquired these pre-existing royalties in 2010 and classified them as royalty intangible assets on the balance sheet. As such, these assets are carried at cost less amortisation and impairments. Royalty intangible assets are amortised when commercial production commences, on a straight line basis over the expected life of the mine.

ROYALTY REVENUE

£m



Development royalties

Salamanca, Uranium, Spain

What we own

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

Performance

On April 24, 2014, Berkeley announced that it had been granted the mining licence for the Retortillo deposit. This is a major milestone in advancing the project towards first production.

In addition, on November 26, 2014, Berkeley announced an updated Mineral Resource estimate for Zona 7. The Zona 7 Inferred Resource increased to 30.1Mlbs (previously 3.6Mlbs). Total Inferred Resources for the Salamanca Project increased by 90% to 56.1Mlbs U_3O_8 primarily because of the increase in the Zona 7 mineral resource. Indicated resources were constant at 32.0Mlbs U_3O_8.

Given the significant scale, high grade and shallow depth of the Zona 7 deposit, Berkeley is advancing its evaluation to the scoping study stage, which is due for completion in 2015.

This demonstrates the excellent potential upside associated with this project.

Valuation

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

Early-stage royalties

Dugbe 1, Gold, Liberia

What we own

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

The Group paid the third and final tranche of US$5.0m in March 2014.

Performance

Hummingbird is currently compiling a feasibility study for the project.

Valuation

The advances made to Hummingbird under the royalty financing arrangement are classified as non-current receivables and carried at fair value on the balance sheet.

Pilbara, Iron ore, Australia

What we own

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

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

Performance

The Pilbara royalties are over undeveloped tenements of BHP Billiton's iron ore operations in Western Australia.

Valuation

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

Business review

Ring of Fire, Chromite, Canada

What we own

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

Performance

Cliffs announced on November 20, 2013 its decision to halt development of its chromite project for the foreseeable future. Cliffs referenced the risk associated with the development of infrastructure required to advance the project as the main reason for its decision. Cliffs has announced that it will continue to work with stakeholders to explore for potential solutions to the current impasse.

Valuation

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

Isua, Iron ore, Greenland

What we own

The Group has a 1% life of mine GRR over the Isua iron ore project in Greenland. The royalty rate increases for iron ore of less than 55% Fe to a maximum of 1.4%.

Performance

On October 16, 2014, the previous owner of the Isua project, London Mining PLC ('London Mining'), the operator of the Group's Isua royalty, announced that it had appointed administrators. On January 26, 2015, Anglo Pacific received official confirmation from PricewaterhouseCoopers LLP ('PwC'), the administrator of London Mining, that the Government of Greenland had approved the transfer of all shares of London Mining Greenland (Jersey) (1) Ltd ('London Mining Greenland') to General Nice Development Limited ('General Nice'). Anglo Pacific welcomes this news and looks forward to developing its relationship with the new operator of the Isua project.

Anglo Pacific intends to waive its rights to the repayment of the US$30.0m advanced to London Mining in 2011 under the change of control provisions of the royalty financing agreement due to the inability of London Mining to make this repayment. The indirect transfer of the licence means that the company structure of London Mining Greenland A/S remains the same and therefore the royalty will continue to apply to the project.

Given the inherent uncertainty of this asset reaching commercial production, the Group's royalty financial instrument arising from its interest in the Isua royalty has been fully impaired.

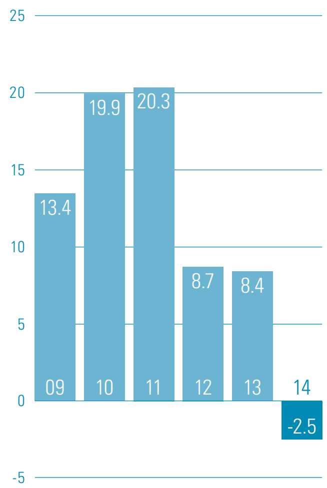
Valuation

The Isua royalty is classified as an available-for-sale debt financial asset within royalty financial instruments on the balance sheet. As such, the asset is carried at fair value by reference to the discounted expected future cash flows over the life of the mine. Following the announcement by London Mining, the Group recognised an impairment charge of £15.3m.

Diversified portfolio

The acquisition of the Narrabri royalty in March 2015 reduces the historical dependence on the Group's Kestrel royalty

Key performance indicators

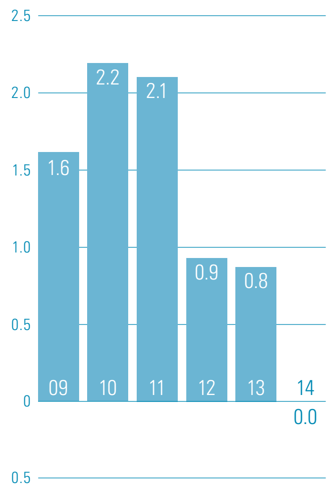


–2.5p

ADJUSTED EARNINGS PER SHARE
(p)

Adjusted earnings per share reflects the profit which management is capable of influencing. It disregards any valuation movements caused by short-term commodity price fluctuations along with any non-cash impairment or similar charges.

It also adjusts for any profits or losses which are realised from the sale of equity instruments within the mining and exploration interests as these are determined based on market forces outside the control of the Directors (see note 11 for further details).

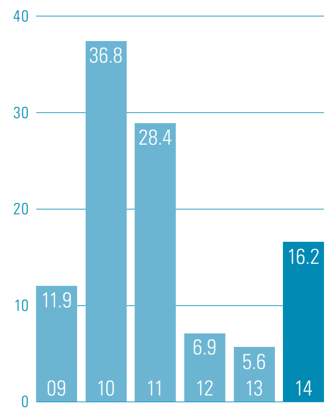


Nil

DIVIDEND COVER
(x)

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

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



£16.2m

ROYALTY ASSETS ACQUIRED
(£m)

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

Financial review

The combination of lower income and higher costs has resulted in an adjusted loss of £2.8m in 2014 compared with an adjusted profit of £9.2m in 2013. The impact of impairment provisions and valuation adjustments discussed hereafter results in a loss after tax of £47.6m (2013: £42.5m). By far the greatest reason for the Group's adjusted loss in 2014 was the lack of production within the Group's royalty lands at Kestrel. The Group has historically been reliant on Kestrel for the majority of its income, the sensitivity of which should be reduced by the recently announced acquisition of the Narrabri royalty.

Adjusted Earnings

Royalty income	2014 £'000	2013 £'000
Kestrel	1,657	9,941
EVBC	1,650	2,018
Amapá	174	749
Like-for-like royalty income	**3,481**	**12,708**
EVBC conversion payment	–	2,023
Total royalty related income	**3,481**	**14,731**

Like-for-like royalty income declined by £9.2m in the year, excluding the non-recurring EVBC conversion payment received in 2013. The largest contributor to this was Kestrel, which produced £8.3m less income in the year. Most of this decrease was as a result of production being largely outside the Group's private royalty land, also impacted by a strengthening of the pound against the Australian dollar. Elsewhere, EVBC income was relatively stable in the year when considered in light of the falling gold price. Sales at Amapá did not recommence to any significant level in 2014, with royalty receipts still being impacted severely whilst the port is being reconstructed.

In addition to a large decrease in royalty income, operating profit was also impacted by higher costs during 2014. Of the total headline increase of £2.3m, staff costs made up $1.6m, reflecting a full year of the new management's compensation. Non-cash share-based payment accounting provisions in relation to the Value Creation Plan accounted for £0.6m of this increase. The remaining increase was largely driven by higher head count and bonus provisions in 2014, which primarily reflected the imminent completion of the Narrabri royalty acquisition. Other costs ran higher throughout 2014 as expenditure was incurred in appraising potential royalties and travel as part of investor relation initiatives associated with the recently announced Narrabri royalty acquisition. Costs not directly related to the asset acquisition, nor directly associated with the issuance of shares, of £0.9m have been attributed to finance costs in 2014. Professional fees may remain at an elevated level as the Group actively pursues more investment opportunities going forward.

Overall, the combination of lower income and higher costs resulted in an adjusted loss of £2.8m in 2014 compared with an adjusted profit of £9.2m in 2013.

Impairment charges

The Directors have conducted a full review of the Group's assets at December 31, 2014 in light of performance during the year and the continued macro-economic pressures being experienced in the mining industry generally. The Group's impairment policy is discussed further in notes 2 and 3. This applies predetermined impairment thresholds for the Group's IAS 39 available-for-sale equity assets, which resulted in an impairment charge of £4.9m in 2014 as the cost base exceeded market value by greater than 25%.

The Group's royalty portfolio was charged with an impairment provision of £24.6m in 2014 (2013: £8.3m). The majority of this was in relation to the Group's Isua royalty, as previously announced, due to the operator, London Mining PLC, entering administration. Although the asset has since been acquired by General Nice Development Limited, and the Group's royalty remains intact, the Directors do not consider an impairment reversal to be warranted at this juncture. The following table summarises the total impairment provision in 2014.

Financial review

Asset	Intangible asset £'000	Royalty instrument £'000	PPE £'000	Mining & exploration interests £'000	2014 £'000	2013 £'000
Isua		15,288			15,288	–
Amapá	8,414				8,414	–
Bulqiza	700				700	947
Creso	222				222	–
Ring of Fire					–	4,047
Mount Ida					–	3,319
Total royalty impairment charge	9,336	15,288	–	–	**24,624**	8,313
Trefi – cost			535		535	–
Trefi – development cost	697				697	–
Shetland			817		817	–
Various available-for-sale equities				4,873	4,873	26,321
Total impairment	10,033	15,288	1,352	4,873	**31,546**	34,634

Tax

The Group, on a headline basis, has been loss making for the last number of years. These losses are largely due to fair value adjustments and, as such, represent unrealised losses which are not available for offsetting the tax payable on any future underlying trading profit. The divestment of the majority of the Group's mining and exploration interests has however created realised capital losses and the Group continues to assess means of utilising these losses going forward. Trading losses have also recently occurred in certain of the Group's tax jurisdictions which will be available to offset future profits. These amounts, although not significant, will help reduce the Group's effective tax rate when future trading profits are earned.

Balance sheet

The Group's net assets decreased from £216.9m at January 1, 2014 to £161.3m at December 31, 2014, a decrease of £55.6m or 26%. This is largely a result of the impairment provisions of £31.5m noted above, £11.8m in relation to the revaluation of the Kestrel royalty, and exchange losses of £6.7m in the royalty portfolio as a result of the weakening of the Australian dollar against both the US dollar and the pound. Royalty additions during the year of £16.5m were partially offset by the £9.6m equity raise in June 2014. Finally, dividends of £11.5m were paid in cash during 2014.

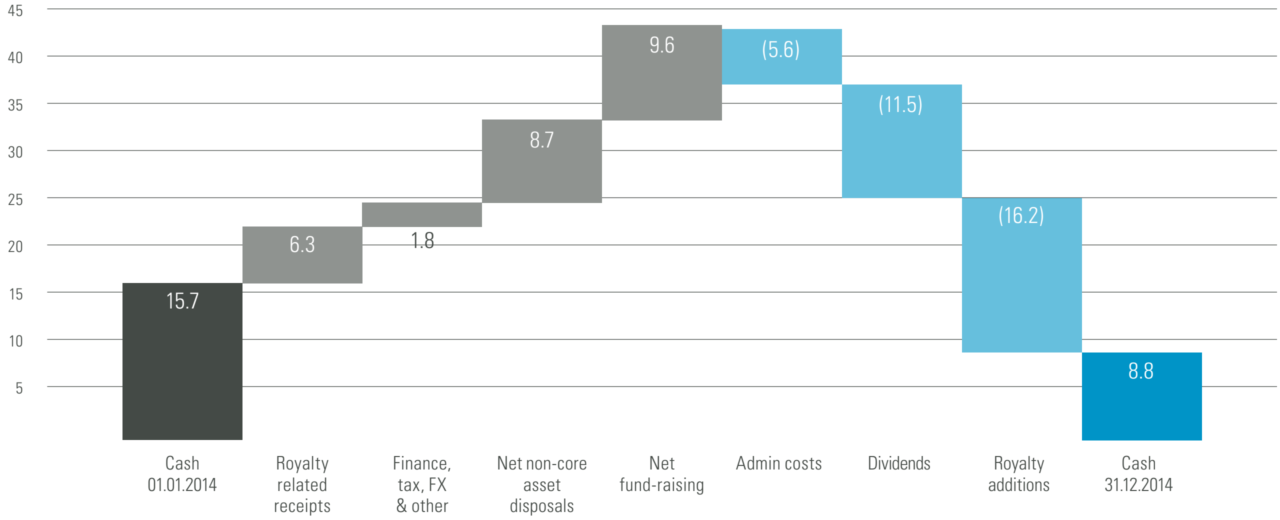
Balance sheet	Kestrel	Royalty intangible assets	Royalty financial instruments	Receivables	**2014**	2013
Carrying basis	Fair value £'000	Amortised cost £'000	Fair value £'000	Fair value £'000	£'000	£'000
January 1	131,434	36,337	27,847	8,775	204,393	268,645
Additions	–	13,166	–	3,002	16,168	5,882
Fair value adjustment	(11,822)	–	(4,697)		(16,519)	(24,761)
Impairment	–	(9,336)	(15,288)		(24,624)	(8,313)
Exchange translation	(2,515)	(2,299)	280	(2,120)	(6,654)	(36,206)
Amortisation	–	(759)	–		(759)	(854)
Royalty assets	117,097	37,110	8,142	9,657	**172,006**	204,393
Cash					8,769	15,706
Mining and exploration interests					9,896	20,072
Deferred tax					(32,601)	(30,365)
Other assets & liabilities					3,180	7,045
Net assets					**161,250**	216,851
Net assets per share					138p	196p

The acquisition of the Narrabri royalty in March 2015 was the Group's largest ever royalty addition and will significantly increase the Group's total royalty assets. On a pro-forma basis, the royalty will be included on the balance sheet at its cost (including acquisition costs) of approximately £44.0m. The acquisition was funded largely from equity. As this royalty is in production, it will be amortised on a systematic basis over the expected mine life of 22 years. This will impact on headline net asset value per share. It is possible that the asset value may appreciate over time due to higher coal prices, ramp up in production, or even the commencement of mining in the

Narrabri south licence. However, in accordance with the Group's accounting policies under IFRS in relation to intangible assets, no adjustment will be made to the cost based initial carrying value on the balance sheet for any subsequent favourable developments. The Directors will consider disclosing any internal valuation increase in future periods such that shareholders can assess for themselves the true value in use of the Group's royalty assets.

Cash flow

The Group's cash balances decreased from £15.7m at the beginning of 2014 to £8.8m at December 31, 2014.



Although royalty income was down significantly in the year, the Group generated cash of £15.0m from royalty assets and non-core asset disposals in 2014, which was down only £0.6m on that generated in 2013. Most of the non-core assets disposed were from the Group's equity investments, which had been used in the past as a means of sourcing royalties. As it appeared likely that royalty income was going to be low by historic standards, and as it is not envisaged that this portfolio will be a source of future royalty investments, the Group took the opportunity to make selective divestments to help cover the dividend during the year.

The other main source of cash during 2014 was the equity placing in June which realised £9.6m. These funds were largely used as part consideration of the Maracás royalty. This, combined with the final advance of £3.0m to Hummingbird Resources PLC, resulted in total royalty related investment of £16.1m in 2014. The other large cash outflow was the Group's dividend of £11.5m. The Group had a $15m revolving credit facility available for most of 2014. This remained undrawn at year end.

As part of the Narrabri royalty acquisition announced in February 2015, the Group obtained a new $30.0m three-year secured revolving credit facility which will be available for general working capital purposes and royalty acquisitions. This facility, along with the Group's cash balances, provides the Group with sufficient resources to meet its obligations in 2015 along with pursuing royalty investment opportunities as they arise.

Corporate governance report

Our approach towards corporate governance

As a premium listed company on the London Stock Exchange, the Company is subject to the UK Corporate Governance Code (the 'Code'). Although the Company will need to measure itself against the revised version of the Code, published in September 2014, the focus in this report is on the 2012 version of the Code. Copies of both versions of the Code are available from the Financial Reporting Council's website. The Board is committed to the highest standards of corporate governance and has taken steps during the year to ensure that it complies with all provisions of the Code as it applies to companies below the FTSE 350 and believes that it has properly complied with all such relevant provisions during the year.

As announced by the Company on December 22, 2014, the Company intends to apply for a transfer of the Company's listing category from a 'premium listing (commercial company)' on the Official List and into the category of a 'standard listing' (the 'Proposed Transfer'). The Proposed Transfer is the result of ongoing discussions with the UKLA in relation to the appropriate categorisation of the Company under the Listing Rules with respect to technical considerations relating to the Company's royalty business model. The Proposed Transfer is subject to the UKLA confirming that the Company meets the eligibility requirements for such a listing and shareholder approval by special resolution.

A standard listing fully complies with the relevant European Directives setting common listing standards across all European Union member states. Accordingly, the Company would remain subject to the relevant UK Listing Rules, the UK Disclosure and Transparency Rules and the UK Prospectus Rules. However, it will not be required to comply with the super-equivalent provisions of the Listing Rules which apply to companies with a premium listing. The Company intends to continue to maintain the high standard of corporate governance that is familiar to its long-term investors and, where appropriate, will consider compliance on a voluntary basis with certain of the governance practices that go further than the standard listing requirements. Further details will be included in a circular to be sent to shareholders in due course.

Board and Committee structure

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

The Board was chaired by Brian Wides, as Executive Acting Chairman, responsible for the leadership and effectiveness of the Board, until the appointment of Mike Blyth as Non-Executive Chairman with effect from April 1, 2014, from his role as an independent Non-Executive Director. Mr. Wides continued in his role as an Executive Director until May 8, 2014. The time commitment expected of the Non-Executive Chairman is around six days per month. Mr. Blyth's other (mainly charitable) commitments are shown on ➤ *page 37*, none of which is considered to be significant.

The day to day management of the Group is delegated to the Executive Committee, save for certain matters reserved for consideration by the Board. The Executive Committee is chaired by the Chief Executive Officer, Julian Treger, ('CEO'), and also comprises the Chief Investment Officer and the Chief Financial Officer. The Chairman and CEO have distinct roles which have been defined in writing and agreed by the Board.

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

Mike Atkinson acted as the Group's Senior Independent Director ('SID') until his retirement from the Board on June 11, 2014, when Rachel Rhodes took on the role on an acting basis. Following his appointment to the Board, David Archer was appointed SID on November 14, 2014. The role of the SID is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary. The SID takes the lead on meetings of the Non-Executive Directors outside the formal committee structure, and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, CEO or other Executive Director, or where such channels would be inappropriate.

The Board considers each of David Archer, Rachel Rhodes and Robert Stan to be independent (and similarly considered Mike Atkinson to be independent, as well as Mike Blyth prior to his appointment as Chairman). As noted in last year's Annual Report, on account of Robert Stan's strong experience and entrepreneurial background, the Board continues to consider him to be independent despite his having served as a fellow director of Whetstone Minerals Ltd alongside Julian Treger during the period. Consequently, the Board considers that it has complied with the requirement of the Code to have at least two independent Non-Executive Directors on the Board throughout the year.

The Board

Chairman

W.M. Blyth

64, was appointed Director in March 2013 and became Non-Executive Chairman on April 1, 2014. He has a BSc from St Andrews University and is a Chartered Accountant. He was, until his retirement in 2011, a partner for 30 years in Baker Tilly, specialising in providing audit and related services to AIM and full list clients. During his career he held a number of senior management positions with the firm, including a period on its National Executive Committee. In addition to his chairmanship of Anglo Pacific, Mr. Blyth is vice-chairman of Erskine Hospital; board member of Wheatley Housing Group; and director of Haldane Property Company Ltd and Glasgow & Suburban Property Company Ltd. Mr. Blyth also acts as trustee for a number of small charities.

Chief Executive Officer

J.A. Treger

52, joined the Group as Chief Executive Officer and an Executive Director on October 21, 2013. He has an MBA from Harvard Business School and a BA from Harvard University. He began his career working for Lord Rothschild as an in-house corporate financier, managing a portfolio of public and private equity investments before co-founding Active Value Advisors Ltd. to invest in undervalued, predominantly UK-listed companies, where he advised on more than US$900.0m of funds over a 12-year period. Most recently, he has served as one of the principals of Audley Capital Advisors LLP, an investment advisory firm, which he co-founded in 2005, managing value-orientated, special situations investment strategies through hedge fund and co-investment vehicles, with a principal focus on the natural resources sector.

Chief Investment Officer

M.R. Potter

38, joined the Group as Chief Investment Officer and an Executive Director on October 21, 2013. He has a BA (Hons) and an MA degree in Engineering and Management Studies from Trinity College, University of Cambridge. After graduating, he became a Senior Analyst in the Investment Banking division of Schroder Salomon Smith Barney (Citigroup). From 2003 to 2005, he was an Associate at Dawnay Day advising on M&A, private equity and initial public offerings for UK-listed companies. Most recently, he has served as one of the principals of Audley Capital Advisors LLP, an investment advisory firm, which he joined at inception in 2005, where he has been primarily responsible for covering all natural resources investments held by the firm's flagship Audley European Opportunities Fund.

Senior Independent Director

D.S. Archer

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

Non-Executive Directors

R.C. Rhodes

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

R.H. Stan

61, was appointed Director in February 2014. He has over 34 years of experience in the mining industry. He has held several senior positions with Fording Coal Limited, Westar Mining Ltd, and TECK Corporation before becoming a founding shareholder and director of publicly quoted Grande Cache Coal Corporation (GCC), an Alberta-based metallurgical coal mining company, in 2000. At GCC, he served as President, CEO and Director from 2001 to 2012, when the company was sold for US$1 billion to Winsway Coking Coal and Marubeni Corp, an Asian-backed strategic investor consortium. He has served as Chairman of the Coal Association of Canada Board of Directors and has acted as a board member of the International Energy Agency's Coal Industry Advisory Board. He currently serves on the board of several private companies, including Quantex Resources Limited and Spruce Bluff Resources Limited, and formerly served on the board of publicly listed Whetstone Minerals Limited.

A.H. Yadgaroff

66, was appointed Director in March 2003 and previously chaired the Group's Remuneration Committee. He is a Member of the Chartered Institute for Securities and Investment, and has specialised in investment research and management consultancy during a 40-year City career. Allenbridge Group, which he founded in 1984 to provide advisory services to private and institutional investors, was acquired by Close Brothers in February 2011. He is Chairman of Allenbridge Investment Solutions LLP (AIS), and is a member of the partnership alongside Moody's, the global rating agency. AIS is a leading UK investment advisory business, consulting to pension funds and charity clients which control some £42 billion of assets.

The Board

Board evolution

During 2014, alongside the appointment of a Non-Executive Chairman, the Directors continued the process of Board rejuvenation and reinvigoration ahead of the next stage of the Group's development, with the transition handled in an orderly and progressive way.

As noted above, Mr. Wides stepped down from his role as Executive Director on May 8, 2014. Mr Wides carried out many roles for the Company during his tenure of nearly 17 years, including those of CEO and, latterly, Acting Chairman. The Board is especially grateful for the enormous contribution he made to the growth and development of the Group during that time. John Whellock, Mike Atkinson and Paul Cooke stood down as Non-Executive Directors during the year. In addition, Anthony Yadgaroff has indicated that he will be standing down at the end of 2015. Each has contributed his own valuable expertise to the work of the Board, and the Board is extremely grateful for the experience and wise advice they have provided.

During the year, following the recommendations of the Nomination Committee, the Board appointed Robert Stan, Rachel Rhodes and David Archer as Non-Executive Directors. Their respective experience is detailed on ➤ *page 37* and they are already making considerable contributions to the deliberations of the Board.

Appointment, development and assessment of directors

All Directors are subject to election by shareholders at the first opportunity after their appointment. Under the terms of the Company's Articles of Association, all Directors are required to retire and seek reappointment by shareholders at an AGM on the third anniversary of their appointment. Of the current Non-Executive Directors, Mr. Yadgaroff was not appointed to a specified term of office. Mr. Blyth, Mr. Stan, Ms. Rhodes and Mr. Archer were appointed on rolling three-year contracts, and the Board intends that all future Non-Executive Director appointments will be on similar terms. Notwithstanding this, it is the Board's intention that all Directors, including the Non-Executive Directors, shall be subject to re-election at each AGM.

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

Actual and potential conflicts of interest are regularly reviewed. Also, as permitted under the Companies Act 2006, the Company's Articles of Association contain provisions that enable the Board to authorise conflicts or potential conflicts that individual Directors may have and to impose such limits or conditions as the Board thinks fit.

The Company's Directors have a wide range of skills as well as appropriate 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. The Chairman regularly reviews the Directors' training needs and, where appropriate, the Group provides the resources to meet the Directors' requirements.

During the year, the Board undertook a formal and rigorous evaluation of its own performance and that of its Committees and individual Directors (including the Chairman), facilitated by PricewaterhouseCoopers. PricewaterhouseCoopers provide tax advice to the Company, but otherwise have no other connection with it. The outputs from this process were discussed at a Board away day in November and appropriate action plans put in place.

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

Functioning of the Board

The Chairman, in conjunction with the Company Secretary, is responsible for setting the Board's agenda and for ensuring that the Board receives accurate, timely and clear information. The agenda includes regular reports from the executive management and from the Board's committees on all matters relating to the running of the Group. The Chairman is also responsible for ensuring that adequate time is available for discussion of all agenda items and in particular strategic issues.

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

Directors' attendance at Board and Committee meetings which they were eligible to attend during 2014 was as follows:

	Full Board	Executive	Audit	Remuneration	Nomination
Total meetings held	16	14	7	2	3
Attendance:					
D.S. Archer[1]	5/5	–	–	1/1	1/1
M.H. Atkinson[2]	5/6	–	4/4	–	–
W.M. Blyth	15	–	7	2	3
P.M. Boycott[3]	–	–	–	–	–
P.N.R. Cooke[4]	8/11	–	–	–	–
M.R. Potter	15	13	–	–	–
R.C. Rhodes[5]	9/10	–	3/3	–	3
R.H. Stan[6]	13/13	–	5/5	2	2/2
J.A. Treger	16	14	–	–	–
J.G. Whellock[7]	6/6	–	4/4	–	–
A.H. Yadgaroff[8]	13	–	–	–	1/1
B.M. Wides[9]	5/6	3/4	–	–	–

[1] D.S. Archer was appointed to the Board and to the Remuneration and Nomination Committees on October 15, 2014.

[2] M.H. Atkinson resigned from the Board on June 11, 2014.

[3] P.M. Boycott passed away on January 7, 2014.

[4] P.N.R. Cooke resigned from the Board on October 15, 2014.

[5] R.C. Rhodes was appointed to the Board on May 8, 2014.

[6] R.H. Stan was appointed to the Board and to the Audit, Remuneration and Nomination Committees on February 19, 2014.

[7] J.G. Whellock resigned from the Board on June 11, 2014.

[8] A.H. Yadgaroff stepped down from the Nomination Committee on June 11, 2014.

[9] B.M. Wides resigned from the Board on May 8, 2014.

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 and an effective two-way communication with fund managers, institutional investors and analysts. The Chairman met with major shareholders during the year and the SID also maintained dialogue with a range of fund managers and institutions.

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2014 AGM and the active engagement of investors in asking about current business activity. At this year's AGM it is anticipated that all of the Directors, including the chairmen of the Audit, Remuneration and Nomination Committees, will be available to answer any shareholder questions.

Following the successful fundraise in February 2015, and the performance of the joint book runner in that process, the Board has appointed Macquarie Bank and Peel Hunt as joint brokers to work alongside BMO Capital Markets. The decision was also influenced by the increased Australian asset base of the Group following the completion of the Narrabri royalty acquisition. Following these appointments, the Board is satisfied that the UK, Australia and Canada, which are the three jurisdictions likely to make up most of our shareholder base, are well covered by brokers with significant local expertise.

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

Risk management and internal control

The Board retains overall responsibility for the Group's system of internal control and risk management and determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. A statement of Directors' responsibilities in respect of the financial statements is set out on ➤ *page 61*.

The Group's system of internal control is designed to provide the Directors with reasonable, but not absolute, assurance that the Group will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business, by circumstances that may reasonably be foreseen. However, no system of internal control can eliminate the possibility of poor judgement in decision-making, human error, fraud or other unlawful behaviour, management overriding controls, or the occurrence of unforeseeable circumstances and the resulting potential for material misstatement or loss.

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility and appropriate delegation of authority.
- There are established procedures for planning and approving investments and information systems for monitoring the Group's financial performance against budgets and forecasts.
- The Chief Financial Officer is required to undertake an annual assessment process, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls. The Audit Committee is responsible for reviewing the risk assessment process for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives reports about significant risks and associated control and monitoring procedures. The Group's internal controls and procedures documentation are regular agenda items for the Committee. The Committee also receives regular reports from the external auditors.
- The Audit Committee reports regularly to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives regular reports from its other Committees and directly from management in addition to carefully considering the Group's risk register at regular intervals.
- The system accords with the Financial Reporting Council's Internal Control: Revised Guidance for Directors on the Combined Code.

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2014 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.

Nomination Committee

Composition

Compliant with the Code:

W.M. Blyth – Chairman

D.S. Archer

R.C. Rhodes

R.H. Stan

M.H. Atkinson – resigned from the Board on June 11, 2014

A.H. Yadgaroff – stepped off the Committee on June 11, 2014

Role and responsibilities

The primary responsibilities of the Nomination Committee are to:

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

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

Diversity policy

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

The Board recognises the benefits of diversity and that its current composition is still deficient in several respects. One particular focus of the Committee has been to increase gender diversity on the Board and the appointment of Ms. Rhodes was a first step in this process. The Company continues to seek opportunities to promote both diversity to the Board and to maintain a policy to appoint positions on merit and the needs of the Group at any one time. The opportunities for developing and appointing women to Executive Directorships will be kept under review.

Committee meetings in 2014

The Committee met three times during the year and attendance at those meeting is detailed on ➤ *page 38*.

Main activities covered during 2014

The Nomination Committee was actively involved during 2014 in reviewing the structure, size and composition of the Board, in the light of the succession policies discussed earlier, the need to maintain a balance of appropriate skills and accepted best corporate governance practice. The Committee is responsible for identifying and nominating candidates for both Executive and Non-Executive Directorships for approval by the Board.

Although the Committee has the authority to use an external search consultancy or open advertising, it did not choose to do so in respect of all of the appointments made during 2014.

The background to Mr. Stan's appointment in March 2014 as Non-Executive Director and Mr. Blyth's appointment as Chairman in April 2014 was described in the Group's 2013 Annual Report.

In the case of Ms. Rhodes' appointment, the Committee was looking for a replacement for the finance and audit experience of Mr. Blyth, following his appointment as chairman. A shortlist of candidates was drawn up from internal sources and Ms. Rhodes was appointed following a thorough interviewing process.

For the appointment of Mr. Archer, the Board was seeking a candidate with mining experience across a range of commodities and jurisdictions coupled with prior Board experience. To assist with this, the Board employed the services of a search consultancy, Heidrick & Struggles.

W.M. Blyth
Chairman
March 24, 2015

Audit Committee

Composition

Compliant with the Code:

R.C. Rhodes – Chairman

W.M. Blyth

R.H. Stan

M.H. Atkinson – resigned from the Board on June 11, 2014

J.G. Whellock – resigned from the Board on June 11, 2014

Ms. Rhodes has chaired the Audit Committee since May 2014, being the date of her appointment to the Board. Ms. Rhodes replaced Mr. Blyth as Audit Committee chairman and has recent relevant financial experience as required by the Code.

The Committee members have a wide range of financial and commercial expertise, which the Board considers appropriate to fulfill the Committee's duties. Biographies of the Committee members are set out on ➤ *page 37*.

Roles and responsibilities

The primary responsibilities of the Audit Committee are to:

- monitor the integrity of the Company's annual and interim financial statements, the accompanying reports to the shareholders and corporate governance statements;
- make recommendations to the Board concerning the adoption of the annual and interim financial statements;
- review and challenge the consistency of, and any changes to, accounting policies, methods and standards;
- oversee the Group's relations with the external auditors, including the assessment of independence, and their effectiveness;
- make recommendations to the Board on the appointment, retention and removal of the external auditors and tendering of external audit services;
- advise the Board on the external auditor's remuneration for both audit and any non-audit work;
- review and monitor the reports from management on the principal risks of the Group outlined on ➤ *pages 12 to 13* and the management of those risks;
- monitor and review the adequacy and effectiveness of the Company's internal financial controls;
- consider the need for and manage the effectiveness of the Company's approach to internal audit; and
- review and monitor the environmental and social impact of the Company's activities, the Company's whistle-blowing procedure and the Company's systems and controls for the prevention of bribery.

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

Fair, balanced and understandable

A key requirement of our financial statements is for the report and accounts to be fair, balanced and understandable. The Audit Committee and the Board are satisfied that the Annual Report and Accounts meet this requirement as appropriate weight has been given to both positive and negative developments in the year.

In justifying this statement, the Audit Committee has considered the robust process which operates in creating the report and accounts, including:

- A thorough process of review, evaluation and verification by senior management, which considered and drew on best practice for the creation of the report and accounts and recommendations made by the FRC during their review earlier this year
- A meeting of the Audit Committee is held to review and consider the draft Annual Report and Accounts in advance of the final sign-off
- Final sign-off is provided by the Board of Directors.

Audit tender

The Group is in compliance with the current recommendations of the UK Corporate Governance Code around audit tendering: during the second quarter of the year the Group conducted a formal tender process following which Deloitte LLP were appointed as its new independent auditors. The Committee is satisfied, following a review, that the external auditor is effective, objective and independent.

Committee meetings in 2014

Under its term of reference, the Audit Committee is required to meet at least three times a year or more frequently as circumstances require. Meetings are attended by members of the Committee and, by invitation, the Chief Executive Officer and the Chief Financial Officer. Other relevant personnel are invited to attend certain meetings as required. The Company's auditors, Deloitte LLP, also attend by invitation.

The Committee met seven times during the year and attendance at those meetings is detailed on ➤ *page 38*.

Main activities covered during 2014

The Committee's activities focused on:

a) Financial reporting

The Audit Committee assists the Board in assuring the integrity of the financial statements. Following discussion with both management and the external auditor, the Committee determined the key risks and judgement areas for consideration during the year were:

Classification of royalties:

Management assessed the individual characteristics and contractual terms and conditions of each royalty arrangement entered into by the Group during the year, to ensure the classification was consistent with the Group's accounting policies, stated in note 1. The Committee reviewed and interrogated management's application of the policies and concluded the new royalties had been appropriately classified. The external auditor concurred with this classification.

Audit Committee

Impairment of royalties and the investment portfolio

An impairment review was carried out where indicators of impairment exist for specific royalty arrangements in accordance with the Group's accounting policy, stated in note 1.

Management assessed the carrying value of each royalty by comparing the estimated recoverable amount to its carrying value based on the most up to date production profiles, forecast commodity prices and using discount rates which reflected appropriate risk specific to the assets. Management disclosed to the Committee the assumptions used and also the sensitivity of valuation to key assumptions. The Committee reviewed and interrogated management's assumptions and determined the recoverable amount was appropriate. The external auditor explained their audit procedures and reported to the Committee that they considered the carrying value of assets was materially appropriate.

Valuation of royalties held at fair value

In accordance with its accounting policy, stated in note 1, management fair valued royalty arrangements held at fair value based on the most up to date production profiles, forecast commodity prices and using discount rates which reflected appropriate risk specific to the assets. The Committee reviewed and interrogated management's assumptions and determined the fair value was appropriate. The external auditor explained their audit procedures and reported to the Committee that they considered the fair value of royalties held at fair value was materially appropriate.

Assessment of the validity of the going concern assumption

The Committee reviewed financial forecasts provided by management, including sensitivity analysis to assess downside risk and its reasonably possible impact on committed liquidity.

The Committee concluded, taking account of reasonable possible changes in commodity prices, the operating performance of the Group's royalty projects and possible mitigating actions, that the Group has sufficient committed liquidity to fund its committed expenditure.

The quality and acceptability of accounting policies and practices:

The Committee receives reports from management outlining key accounting policies and practices.

As reported in the Interim financial statements, the Group concluded its dialogue with the FRC's Finance Reporting Review Panel regarding the application of its accounting policies for the classification of its royalty interests as intangibles and the recognition of impairments for equity AFS assets. No further adjustments were required to the financial statements following the conclusion of this review and additional disclosures are made in respect of the Group's accounting policies, as disclosed in note 1, below.

Material areas in which significant judgements have been applied

Includes accounting for the fair value of future royalty payments: to fair value royalty payments management has made assumptions over the expected production profile, grade, market price and discount rate.

The Committee has reviewed the assumptions presented by management and the work performed by the external auditor and has in each case concluded estimates were appropriate.

b) Internal control and risk management

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

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

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

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility and appropriate delegation of authority.
- There are established procedures for planning and approving investments and information systems for monitoring the Group's financial performance against budgets and forecasts.
- The Chief Financial Officer is required to undertake an annual assessment process, in conjunction with the Company Secretary, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls. The Audit Committee is responsible for reviewing the risk assessment process for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives regular reports about significant risks and associated control and monitoring procedures. The Group's risk register and internal controls and procedures documentation are regular agenda items for the Committee. The Committee also receives regular reports from the external auditors.
- The Audit Committee reports to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives reports from its other Committees and directly from management.
- The system accords with the Financial Reporting Council's Internal Control: Revised Guidance for Directors on the Combined Code.

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2014 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.

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

c) External audit

The Committee considers the effectiveness of the external audit process, the appointment of the external auditor and also assesses their independence on an ongoing basis.

As stated in the 2013 Annual Report, in line with best practice, the Committee conducted a full review of the effectiveness of the external audit following the completion of the year-end process. As a result of this review, the Group conducted an audit tender process in the second quarter, which resulted in the appointment of Deloitte as the new independent auditor. Resolutions to authorise the Board to reappoint the auditors and to determine their remuneration for the year ending December 31, 2015 will be proposed at the AGM on April 30, 2015.

To safeguard the objectivity and independence of the external audit process, the Committee adopted a policy whereby it would review and approve all fees related to non-audit services. This policy prohibits the auditors from providing certain services such as accounting or valuation services. Of the 2014 non-audit fees of £535,000, £499,000 related to Deloitte's services in relation to the shareholder circular for the Narrabri acquisition. Over half of this amount related to the historical financial information in the circular which was subject to a competitive tender. Of the remainder, a significant element would only be performed by the Group's auditor and for the balance, the Committee was satisfied there was a significant efficiency benefit from using the Group's auditors.

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

R.C. Rhodes
Chairman
March 24, 2015

Remuneration Committee

Composition

Compliant with the Code:

D.S. Archer – Chairman

W.M. Blyth

R.C. Rhodes

R.H. Stan

M.H. Atkinson – resigned from the Board on June 11, 2014

Role and responsibilities

The primary responsibilities of the Remuneration Committee are to:

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

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

External advisors

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

Committee meetings in 2014

The Committee met twice during the year and attendance at those meetings is detailed on › *page 38*.

Main activities covered during 2014

The Committee's activities focused on:

- the implementation of the Value Creation Plan ('VCP');
- determining fixed increases in the full time equivalent salaries of the CEO and CIO for implementation in 2015 and 2016;
- determining the maximum potential bonuses for 2014 and the associated performance scorecard criteria;
- granting of VCP allocations; and
- providing guidance to the CEO on bonuses to be awarded to his direct reports and their staff.

Directors' remuneration report

Dear Shareholder,

Our remuneration report is, as last year, in two parts: a statement of the Company's policy on Directors' remuneration, and an Annual Remuneration Report which describes how the policy was implemented in 2014. The Annual Remuneration Report will be subject to an advisory shareholder resolution at the Annual General Meeting ('AGM').

As the incoming Chairman of the Remuneration Committee I am pleased to report that there is an excellent established remuneration framework in place both with a short-term incentive plan and a Long-Term Incentive Plan ('LTIP').

The LTIP is in the form of a Value Creation Plan ('VCP') which provides awards of shares (in the form of nil cost share options) at the end of five years to the two Executive Directors and to other senior managers for increases in Total Shareholder Return ('TSR') at rates above 7% per annum. The LTIP supports the Company's ambitious growth strategy and the Remuneration Committee believes that the incentives offered are strongly aligned with shareholder interests.

In terms of short-term incentives, the CEO, the CIO and the CEO's direct senior reports have individually crafted bonus objectives which were agreed for the 2014 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance criteria which are scored out of a total of 100 points. This score is then applied to a maximum bonus calculated as a percentage of total salary. The percentages range from 100% to 170% depending on the executive's position and his level of individual participation in the VCP.

Bonuses were awarded to the CEO and CIO for the 2014 year and reflect both the major changes that have been effected to the Company and the successful, post balance sheet date acquisition of the Narrabri royalty.

Bonus criteria will be further tailored for the 2015 year, both to ensure that the bonus criteria closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

With respect to the LTIP, and, as anticipated in last year's Remuneration Report, the CEO and CIO were awarded 56% and 24% of the VCP allocation pool, with 10% to other executives and 10% remaining unallocated.

The main objectives for the Remuneration Committee in 2015 will be to:

- Review and refresh the Remuneration Policy having regard to the Investment Association's 2014 review of the Principles of Remuneration and the Principles themselves;
- Review and further tailor the senior executive bonus criteria for 2015; and
- Review and determine the most appropriate balance between salary and bonus for the senior executive.

More detail is provided in the body of the Remuneration Report and the Remuneration Committee hopes you will endorse the level of remuneration paid during 2014.

Yours sincerely

D.S. Archer
Chairman of the Remuneration Committee
March 24, 2015

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' and sets out the remuneration strategy that the Company applied during 2014 and intends to apply going forward. It has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders. The Policy Report was approved by shareholders at the 2014 AGM. It is structured in the following sections:

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

The second part, the Annual Remuneration Report for 2014, details the remuneration paid to Directors during 2014 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2015 AGM. It is structured as follows.

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

The information in sections A to G and I to M has been audited.

Directors' remuneration report

Remuneration policy report

A. Strategic overview and policy drivers

In our 2013 Report we reported some significant changes to our remuneration strategy following a number of Board changes. The strategy was, historically, based on the following Company specific elements, which continue to form the backdrop to the overall remuneration strategy:

- Long investment horizons (typically there can be an interval of between two and 10 years before a royalty comes on stream and the royalty may continue to flow for 20 years or more. As the business focus has increasingly shifted towards royalty acquisition, we have given greater weighting towards incentivising longer-term performance.
- No comparable peer group, certainly in the UK, for the purposes of benchmarking Director performance. As a result, our incentive plans are based on absolute performance rather than performance relative to other companies.
- A high ratio between its market capitalisation (£204.0m at December 31, 2013) and the number of its employees (13, as at March 28, 2014, of whom three were Executive Directors). The risk to the business of losing key employees is correspondingly significant, and we have traditionally regarded retention as an important objective of our remuneration strategy.

As reported in last year's report, a new executive management team was appointed in October 2013 with a view to, amongst other things, increase Total Shareholder Return ('TSR') over a five-year period. With the help of our remuneration consultants, a Value Creation Plan ('VCP') was constructed, discussed with major shareholders and ultimately approved at the 2014 AGM. More details of this scheme are included in section F below.

The VCP is based on the growth in the absolute TSR achieved over a five-year period from June 2014. We believe that this offers the most direct alignment of Directors' interests with those of shareholders. We have considered how far a TSR measure could lead to over- or under-rewarding due to the impact on the share price of factors outside management control, such as commodity price volatility. We believe this risk is limited, partly by the length of the performance period which comes close to covering a full commodity price cycle, partly by the relative predictability of royalty volumes and partly by the relatively large dividend component of the TSR expected to flow from the Company's revised dividend strategy. The performance target that has to be achieved before any options are awarded is considered challenging; and there is a powerful incentive for both outperformance and retention over the next five years. The Committee has also awarded certain senior non-Board managers some access to the LTIP.

To attract the new Executive Directors, the Company needed to offer basic salaries closer to market levels than the sub-lower quartile salaries of the past. However, they have been pre-set for the period through to December 2016 and, as part of the package, the cap on annual bonus has been reduced from 150% of salary to 100% whilst the bonus criteria have been made more transparent. The Committee keeps under review the bonus structure for non-Board senior managers to ensure a sensible relationship between Board and non-Board remuneration (see section I below).

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

The Committee considers shareholder feedback received in relation to the AGM each year. Details of votes cast for and against the resolution to approve last year's remuneration report are provided in the Annual Remuneration Report. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy. Feedback during 2013 included concern that the Company's JSOP did not reward performance above the hurdle rate and concern about its 'all or nothing' nature.

The Committee actively engaged with major shareholders on the remuneration of the new Directors, and was encouraged by the general support shown for the proposals on basic salary and annual bonus. Several changes were made to the LTIP in response to the constructive feedback received, which were included in the final plan approved by shareholders at the 2014 AGM. A remuneration framework was also established and remains in place for the next two years. If there is a need for a material change to the framework within this period, the Committee Chairman will consult major shareholders in advance.

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

C. The new remuneration policy for Executive Directors

The policy in respect of basic salary and annual bonus was approved at the 2014 AGM and outlined predetermined salary increases in 2015 and 2016. The LTIP covers a five-year period from the date of its grant (i.e. to mid-2019). The Committee expects to seek shareholder agreement in 2016 to a follow-on policy on basic salary and annual bonus, and probably also to further long-term incentive arrangements covering the period beyond 2018.

The Committee's specific policy for each element of remuneration is as follows:

Element, purpose and link to strategy	Operation	Maximum
Salary To recruit, retain and reward executives of a suitable calibre for the role and duties required	Salaries are set with reference to individual performance, experience and responsibilities to reflect the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general.	There is no prescribed maximum annual increase but salaries have been set for 2014 to 2016 on a full-time equivalent basis, as follows: £'000 — 2014 / 2015 / 2016 CEO — 360 / 380 / 400 CIO — 180 / 190 / 200
Pension and benefits To provide market competitive benefits	A Company contribution to a money purchase pension scheme, or a cash allowance in lieu of pension at the request of the individual. Other than a death in service policy which the Company subscribes to, no other benefits are provided. Executive Directors are entitled to 30 days' leave.	Pension: 10% of salary. Death in service policy: five times salary.
Annual bonus To encourage and reward delivery of the Company's operational objectives	The annual bonus will be paid wholly in cash with no deferred component, but with a provision for clawback. Up to 60% may be awarded for in-year achievement of corporate performance targets which are to be agreed by the Board at the beginning of the year. Up to 40% may be awarded for in-year achievement of personal performance targets which are to be agreed with the Chairman and the Committee. The Committee will use a balanced scorecard approach to assess performance against targets at the end of the year. The targets are discussed more fully at section D below.	The maximum annual bonus opportunity is 100% of salary.
Long-term incentives To encourage and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares and incentivise retention of key personnel	The LTIP takes the form of a VCP with a performance period of five years from the date of grant (i.e. to mid-2019). Awards will be subject to a TSR performance condition. The detailed design is discussed at section E below.	The maximum number of shares that can be awarded under the option grants equates to 7.5% of the Company's issued share capital as at the end of the measurement period. The Committee intends to allocate the pool as follows: CEO — 56% CIO — 24% Non-Board senior managers — 20%

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

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

Annual bonuses for 2014 and the two subsequent years are based on a scorecard of performance during the year. The scorecard sets challenging targets for triggering bonus, and for rewarding outperformance on a sliding scale. The scorecard will be split on a 60/40 basis between corporate objectives and personal objectives.

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

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

E. LTIP – Principal terms and conditions and reward scenarios

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

- All employees are eligible to participate in the VCP; although initial participation was limited to the two new Executive Directors together with other non-Board members of the senior management team at the discretion of the Committee acting in consultation with the CEO.
- No value accrues under the VCP to its participants unless growth in the Company's TSR over a five-year performance period is at least equal to 7% growth per annum (or approximately 40% total growth over the period).
- Subject to such threshold growth, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to a cap, set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the five-year period or, if less, 50% of the growth in the Company's TSR over the five-year period in excess of the threshold growth.

Directors' remuneration report

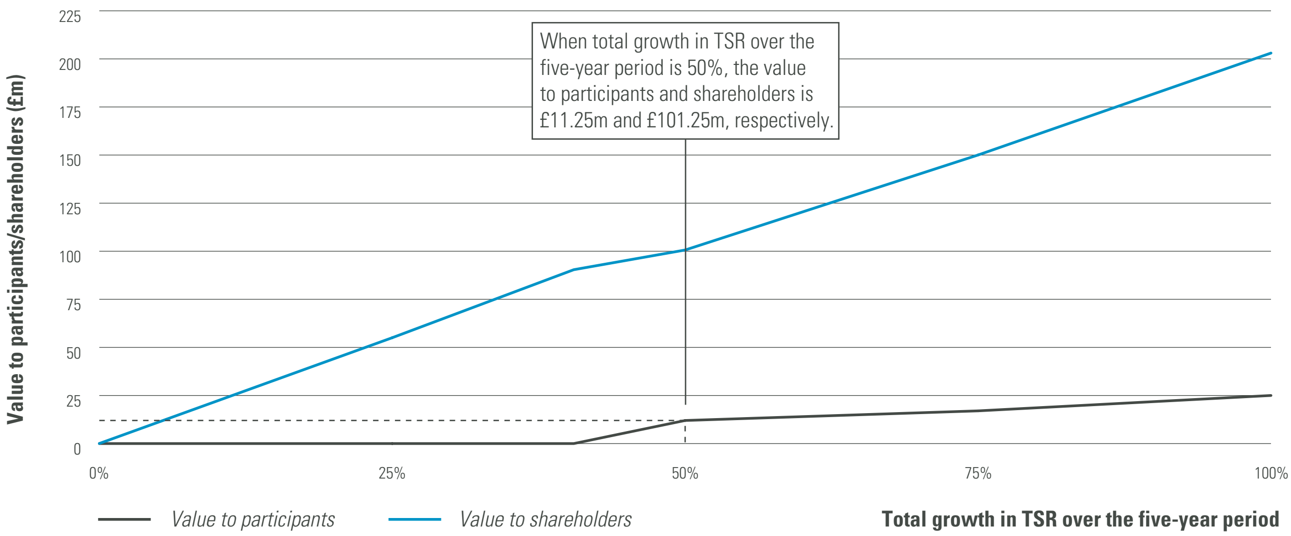
- The maximum number of shares to be awarded under the option grants will not be capable of exceeding such number equating to 7.5% of the Company's issued share capital as at the end of the measurement period. This cap would apply for total growth in TSR above 300%.
- This will mean that, if the total growth in TSR over the five-year period is:
  - below approximately 40%, no value accrues;
  - between approximately 40% and 50%, the value that accrues is equal to 50% of the growth in the Company's TSR over the five-year period in excess of the threshold growth;
  - between 50% and the 300% cap, the value that accrues is equal to 10% of the growth in the Company's TSR over a five-year period; and
  - above the cap, the value that accrues is equal to the value of 7.5% of the Company's issued share capital as at the end of the measurement period.
- Options to which participants become entitled at the end of the five-year period will become exercisable as follows:
  - One-third immediately;
  - One-third after 12 months;
  - One-third after 24 months.
- Awards were made following shareholder approval of the VCP at the 2014 AGM, and no other grants to the Executive Directors under the VCP are planned during the five-year plan period; although the Committee will have discretion to dilute the pool by an additional 10% for new joiners.
- The Committee intends to allocate the pool as follows:
  - CEO: 56%
  - CIO: 24%
  - Non-Board senior managers: 20%

The following table and graph illustrates the potential return for participants and shareholders for various levels of growth in TSR over the five-year period:

		Benefit assuming total growth in TSR over a five-year period of:				
	Allocation of pool	50%	75%	100%	150%	300%
CEO	56%	£6.3m	£9.45m	£12.6m	£18.9m	£37.8m
CIO	24%	£2.7m	£4.05m	£5.4m	£8.1m	£16.2m
Others	20%	£2.25m	£3.375m	£4.5m	£6.75m	£13.5m
Total	100%	£11.25m	£16.875m	£22.5m	£33.75m	£67.5m
Share-holders*		£101.25m	£151.875m	£202.5m	£303.75m	£607.5m

*Based on starting market capitalisation of £225.0m

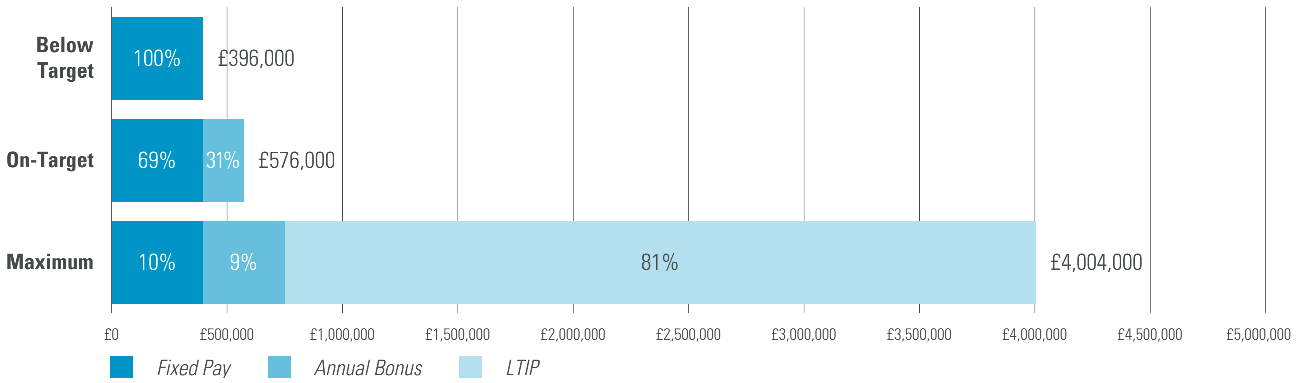
Value to participants at different levels of performance



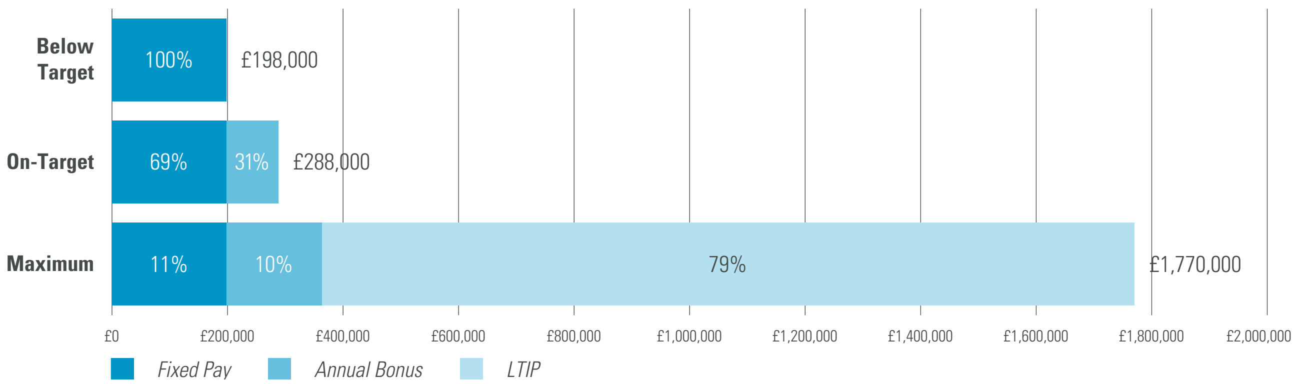
F. Reward scenarios

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

CEO total remuneration at different levels of performance (£'000)



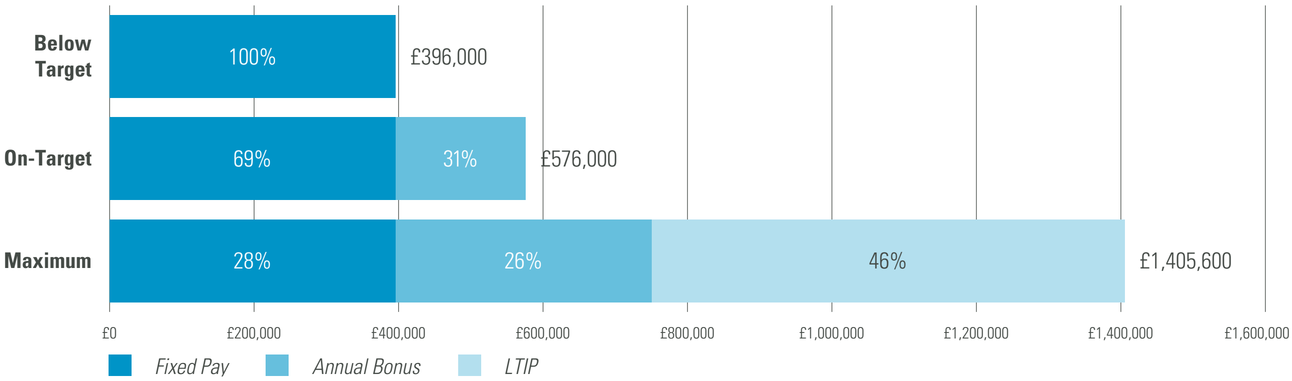
CIO total remuneration at different levels of performance (£'000)



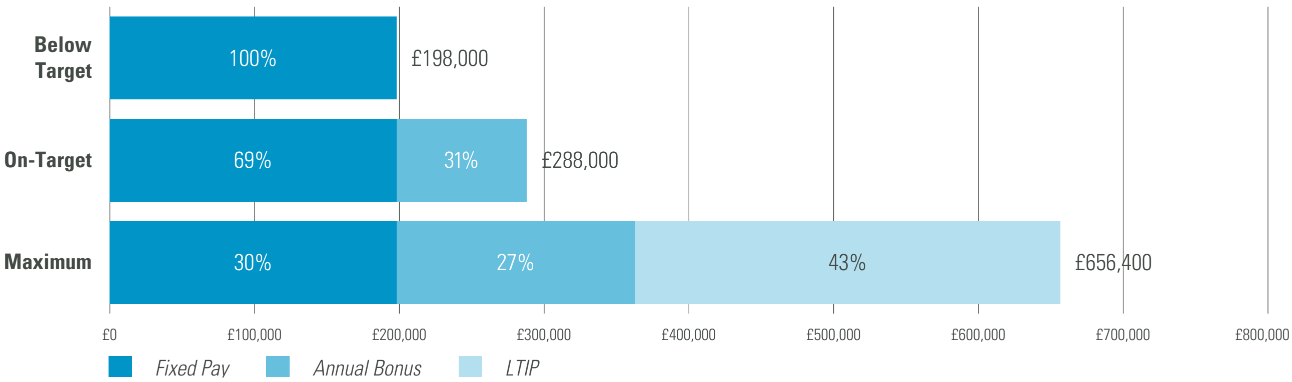
The LTIP, which was approved by shareholders at the 2014 AGM, is a one-off five-year plan and it is anticipated that no other awards will be made to the CEO and CIO under the LTIP during the performance period. The charts on the previous page illustrate the total pay opportunities if the five-year LTIP (equivalent to five separate awards, one in each year of the performance period) was included in full in the year of grant. To aid comparability with standard LTIP structures, there are additional charts below reflecting the total pay opportunities if the LTIP was included on an annualised basis.

Directors' remuneration report

CEO total remuneration at different levels of performance



CIO total remuneration at different levels of performance



Assumptions:

- Below Target = fixed pay only (salary + benefits + pension);
- On-target = fixed pay, 50% vesting of the annual bonus and 0% of the LTIP awards (i.e. the value that accrues for threshold performance);
- Maximum = fixed pay and 100% vesting of the annual bonus and LTIP awards;
- Salary levels (on which other elements of the package are calculated) are based on those which applied from January 22, 2014. Salary for the CEO is on a full-time equivalent basis. The Executive Directors do not receive any taxable benefits; and
- The fair value of the LTIP has been calculated using a Black-Scholes model using assumptions that, at grant, the market capitalisation is £209.0m and that there are 110.9m shares in issue.

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

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

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

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

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

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

The remuneration framework of non-Board employees will be reviewed for 2015 and subsequent years in the light of the overall remuneration package shareholders agree for the new Executive Directors. There are likely to be two main differences:

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

I. Approach to appointment of new Executive Directors

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

The salary for a new Executive Director may be set below the normal market rate, with phased increases following an initial probationary period and over the first few years as the executive gains experience in their new role. This is the salary profile applied to the two Executive Directors appointed in 2013.

The Committee may offer new appointees additional cash and/or share-based elements when it considers these to be in the best interests of the Company and its shareholders, including the use of awards made under 9.4.2 of the Listing Rules. Such payments would take account of remuneration relinquished when leaving the former employer and would reflect (as far as practicable) the nature and time horizons attaching to that remuneration and the impact of any performance conditions. Shareholders will be informed of any such payments at the time of appointment.

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

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

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

J. Service contracts and payments for loss of office

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

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

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

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

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

Directors' remuneration report

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

K. Non-Executive Directors

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

The Committee's specific policy is as follows:

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

Mr. Yadgaroff has a letter of appointment for an indefinite term, although it may be terminated by either party subject to one month's notice. Mr. Blyth, Mr. Archer, Ms. Rhodes and Mr. Stan were appointed on rolling three-year contracts with a one-month notice period and the Board intends that all future Non-Executive Directors' appointments will be on similar terms. None of the letters of appointment have provisions that relate to a change of control of the Company.

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

Non-Executive	Date of appointment	Notice period
W.M. Blyth	March 20, 2013	One month
D.S. Archer	October 15, 2014	One month
R.H. Stan	February 19, 2014	One month
R.C. Rhodes	May 8, 2014	One month
A.H. Yadgaroff	May 19, 2003	30 days

L. Legacy arrangements

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

Annual Remuneration Report for 2014

This part of the report details the remuneration paid to Directors during 2014 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2015 AGM. The information in sections A to G and I to M has been audited.

A. Single figure for total remuneration

		Salary/fees £'000	Benefits £'000	Total bonus £'000	Pension/cash allowance[14] £'000	Other £'000	Total remuneration £'000
Executive Directors							
J.A. Treger[1]	2014	248	–	160	24	–	432
	2013	39	–	–	–	–	39
M.R. Potter[2]	2014	179	–	113	6	–	298
	2013	31	–	–	–	–	31
Non-Executive Directors							
W.M. Blyth[3]	2014	81	–	–	–	–	81
	2013	30	–	–	–	–	30
D.S. Archer[4]	2014	8	–	–	–	–	8
	2013	–	–	–	–	–	–
R.H. Stan[5]	2014	33	–	–	–	–	33
	2013	–	–	–	–	–	–
R.C. Rhodes[6]	2014	25	–	–	–	–	25
	2013	–	–	–	–	–	–
A.H. Yadgaroff	2014	38	–	–	–	–	38
	2013	38	–	–	–	–	38
Former Directors							
B.M. Wides[7]	2014	121	–	–	–	–	121
	2013	129	–	–	12	–	141
P.M. Boycott[8]	2014	3	–	–	–	–	3
	2013	130	–	–	13	–	143
J. Theobald[9]	2014	–	–	–	–	–	–
	2013	174	2	–	17	–[15]	193
A.C. Orchard[10]	2014	–	–	–	–	–	–
	2013	134	2	–	14	–[15]	150
M.H. Atkinson[11]	2014	19	–	–	–	–	19
	2013	42	–	–	–	–	42
P.N.R. Cooke[12]	2014	28	–	–	–	–	28
	2013	36	–	–	–	–	36
J.G. Whellock[13]	2014	19	–	–	–	–	19
	2013	38	–	–	–	–	38

1) J.A. Treger was appointed to the Board on October 21, 2013.

2) M.R. Potter was appointed to the Board on October 21, 2013.

3) W.M. Blyth was appointed Non-Executive Chairman on April 1, 2014.

4) D.S. Archer was appointed to the Board on October 15, 2014.

5) R.H. Stan was appointed to the Board on February 19, 2014.

6) R.C. Rhodes was appointed to the Board on May 8, 2014.

7) B.M. Wides resigned from the Board on May 8, 2014.

8) P.M. Boycott passed away on January 7, 2014.

9) J. Theobald resigned from the Board on October 21, 2013.

10) A.C. Orchard resigned from the Board on October 21, 2013.

11) M.H. Atkinson resigned from the Board on June 11, 2014.

12) P.N.R. Cooke resigned from the Board on October 15, 2014.

13) J.G. Whellock resigned from the Board on June 11, 2014.

14) J.A. Treger, M.R. Potter and J. Theobald received contributions toward pension plans, all other amounts were cash payments in lieu of pension.

15) J. Theobald and A.C. Orchard received payments in lieu of notice in 2013 of £63,333 and £70,833 respectively, termination payments of £95,000 and £85,000 respectively (paid in 2014) and £2,400 each towards legal advice.

Directors' remuneration report

B. Annual bonus for the year ending December 31, 2014

The CIO and the CEO's direct senior reports have individually crafted bonus objectives which were agreed for the 2014 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance criteria which are scored out of a total of 100 points. This score is then applied to a maximum bonus calculated as a percentage of total salary. The percentages range from 100% to 170% depending on the executive's position and his level of individual participation in the VCP.

Bonuses were awarded to the CEO and CIO of £160,000 and £113,000 respectively for the 2014 year and reflect both the major changes that have been effected to the Company and the successful, post balance sheet date acquisition of the Narrabri royalty, which was at an advanced stage of certainty at the year end. The CEO scorecard was 64% and the CIO scorecard was 63%.

Bonus criteria will be further tailored for the 2015 year to ensure that the bonus criteria closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

C. Vesting of long-term incentive awards

As flagged in the 2013 Annual Report, awards under the VCP out of the pool to Executive Directors were 56% to the CEO and 24% to the CIO.

Long-term incentive awards made during the year

There were no awards granted to Executive Directors under either the JSOP or the CSOP in 2014.

Outstanding share awards

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

D. Directors' shareholding and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company, so as to ensure the alignment of their interest with those of shareholders, but there is no formal shareholding guideline. In addition, the proposed new VCP is designed to increase this alignment. The Chairman and Non-Executive Directors are also encouraged to hold shares in the Company although the Chairman and independent Non-Executive Directors are expected to ensure that the level of their shareholding is not significant and cannot call into question their continuing independence.

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

			Not subject to performance conditions		Subject to performance conditions	
	Beneficially owned at March 25, 2015	Beneficially owned at December 31, 2014	LTIP	Deferred bonus shares	LTIP	Deferred bonus shares
Executive Directors						
J.A. Treger	5,391,454	1,199,389	–	–	–	–
M.R. Potter	121,473	100,000	–	–	–	–
Non-Executive Directors						
W.M. Blyth	61,372	20,600	–	–	–	–
R.C. Rhodes	–	–	–	–	–	–
R.H. Stan	73,540	–	–	–	–	–
D.S. Archer	–	–	–	–	–	–
A.H. Yadgaroff	180,501	180,501	–	–	–	–

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

E. Total pension entitlements

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

During 2013, the Company paid additional basic salary (or fees) in lieu of pension contribution to Mr. Boycott, Mr. Wides and Mr. Orchard.

F. Loss of office payments

There were no loss of office payments made in 2014.

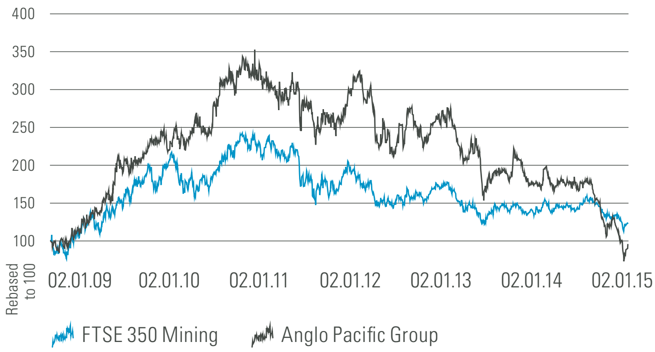
G. Percentage increase in the remuneration of the CEO

CEO £'000	2014	2013	% change
– salary	356	213[1]	67%
– benefits	3	2	0%
– bonus	160	–	–
Average per employee £'000			
– salary	78	75	4%
– benefits	–	–	–
– bonus	58	13	353%

[1] This reflects the salary for Mr. Theobald up until October 21, 2013, the date Mr. Theobald resigned from the Board and Mr. Treger joined, and the salary (on a full-time equivalent basis) for Mr. Treger thereafter.

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

H. Total shareholder return



The performance of the Company's ordinary shares compared with the FTSE 350 Mining Index for the five-year period ended on December 31, 2014 is shown in the graph above. Both have been rebased at the start of the period in order to provide a graphical measure of comparative performance.

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

The middle market price of an ordinary share on December 31, 2014 was 100p. During the year the share price ranged from a low of 75p to a high of 205p.

Directors' remuneration report

I. Total remuneration for the CEO over time

	2009	2010	2010	2011	2012	2013	2013	**2014**
	B.M. Wides		J. Theobald[1]				J.A. Treger[2]	**J.A. Treger**
Total remuneration (£'000)	197	155	69	253	209	193[3]	39	432
Bonus outturn (%)	N/A[4]	N/A[4]	N/A[4]	37	–	–	–	64%
Bonus (£'000)	75	76	38	84	–	–	–	160
LTIP vesting (%)	–	–	–	–	–	–	–	–

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

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

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

[4] For 2009 and 2010, this is not applicable as there were no caps in place.

The chart above shows the total remuneration for the CEO during each of the financial years. The total remuneration figure includes the annual bonus. No LTIP awards vested. The bonus outturn percentage is expressed as a percentage of the cap, where applicable, for the period in question. As there were no caps on bonus in 2009 and 2010, the actual bonus payable based on performance in those years has been included for information in the table.

J. Relative importance of spend on pay

(£m)	**2014**	2013	% increase
Staff costs	3.66	2.04	79.4%
Dividends	11.53	11.07	4.2%

K. External directorships

None of the Executive Directors held any external directorships for which they earned fees during the year.

L. 2015 salary review

The Executive Directors' FTE salaries were reviewed in January 2014, following the initial probationary period (see Section J of the policy report). The increases took effect from January 22, 2014 and the current salaries (on a full-time equivalent basis) are as follows:

Current salaries for the Executive Directors

Executive	**FTE Salary as at January 1, 2015**	FTE Salary as at January 22, 2014[1]	Increase
J.A. Treger	380,000	360,000	5.6%
M.R. Potter	190,000	180,000	5.6%
B.M. Wides[2]	–	141,400	n/a

[1] Salaries at January 22, 2014 reflect the completion of a probation period.

[2] B.M. Wides resigned from the Board on May 8, 2014.

M. Fees for the Chairman and Non-Executive Directors

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

	2015	2014	% Increase
Chairman	95,000	95,000	n/a
Base fee	38,000	36,000	5.6%
Senior Independent Director	48,000	42,000	14.3%
Committee Chairman	43,000	38,000	13.2%
Committee Member	40,000	38,000	5.3%

Up to the end of March 2014, the Chairman was a part-time Executive Director post, and the Chairmanship component was not separately remunerated. On March 28, 2014, the Company announced the appointment of Mr. Blyth as Non-Executive Chairman with effect from April 1, 2014. On the recommendation of the other members of the Remuneration Committee, his fee was set at £95,000 per annum for a two-year period, having regard to the time commitment required (six days a month) and the level of fees in similar companies.

Members of the main Board Committees are paid an additional amount, currently £2,000 per annum, to reflect extra commitments, with a Committee Chair receiving a further £3,000. The SID also receives a further additional fee, currently £5,000 per annum, to reflect his extra duties.

N. Performance targets for the annual bonus and LTIP awards to be granted in 2014 and beyond

Annual bonuses and long-term incentive awards for 2014 have been made in accordance with the new policy, further details of which are detailed in the Remuneration Policy Report.

Annual bonuses in 2014 were based on a scorecard of performance during the year, and a similar scorecard approach will continue in 2015. The scorecard will set challenging targets for triggering bonus, and for rewarding outperformance on a sliding scale. The scorecard will be split on a 60/40 basis between corporate objectives and personal objectives. Corporate objectives for 2015 will cover areas such as business performance, funding and finance, relationships and reputation.

The Committee has chosen not to disclose the performance targets for the forthcoming year in advance as these include items which the Committee considers commercially sensitive. Retrospective disclosure of the targets and performance against them will be provided in next year's Annual Remuneration Report.

Long-term incentive awards for 2014 were made under a one-off VCP with a five-year performance period from the date of grant (i.e. to mid-2019). No value accrues under the VCP to its participants unless growth in the Company's TSR over the performance period is at least equal to 7% growth per annum (or approximately 40% total growth over the period).

O. Statement of shareholder voting

At last year's AGM held on June 11, 2014, the Directors' remuneration report was approved by shareholders on a show of hands. Details of the valid proxy votes received for the resolution are detailed below:

	Votes	Percentage
Votes cast in favour (including proxy appointments that gave discretion to the Chairman)	61,018,869	83%
Votes cast against	12,131,478	17%
Total votes cast (excluding votes directed to be withheld)	73,150,347	100%
Votes withheld	944,923	

Approval

This report was approved by the Board on March 24, 2015 and signed on its behalf by

D.S. Archer
Chairman of the Remuneration Committee

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended December 31, 2014.

Principal activities

The Group's principal royalty activities are set out in the Strategic Report on ➤ *pages 4 and 5*.

Going concern

The financial position of the Group and its cash flows are set out on pages 67 and 70. As at December 31, 2014, the Group had no borrowings and an undrawn US$15.0m unsecured revolving credit facility. As discussed in note 31, on February 27, 2015, the Group has announced the completion of a firm placing and placing and open offer raising £39.5m, together with securing a new US$30.0m three-year secured revolving credit facility. The combined financing package was largely used to finance the acquisition of a US$65.0m royalty along with providing additional working capital to the Group.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2016. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance and other uncertainties, the proceeds received from the new share issue and the undrawn facilities, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Results and dividends

The consolidated income statement is set out on ➤ *page 65* of the financial statements.

The Group reported a loss after tax of £47.6m (2013: £42.5m).

Total dividends for 2014 will amount to 8.45p per share (2013: 10.2p per share), combining the recommended final dividend of 4.00p per share for the year ended December 31, 2014 with the interim dividend of 4.45p per share paid on February 4, 2015. The final dividend for the year ended December 31, 2014, is subject to shareholder approval at the 2015 Annual General Meeting ('AGM'). The Board proposes to pay the final dividend on August 7, 2015 to shareholders on the Company's share register at the close of business on June 19, 2015. The shares will be quoted ex-dividend on the London Stock Exchange on June 25, 2015, and the Toronto Stock Exchange on June 24, 2015. At the present time the Board has resolved not to offer a scrip dividend alternative.

Directors

The names of the Directors who served during the year, together with their biographical details and other information, are shown on ➤ *page 37*.

All Directors will stand for re-election at the 2015 Annual General Meeting.

A table of Directors' attendance at Board and Committee meetings during 2014 is on ➤ *page 38*.

Directors' disclosures

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. At the next AGM, 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 2014 AGM, held on June 11, 2014, the Directors were given the power to issue new shares up to an aggregate nominal amount of £739,249. This power will expire at the earlier of the conclusion of the 2019 AGM or June 12, 2019. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 11,088,742. This power will expire at the earlier of the conclusion of the 2015 AGM or December 11, 2015.

At the AGM, held on June 11, 2014, the Directors were given the power to allot equity shares or sell treasury shares for cash other than pro-rata to existing shareholders. This power was limited to 5% of the Company's issued ordinary share capital (other than in connection with a rights or other similar issue) and will expire at the earlier of the conclusion of the 2015 AGM or September 11, 2015.

In addition to the authorities set out above, at the general meeting held on February 26, 2015, the Directors were given the power to issue new shares up to an aggregate nominal amount of £1,070,205, such authority to expire on the earlier of the Company's next annual general meeting or August 26, 2015.

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

Capital structure

The structure of the Company's ordinary share capital at March 20, 2015 was as follows:

	Issued No.	Nominal value per share	Total	% of total capital
Ordinary shares	169,942,034	0.02	3,398,840	100%

Change of control

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

Rights and obligations

Dividends

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

Voting rights

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

Restrictions on transfer of holdings

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

Special control rights

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

Employee share schemes

Details of employee share schemes are set out on ➤ *page 47* below and in note 25 to the financial statements.

Treasury

No shares are currently held in treasury by the Company.

Warrants

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

Allotment of ordinary shares

On June 5, 2014, the Company issued 5,544,371 new ordinary shares of £0.02 each ('Ordinary Shares') at a price of 180 pence per share amounting to an aggregate nominal value of £110,887.42 and aggregate consideration of £9,979,867.80. The issue price was fixed on June 2, 2014 and represented a small premium of less than 1% to the closing middle market price on the London Stock Exchange of 179 pence per share on May 30, 2014. The net proceeds were used to fund a portion of the cash consideration payable for the acquisition of the Maracás royalty, further details of which are set out on ➤ *page 96*.

Directors' report

On February 27, 2015, the Company issued 49,375,000 new Ordinary Shares at a price of 80 pence per share amounting to an aggregate nominal value of £987,500 and aggregate consideration of £39,500,000 as part of a firm placing, placing and open offer announced on February 4, 2015. The issue price was fixed on February 6, 2015 and represented a discount of approximately 3.6% to the closing middle market price on the London Stock Exchange of 83 pence per share on February 5, 2015. The net proceeds were used to provide the majority of funding for the acquisition of the Narrabri royalty, further details of which are set out on ➤ *page 105*. 15,460,557 of the shares issued were pursuant to the open offer, representing approximately 68% of the maximum shares available under the open offer. The 7,164,443 shares not applied for pursuant to the open offer were taken up by placees under the placing, with the remaining 26,750,000 shares being issued pursuant to the firm placing.

On March 12, 2015, the Company issued 4,135,238 new Ordinary Shares at a price of 80 pence per share amounting to an aggregate nominal value of £82,704.76 and aggregate consideration of £3,308,190.40. The issue price was fixed on February 6, 2015 and represented a discount of approximately 3.6% to the closing middle market price on the London Stock Exchange of 83 pence per share on February 5, 2015. The shares comprised part of the consideration for the acquisition of the Narrabri royalty, further details of which are set out on ➤ *page 105*.

As a result of the preceding issuances, the Company has issued 36,429,609 new Ordinary Shares other than as part of a pre-emptive offer in the 12 months preceding the date of this Annual Report, representing approximately 21% of the Company's share capital as at the date of this Annual Report. The Company has issued a further 1,698,210 new Ordinary Shares other than as part of a pre-emptive offer in the three years preceding the date of this Annual Report, representing an aggregate of approximately 22% of the Company's share capital as at the date of this Annual Report.

Substantial shareholdings

The Company has been notified, aside from the interests of the Directors, of the following interests of 3% or more in the share capital of the Company at March 20, 2015.

	Ordinary Shares of 2p each	Representing
Liontrust Investment Partners LLP	17,388,541	10.48%
Ransome's Dock Limited	7,489,360	4.51%
Aberforth Partners LLP	6,549,032	3.94%
Schroders PLC	5,501,515	3.31%
AXA Investment Managers UK	5,494,332	3.31%
Kings Chapel International Ltd*	5,235,204	3.15%

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

See ➤ *page 54* for a list of Directors' interests in shares.

Statement as to disclosure of information to auditors

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

Other statutory and regulatory information

Information in relation to the Group's payment policy can be found in note 23 and a statement on Going Concern is provided in note 3.1.1.

Auditors

Deloitte LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 (United Kingdom) a resolution to appoint auditors will be proposed at the 2015 AGM.

Designated Foreign Issuer status

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

By Order of the Board

K. Flynn
Company Secretary
March 24, 2015

Registered office
1 Savile Row
London
W1S 3JR

Statement of Directors' responsibilities

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, International Accounting Standard 1 requires that Directors:

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

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

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

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

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

By Order of the Board

W.M. Blyth
Chairman
March 24, 2015

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

Opinion on financial statements of Anglo Pacific Group PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at December 31, 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheet, the Consolidated and Company statement of changes in equity and the Consolidated and Company cash flow statement and the related notes 1 to 32.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Directors' report on ➤ *page 58* that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the company's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
Classification of new royalty arrangements acquired in transactions during 2014 (note 2) Anglo Pacific Group entered into one new royalty agreement in the year for a 2% net smelter royalty on all mineral products sold on the Maracás project which is 99.97% owned by Largo Resources Limited. The accounting treatment for each royalty arrangement entered into by Anglo Pacific Group is a key area of judgement as the underlying terms of each arrangement are often complex and bespoke in nature in terms of how the Group will achieve a return on its investment.	We have assessed management's accounting treatment for all royalty arrangements entered into in the year through obtaining the underlying agreement and reviewing the key terms and conditions.
Impairment assessment of the royalty and investment portfolio (notes 13, 16 and 17) As a consequence of the volatility in current commodity prices, the assessment of the recoverable amount of royalty arrangements accounted for as intangible assets, property, plant, equipment and available for sale equity financial instruments and loans and receivables to mining and exploration companies are key judgements. The recoverable amount of valuations are often subjective and contain significant levels of judgement in relation to the discount rates used, the forecast commodity prices and the expected production profiles. In the year impairments totalling £31.5m have been recognised at Amapá, Bulqiza, Trefi, Shetland Talc and certain of the Group's available-for-sale equity financial instruments (see notes 13, 16 and 17).	We challenged management's assessment as to whether indicators of impairment exist for specific royalty arrangements through discussions with management, review of publically available information and discussions with the entity's third party specialists. Where such indicators were identified, we obtained copies of the valuation models and challenged the assumptions made by management in relation to these models by comparison to third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports. We also considered management's assessment of whether projects still in the development phase would reach production. For loans and receivables we challenged management's assessment of recoverability based on the publically available financial statements and interest payments received.
Valuation of royalty arrangements held at fair value (note 15) Royalties arrangements held at fair value, which have a value of £8.1m at December 31, 2014, have a material impact on the financial statements. The valuations are often subjective and contain significant levels of judgement in relation to the discount rates used, the forecast commodity prices and the expected production profiles.	We obtained the valuation models used by management to determine the fair value of royalty arrangements held at fair value. We challenged the assumptions made by management by comparison to recent third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee, discussed on ➤ *pages 41 and 42*.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

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

We determined materiality for the Group to be £3.0m, which represents 2% of equity. In 2013 the previous auditors determined materiality as £2.6m, which equated to 1% of total assets.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £60,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

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

Christopher Thomas ACA
(Senior statutory auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom
March 24, 2015

Consolidated income statement

for the year ended December 31, 2014

	Notes	2014 £'000	2013 £'000
Royalty related income	*4*	3,481	14,731
Amortisation of royalties	*16*	(759)	(854)
Operating expenses	*5(a)*	(5,524)	(3,275)
Operating (loss)/profit before impairments, revaluations and gain/(losses) on disposals		**(2,802)**	**10,602**
Gain/(Loss) on sale of mining and exploration interests	*17*	1,350	(6,398)
Gain on disposal of coal tenures	*13*	1,409	–
Impairment of mining and exploration interests	*17*	(4,873)	(26,321)
Impairment of royalty and exploration intangible assets	*16*	(10,033)	(8,313)
Impairment of royalty financial instruments	*15*	(15,288)	–
Impairment of property, plant and equipment	*13*	(1,352)	–
Revaluation of coal royalties (Kestrel)	*14*	(11,822)	(13,568)
Revaluation of royalty financial instruments	*15*	–	(8,735)
Finance income	*7*	439	789
Finance costs	*8*	(1,408)	(2,964)
Other income	*9*	1,981	2,012
Loss before tax		**(42,399)**	**(52,896)**
Current income tax charge	*10*	(1,386)	(715)
Deferred income tax (charge)/credit	*10*	(3,804)	11,114
Loss attributable to equity holders		**(47,589)**	**(42,497)**
Total and continuing loss per share			
Basic and diluted loss per share	*11*	(42.09p)	(39.01p)

The notes on ➤ *pages 71 to 106* 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 loss for the parent company for the year was £20,684,000 (2013: £25,506,000).

Consolidated statement of comprehensive income

for the year ended December 31, 2014

	Notes	2014 £'000	2013 £'000
Loss attributable to equity holders		**(47,589)**	**(42,497)**
Items that will not be reclassified to profit or loss		–	–
Items that have been or may be subsequently reclassified to profit or loss			
Available-for-sale investments			
Revaluation of available-for-sale investments		(8,640)	(36,749)
Reclassification to income statement on disposal of available-for-sale investments		(1,350)	6,398
Reclassification to income statement on impairment		4,873	26,321
Deferred tax relating to items that have been or may be reclassified	22	1,034	(171)
Net exchange loss on translation of foreign operations		(2,710)	(28,923)
Other comprehensive loss for the year, net of tax		**(6,793)**	**(33,124)**
Total comprehensive loss for the year		**(54,382)**	**(75,621)**

The notes on *pages 71 to 106* are an integral part of these consolidated financial statements.

Consolidated balance sheet and Company balance sheet

as at December 31, 2014

	Notes	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Non-current assets					
Property, plant and equipment	13	153	1,989	153	846
Coal royalties (Kestrel)	14	117,097	131,434	–	–
Royalty financial instruments	15	8,142	27,847	8,142	12,839
Royalty and exploration intangible assets	16	37,110	37,288	2,349	3,050
Mining and exploration interests	17	9,896	20,072	6,190	13,975
Deferred costs	18	1,462	–	1,381	–
Investments in subsidiaries	19	–	–	36,973	45,475
Other receivables	20	9,657	8,775	22,318	12,351
Deferred tax	22	2,307	8,837	5	8,016
Total non-current assets		185,824	236,242	77,511	96,552
Current assets					
Trade and other receivables	20	5,272	5,332	15,681	19,128
Cash and cash equivalents	21	8,769	15,706	1,996	4,106
Total current assets		14,041	21,038	17,677	23,234
Total assets		**199,865**	**257,280**	**95,188**	**119,786**
Non-current liabilities					
Other payables	23	83	–	83	–
Deferred tax	22	34,908	39,202	1,206	2,244
Total non-current liabilities		34,991	39,202	1,289	2,244
Current liabilities					
Income tax liabilities		687	465	623	465
Trade and other payables	23	2,937	762	2,883	696
Total current liabilities		3,624	1,227	3,506	1,161
Total liabilities		**38,615**	**40,429**	**4,795**	**3,405**
Capital and reserves attributable to shareholders					
Share capital	24	2,329	2,218	2,329	2,218
Share premium	24	29,328	29,328	29,328	29,328
Other reserves		15,832	12,509	12,289	6,258
Retained earnings		113,761	172,796	46,447	78,577
Total equity		**161,250**	**216,851**	**90,393**	**116,381**
Total equity and liabilities		**199,865**	**257,280**	**95,188**	**119,786**

The notes on ➤ *pages 71 to 106* are an integral part of these consolidated financial statements.

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on ➤ *pages 65 to 106* were approved by the Board and authorised for issue on March 24, 2015 and are signed on its behalf by:

W.M. Blyth
Chairman

J.A. Treger
Chief Executive Officer

Consolidated statement of changes in equity

for the two years ended December 31, 2014

			Other reserves								
	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Investment revaluation reserve £'000	Share-based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
January 1, 2013	2,192	26,853	–	–	9,771	354	37,673	632	(2,601)	226,090	300,964
Loss for the year	–	–	–	–	–	–	–	–	–	(42,497)	(42,497)
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	–	–	–	–	(36,749)	–	(542)	–	–	–	(37,291)
Transferred to income statement on disposal	–	–	–	–	6,398	–	–	–	–	–	6,398
Transferred to income statement on impairment	–	–	–	–	26,321	–	–	–	–	–	26,321
Deferred tax	–	–	–	–	(171)	–	45	–	–	–	(126)
Foreign currency translation	–	–	–	–	–	–	(28,426)	–	–	–	(28,426)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(4,201)**	**–**	**(28,923)**	**–**	**–**	**(42,497)**	**(75,621)**
Dividends	–	–	–	–	–	–	–	–	–	(11,065)	(11,065)
Issue of ordinary shares	26	2,475	–	–	–	–	–	–	–	–	2,501
Value of employee services	–	–	–	–	–	(196)	–	–	–	268	72
Total transactions with owners of the Company	**26**	**2,475**	**–**	**–**	**–**	**(196)**	**–**	**–**	**–**	**(10,797)**	**(8,492)**
December 31, 2013	**2,218**	**29,328**	**–**	**–**	**5,570**	**158**	**8,750**	**632**	**(2,601)**	**172,796**	**216,851**
January 1, 2014	2,218	29,328	–	–	5,570	158	8,750	632	(2,601)	172,796	216,851
Loss for the year	–	–	–	–	–	–	–	–	–	(47,589)	(47,589)
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	–	–	–	–	(8,640)	–	302	–	–	–	(8,338)
Transferred to income statement on disposal	–	–	–	–	(1,350)	–	–	–	–	–	(1,350)
Transferred to income statement on impairment	–	–	–	–	4,873	–	–	–	–	–	4,873
Deferred tax	–	–	–	–	1,034	–	(19)	–	–	–	1,015
Foreign currency translation	–	–	–	–	–	–	(2,993)	–	–	–	(2,993)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(4,083)**	**–**	**(2,710)**	**–**	**–**	**(47,589)**	**(54,382)**
Dividends	–	–	–	–	–	–	–	–	–	(11,535)	(11,535)
Issue of ordinary shares	111	–	9,453	143	–	–	–	–	–	–	9,707
Value of employee services	–	–	–	–	–	520	–	–	–	89	609
Total transactions with owners of the Company	**111**	**–**	**9,453**	**143**	**–**	**520**	**–**	**–**	**–**	**(11,446)**	**(1,219)**
December 31, 2014	**2,329**	**29,328**	**9,453**	**143**	**1,487**	**678**	**6,040**	**632**	**(2,601)**	**113,761**	**161,250**

The notes on ➤ *pages 71 to 106* are an integral part of these consolidated financial statements.

Company statement of changes in equity

for the two years ended December 31, 2014

			Other reserves							
	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Investment revaluation reserve £'000	Share-based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
January 1, 2013	2,192	26,853	–	–	8,949	354	82	632	114,880	153,942
Changes in equity for 2013										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	(24,767)	–	–	–	–	(24,767)
Transferred to income statement on disposal	–	–	–	–	6,618	–	–	–	–	6,618
Transferred to income statement on impairment	–	–	–	–	16,990	–	–	–	–	16,990
Deferred tax on valuation	–	–	–	–	(2,404)	–	–	–	–	(2,404)
Net income recognised direct into equity	–	–	–	–	(3,563)	–	–	–	–	(3,563)
Loss for the period	–	–	–	–	–	–	–	–	(25,506)	(25,506)
Total recognised income and expenses	–	–	–	–	(3,563)	–	–	–	(25,506)	(29,069)
Dividends	–	–	–	–	–	–	–	–	(11,065)	(11,065)
Issue of ordinary shares	26	2,475	–	–	–	–	–	–	–	2,501
Value of employee services	–	–	–	–	–	(196)	–	–	268	72
December 31, 2013	**2,218**	**29,328**	**–**	**–**	**5,386**	**158**	**82**	**632**	**78,577**	**116,381**
January 1, 2014	2,218	29,328	–	–	5,386	158	82	632	78,577	116,381
Changes in equity for 2014										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	(7,892)	–	–	–	–	(7,892)
Transferred to income statement on disposal	–	–	–	–	(1,786)	–	–	–	–	(1,786)
Transferred to income statement on impairment	–	–	–	–	4,557	–	–	–	–	4,557
Deferred tax on valuation	–	–	–	–	1,036	–	–	–	–	1,036
Net income recognised direct into equity	–	–	–	–	(4,085)	–	–	–	–	(4,085)
Loss for the period	–	–	–	–	–	–	–	–	(20,684)	(20,684)
Total recognised income and expenses	–	–	–	–	(4,085)	–	–	–	(20,684)	(24,769)
Dividends	–	–	–	–	–	–	–	–	(11,535)	(11,535)
Issue of ordinary shares	111	–	9,453	143	–	–	–	–	–	9,707
Value of employee services	–	–	–	–	–	520	–	–	89	609
December 31, 2014	**2,329**	**29,328**	**9,453**	**143**	**1,301**	**678**	**82**	**632**	**46,447**	**90,393**

The notes on pages 71 to 106 are an integral part of these consolidated financial statements.

Consolidated cash flow statement and Company cash flow statement

for the year ended December 31, 2014

	Notes	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Cash flows from operating activities					
Loss before taxation		(42,399)	(52,896)	(12,621)	(29,441)
Adjustments for:					
Finance income	7	(439)	(789)	(127)	(483)
Finance costs – excluding foreign exchange gains/losses	8	1,042	129	871	57
Other income	9	(1,981)	(2,012)	(1,788)	(2,859)
(Gain)/Loss on disposal of mining and exploration interests	17	(1,350)	6,398	(1,786)	6,618
Gain on disposal of coal tenures	13	(1,409)	–	–	–
Impairment of mining and exploration interests	17	4,873	26,321	4,557	16,990
Impairment of royalty and exploration intangible assets	16	10,033	8,313	701	947
Impairment of royalty financial instruments	15	15,288	–	–	–
Impairment of property, plant and equipment	13	1,352	–	817	–
Impairment of investment in subsidiaries	19	–	–	9,954	–
Revaluation of coal royalties (Kestrel)	14	11,822	13,568	–	–
Revaluation of royalty financial instruments	15	–	8,735	–	8,735
Depreciation of property, plant and equipment	13	23	22	23	22
Amortisation of royalty intangible assets	16	759	854	–	–
Share-based payment	6a	609	72	609	72
Forgiveness of loan to subsidiary undertaking		–	–	4,387	5,500
Intercompany dividends		–	–	(5,251)	(8,600)
		(1,777)	8,715	346	(2,442)
Decrease/(Increase) in trade and other receivables		2,588	(1,082)	52	(87)
Increase/(Decrease) in trade and other payables		2,175	(1,409)	1,407	(25)
Cash generated from operations		2,986	6,224	1,805	(2,554)
Income taxes paid	10	(27)	(3,817)	(611)	(1,632)
Net cash generated from operating activities		**2,959**	**2,407**	**1,194**	**(4,186)**
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests	17	9,549	5,258	6,350	4,492
Purchases of mining and exploration interests	17	(1,161)	(3,118)	(391)	(1,032)
Purchases of royalty and exploration intangible assets	16	(13,213)	(101)	–	–
Proceeds from royalty financial instruments	9	826	–	826	
Other royalty related advances	20	(3,002)	(5,634)	–	–
Prepaid acquisition costs		(359)	–	(295)	–
Proceeds on disposal of coal tenures	13	302	–	–	–
Purchases of property, plant and equipment	13	(188)	(14)	(147)	(14)
Dividends and fixed income received from mining and exploration interests	9	169	708	–	130
Sundry income	9	475	164	451	23
Finance income	7	439	789	127	438
Investment in subsidiaries	19	–	–	(1,452)	(15,772)
Loans granted to subsidiary undertakings	29	–	–	(14,870)	(6,574)
Loan repayments from subsidiary undertakings	29	–	–	9,245	32,368
Net cash used in investing activities		**(6,163)**	**(1,948)**	**(156)**	**14,059**
Cash flows from financing activities					
Proceeds from issue of share capital	24	9,980	2,501	9,980	2,501
Transaction costs of share issue	24	(416)	–	(416)	–
Dividends paid	12	(11,535)	(11,065)	(11,535)	(11,065)
Prepaid fundraising costs		(320)	–	(306)	–
Finance costs – excluding foreign exchange gains/losses	8	(1,042)	(129)	(871)	(57)
Net cash used in financing activities		**(3,333)**	**(8,693)**	**(3,148)**	**(8,621)**
Net decrease in cash and cash equivalents		**(6,537)**	**(8,234)**	**(2,110)**	**1,252**
Cash and cash equivalents at beginning of period		**15,706**	**24,036**	**4,106**	**2,854**
Unrealised foreign currency gain/(loss)		(400)	(96)	–	–
Cash and cash equivalents at end of period		**8,769**	**15,706**	**1,996**	**4,106**

The notes on ➤ *pages 71 to 106* are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2014

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

2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements and estimates that can have a significant impact on the financial statements. Estimates and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical accounting judgement relates to the classification of royalty arrangements and the key sources of estimation uncertainty relate to the calculation of certain royalty arrangements fair value and the key assumptions used when assessing impairment of property, plant and equipment and intangible assets. The use of inaccurate assumptions in assessments made for any of these estimates could result in a significant impact on financial results.

Critical accounting judgements

Classification of royalty arrangements: initial recognition and subsequent management

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

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

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

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2014

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

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

* as at December 31, 2014, these royalty assets have a carrying value of £nil.

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

Key sources of estimation uncertainty

Assessment of fair value of royalty arrangements held at fair value

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

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

Impairment review of property, plant and equipment and intangible assets

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

Where indicators are identified, the starting point for the impairment review will be to measure the expected future cash flows expected from the royalty arrangement should the project continue/come into production. A pre-tax real discount rate of between 7% and 10% is applied to the future cash flows. This discount rate is driven from the discount rate of 7% which is used by the independent consultant in their valuation of Kestrel, which should be the lowest discount rate applied to any of the Group's assets. The Directors use considerable judgement to assign a discount rate, with rates varying according to mineral quality, jurisdiction, commodity, stage of production and counterparty credentials.

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

3 Significant accounting policies

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

3.1 Basis of preparation

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

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2.

3.1.1 Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus the going concern basis of accounting in preparing the financial statements continues to be adopted. Further details are contained in the Directors' report on ➤ *page 58*.

3.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2014:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income

  The amendments to IAS 1 introduced the grouping of items presented in other comprehensive income. Items that may be reclassified (or re-cycled) to the income statement at a future point in time are now presented separately from items that will not be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

- IFRS 13, 'Fair Value Measurement'

  IFRS 13 establishes a single framework for measuring fair value when such measurements are required or permitted by other standards. The application of IFRS 13 has not materially affected the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 'Financial Instruments: Disclosure'. The additional disclosure requirements are reflected within the relevant notes to the Group financial statements.

- IFRS 10 'Consolidated Financial Statements' and IAS 27 'Separate Financial Statements'

  IFRS 10 replaces the parts of the previously existing IAS 27 that dealt with consolidated financial statements. The new standard changes the definition of control such that an investor controls an investee when it is exposed or has rights to variable returns from its involvement with the investee and has the ability to control those returns through its power over the investee. The adoption of IFRS 10 has had no impact on the consolidation of investments held by the Group.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2014 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations have not yet been adopted and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9 'Financial Instruments' – (Not yet endorsed by the European Union)

  IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI). The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Group is currently assessing the impact the application of IFRS 9 will have on its financial statements, particularly in respect of the Group's financial assets.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3.2 Consolidation

Subsidiaries

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

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

3.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rates at the date of the transaction (and not retranslated). Non-monetary assets and liabilities measured at fair value are translated using the exchange rates at the date when fair value was determined.

(c) Group companies

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

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

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

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

Exchange differences on foreign currency balances with foreign operations for which settlement is neither planned nor likely to occur in the foreseeable future, and therefore form part of the Group's net investment in these foreign operations are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are reclassified in the income statement as part of the gain or loss on sale.

3.4 Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Once a mining project has been established as commercially viable, expenditure other than that on land, buildings, plant and equipment is capitalised as a producing asset within 'Other Assets' together with any amount transferred from 'Exploration and evaluation costs' (note 3.6(b)).

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

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

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

3.5 Coal royalties (investment property)

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

Notes to the consolidated financial statements

for the year ended December 31, 2014

3.6 Intangible assets

(a) Royalty arrangements

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

Upon commencement of production at the underlying mining operation, intangible assets are amortised on a straight line basis over the life of the mine. Amortisation rates are adjusted on a prospective basis for all changes to estimates of the life of mine.

(b) Exploration and evaluation costs

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

Expenditure on exploration and evaluation activities is capitalised when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Group. If this is no longer the case, an impairment loss is recognised in the income statement. Amortisation of capitalised exploration and evaluation costs does not commence until the underlying project commences commercial production.

3.7 Impairment of property, plant and equipment and intangible assets

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

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

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

3.8 Financial instruments

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

(a) Cash and cash equivalents

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

(b) Loans and receivables

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

(c) Mining and exploration interests

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

Mining and exploration interests are classified upon initial recognition as available-for-sale financial assets.

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

(d) Royalty instruments

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

Royalty instruments are classified as either debt or equity instruments depending on the nature of the individual agreement.

Debt

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

Equity

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

(e) Financial liabilities and equity instruments

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

(f) 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.

(g) Equity instruments

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

3.9 Impairment of financial assets (including receivables)

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

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

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

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

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

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

3.10 Taxation

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

Current tax

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

Current and deferred tax for the year

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

3.11 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options and jointly-owned shares) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

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

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

3.12 Reserves

Equity comprises the following:

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

Other reserves

- 'merger reserve' is created when more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company. The merger reserve was established during the year in connection with the allotment of shares to the acquired company's shareholders as part of the wider structure associated with the Maracás royalty acquisition in June 2014.
- 'warrant reserve' was created in June 2014 in connection with the issue of share warrants as part consideration of the Maracás royalty.
- 'Investment revaluation reserve' represents gains and losses due to the revaluation of the investments in mining and exploration interests and royalty instruments from the opening carrying values, including the effects of deferred tax and foreign currency changes.
- 'Share-based payment reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Foreign currency reserve' represents the differences arising from translation of investments in overseas subsidiaries.
- 'Special reserve' represents the level of profit attributable to the Group for the period ended June 30, 2002 which was created as part of a capital reduction performed in 2002.
- 'Investment in own shares' represents the shares held by the Anglo Pacific Group Employee Benefit Trust for awards made under the Joint Share Ownership Plan ('JSOP') (note 23).
- 'Retained earnings' represents retained profits.

Of these reserves, £113,761,000 are considered distributable as at December 31, 2014 (December 31, 2013: £172,796,000).

3.13 Revenue recognition

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

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

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

3.14 Leases

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

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

3.15 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of the interim dividend, when it is paid to the shareholders.

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for the year ended December 31, 2014

4 Segment information

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

Australia: Kestrel, Four Mile, Pilbara Mount Ida

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

Europe: EVBC, Salamanca, Bulqiza

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

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

The segment information for the year ended December 31, 2014 is as follows (noting that total segment operating profit corresponds to operating profit before impairments, revaluations and gains/losses on disposals which is reconciled to (Loss)/Profit before tax on the face of the consolidated income statement):

	Australia Royalties £'000	**Americas Royalties £'000**	**Europe Royalties £'000**	**All other segments £'000**	**Total £'000**
Royalty related income	1,657	174	1,650	–	3,481
Amortisation of royalties	–	(759)	–	–	(759)
Operating expenses	(3,269)	–	–	(2,255)	(5,524)
Total segment operating (loss)/profit	(1,612)	(585)	1,650	(2,255)	(2,802)
Total segment assets	129,666	22,711	8,091	39,397	199,865
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	13,166	–	235	13,401
Total segment liabilities	33,702	–	1,364	3,549	38,615

The segment information for the year ended December 31, 2013 is as follows:

	Australia Royalties £'000	Americas Royalties £'000	Europe Royalties £'000	All other segments £'000	Total £'000
Royalty related income	9,941	749	4,041	–	14,731
Amortisation of royalties	–	(854)	–	–	(854)
Operating expenses	(2,454)	–	–	(821)	(3,275)
Total segment operating profit/(loss)	7,487	(105)	4,041	(821)	10,602
Total segment assets	147,577	22,827	28,692	58,184	257,280
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets	–	–	–	115	115
Total segment liabilities	35,676	–	2,244	2,509	40,429

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

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

The royalty related income in Australia of £1,657,000 (2013: £9,941,000) is derived from a single coal royalty and represents greater than 10% of the Group's revenue in 2013 and 2014. In addition, royalty related income in Europe of £1,650,000 (2013: £4,041,000) is derived from a single gold royalty and represents greater than 10% of the Group's revenue in 2013 and 2014.

5a Expense by nature

	2014 £'000	2013 £'000
Group		
Employee benefit expense (note 6a)	3,666	2,044
Professional fees	834	488
Listing fees	142	153
Operating lease payments	175	167
Other expenses	707	423
	5,524	3,275

5b Auditor's remuneration

	2014 £'000	2013 £'000
Group		
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements[1]	85	77
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries[1]	2	9
Total audit fees	87	86
Audit-related assurance services[2]	499	–
Other assurance services pursuant to legislation[1]	17	17
Other services	19	–
Total non-audit fees	535	17

[1] The 2013 comparatives relate to the Company's previous auditor, Grant Thornton UK LLP, who resigned as auditor on June 11, 2014.

[2] Audit-related assurance services relate wholly to the reporting accountant work performed in 2014 by the auditors on the acquisition of the Narrabri royalty, details of which are set out in note 31.

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity were safeguarded are set out in the Audit Committee Report on ➤ *page 43*. No services were provided pursuant to contingent fee arrangements.

6a Employee benefits expense

	Group		Company	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Wages and salaries	2,695	1,763	2,609	1,680
Share-based awards to directors and employees	609	72	609	72
Social security costs	309	174	306	172
Other pension costs	53	35	53	35
	3,666	2,044	3,577	1,959

6b Retirement benefits plans

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

The total cost charged to income of £53,000 (2013: £35,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2014, contributions of £4,000 (2013: £5,000) due in respect of the current reporting period had not been paid over to the schemes.

Notes to the consolidated financial statements

for the year ended December 31, 2014

6c Average number of people employed

	2014	2013
Group		
Number of employees	13	13

	2014	2013
Group		
Average number of people (including Executive Directors) employed:		
Executive Directors	2	4
Administration	11	9
	13	13

Company

The average number of administration staff employed by the Company during the year, including Executive Directors, was 11 (2013: 13).

Directors' salaries are shown in the Directors' remuneration report on ➤ *pages 45 to 57*, including the highest paid Director.

7 Finance income

	2014 £'000	2013 £'000
Group		
Interest on bank deposits	98	95
Interest on royalty financial instruments	116	473
Interest on long-term receivables	225	221
	439	789

8 Finance costs

	2014 £'000	2013 £'000
Group		
Professional fees	(883)	(129)
Revolving credit facility fees	(159)	–
Net foreign exchange loss	(366)	(2,835)
	(1,408)	(2,964)

9 Other income

	2014 £'000	2013 £'000
Group		
Dividends received from mining and exploration interests	169	441
Fixed income from mining and exploration interests	–	267
Shares in-lieu of interest on mining and exploration interests	511	–
Effective interest income on royalty financial instruments	194	1,140
Recovery of royalty financial instruments	632	–
Sundry income	475	164
	1,981	2,012

10 Income tax expense

	2014 £'000	2013 £'000
Analysis of charge for the year		
United Kingdom corporation tax credit	329	306
Overseas tax	1,057	1,017
Adjustments in respect of prior years	–	(608)
Current tax	1,386	715
Deferred tax	3,804	(11,114)
Income tax expense/(credit)	5,190	(10,399)
Factors affecting tax charge for the year:		
Loss before tax	(42,399)	(52,896)
Tax on loss calculated at United Kingdom corporation tax rate of 21.5% (2013: 23.5%)	(9,116)	(12,431)
Tax effects of:		
Items non-taxable/deductible for tax purposes:		
Non-deductible expenses	5,998	3,186
Non-taxable income	(227)	(4,196)
Temporary difference adjustments		
Utilisation of losses not previously recognised	(1,048)	–
Current year losses not recognised	139	2,689
Write down of deferred tax assets previously recognised	7,628	–
Adjustment in deferred tax due to change in tax rate	177	136
Other temporary difference adjustments	2,754	–
Other adjustments		
Withholding taxes	961	819
Effect of differences between local and United Kingdom tax rates	(1,239)	(747)
Prior year adjustments to current tax	–	(608)
Other adjustments	(837)	753
Income tax expense/(credit)	5,190	(10,399)

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

Notes to the consolidated financial statements

for the year ended December 31, 2014

11 (Loss)/Earnings per share

Loss per ordinary share is calculated on the Group's loss after tax of £47,589,000 (2013: £42,497,000) and the weighted average number of shares in issue during the year of 113,075,454 (2013: 108,932,340).

Loss per ordinary share excludes the issue of shares under the Group's JSOP, as the Employee Benefit Trust has waived its right to receive dividends on the 925,933 ordinary 2p shares it holds as at December 31, 2014 (December 31, 2013: 925,933).

	2014 £'000	2013 £'000
Net profit attributable to shareholders		
Earnings – basic	(47,589)	(42,497)
Earnings – diluted	(47,589)	(42,497)

	2014	2013
Weighted average number of shares in issue		
Basic number of shares outstanding	113,075,454	108,932,340
Dilutive effect of Employee Share Option Scheme	–	–
Diluted number of shares outstanding	113,075,454	108,932,340

As the Group is loss making in 2014 and 2013, the Employee Share Option Scheme is considered anti-dilutive because including it in the diluted number of shares outstanding would decrease the loss per share.

Due to the growing number of valuation and other non-cash movements being recognised in the income statement, the Group presents an adjusted earnings per share metric to better reflect the underlying performance of the Group during the year. In calculating the adjusted earnings per share, the weighted average number of shares in issue remains consistent with those used in the earnings per share calculation.

	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net profit attributable to shareholders			
Loss – basic and diluted for the year ended December 31, 2014	(47,589)	(42.09p)	(42.09p)
Adjustment for:			
Amortisation of royalty intangible assets	759		
Gain on sale of mining and exploration interests	(1,350)		
Gain on disposal of coal tenures	(1,409)		
Impairment of mining and exploration interests	4,873		
Impairment of royalty and exploration intangible assets	10,033		
Impairment of royalty financial instruments	15,288		
Impairment of property, plant and equipment	1,352		
Revaluation of coal royalties (Kestrel)	11,822		
Effective interest income on royalty financial instruments	(194)		
Tax effect of the adjustments above	3,577		
Adjusted loss – basic and diluted for the year ended December 31, 2014	2,838	(2.51p)	(2.51p)

	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net profit attributable to shareholders			
Loss – basic and diluted for the year ended December 31, 2013	(42,497)	(39.01p)	(39.01p)
Adjustment for:			
Amortisation of royalty intangible assets	854		
Loss on sale of mining and exploration interests	6,398		
Impairment of mining and exploration interests	26,321		
Impairment of royalty and exploration intangible assets	8,313		
Revaluation of coal royalties (Kestrel)	13,568		
Revaluation of royalty financial instruments	8,735		
Effective interest income on royalty financial instruments	(1,140)		
Tax effect of the adjustments above	(11,371)		
Adjusted earnings – basic and diluted for the year ended December 31, 2013	9,181	8.43p	8.43p

12 Dividends

On February 4, 2014 an interim dividend of 4.45p per share was paid to shareholders in respect of the year ended December 31, 2013. On August 7, 2014 a final dividend of 5.75p per share was paid to shareholders to make a total dividend for the year of 10.20p per share. Total dividends paid during the year were £11.54m (2013: £11.07m).

On February 4, 2015 an interim dividend of 4.45p per share was paid to shareholders in respect of the year ended December 31, 2014. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 4.00p per share be paid to shareholders on August 7, 2015, to make a total dividend for the year of 8.45p per share. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

The proposed final dividend for 2014 is payable to all shareholders on the Register of Members on June 26, 2015. The total estimated dividend to be paid is £6.80m. At the present time the Board has resolved not to offer a scrip dividend alternative.

13 Property, plant and equipment

Group	**Other assets £'000**	**Equipment and fixtures £'000**	**Total £'000**
Gross carrying amount			
At January 1, 2014	1,964	129	2,093
Additions	41	147	188
Disposals	(617)	–	(617)
Foreign currency translation	(32)	–	(32)
At December 31, 2014	1,356	276	1,632
Depreciation and impairment			
At January 1, 2014	(4)	(100)	(104)
Disposals	–	–	–
Depreciation	–	(23)	(23)
Impairment	(1,352)	–	(1,352)
At December 31, 2014	(1,356)	(123)	(1,479)
Carrying amount December 31, 2014	**–**	**153**	**153**

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for the year ended December 31, 2014

Group	Other assets £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2013	2,072	175	2,247
Additions	–	14	14
Disposals	–	(60)	(60)
Foreign currency translation	(108)	–	(108)
At December 31, 2013	1,964	129	2,093
Depreciation and impairment			
At January 1, 2013	(2)	(140)	(142)
Disposals	–	60	60
Depreciation	(2)	(20)	(22)
At December 31, 2013	(4)	(100)	(104)
Carrying amount December 31, 2013	**1,960**	**29**	**1,989**

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

Impairment

As at December 31, 2014, following minimal progress in the year, the Directors have taken a view that the Group's ability to monetise both the Trefi coal project and the Shetland talc deposit is inherently uncertain and as a result have fully impaired these assets resulting in an impairment charge for the year of £1.4m.

Disposals (gain on coal tenures)

On September 2, 2014 the Group completed its disposal of the Panorama Coal Project to Atrum Coal NL. The carrying value of Panorama was £0.9m comprising £0.6m recognised within property, plant and equipment and £0.3m recognised within royalty and exploration intangible assets (see note 16).

The Group received total consideration of £2.3m comprising US$0.5m (£0.3m) in cash, 1,000,000 Atrum Coal NL shares (valued at £0.8m) and deferred consideration of US$2.0m (£1.2m) in the form of a 12-month promissory note with an interest coupon of 8.0% per annum, thus generating a profit on disposal of £1.4m.

In addition, the Group retained a royalty on coal sales from the assets being sold equivalent to the higher of 1% of gross revenue on a mine gate basis or US$1/tonne. Due to the uncertainty regarding the Panorama project entering production this royalty has been considered to have £nil value at December 31, 2014.

Company	**Other assets £'000**	**Equipment and fixtures £'000**	**Total £'000**
Gross carrying amount			
At January 1, 2014	821	129	950
Additions	–	147	147
At December 31, 2014	821	276	1,097
Depreciation and impairment			
At January 1, 2014	(4)	(100)	(104)
Depreciation	–	(23)	(23)
Impairment	(817)	–	(817)
At December 31, 2014	(821)	(123)	(944)
Carrying amount December 31, 2014	**–**	**153**	**153**

Company	Other assets £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2013	821	175	996
Additions	–	14	14
Disposal	–	(60)	(60)
At December 31, 2013	821	129	950
Depreciation and impairment			
At January 1, 2013	(2)	(140)	(142)
Disposals	–	60	60
Depreciation	(2)	(20)	(22)
At December 31, 2013	(4)	(100)	(104)
Carrying amount December 31, 2013	**817**	**29**	**846**

The Group's property, plant and equipment is carried at cost less depreciation and impairment. Prior to their impairment as at December 31, 2014, the leases relating to the talc deposit on Shetland, Scotland held by the parent Company were carried at a Directors' valuation of £0.8m. 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.

14 Coal royalties (Kestrel)

Group	£'000
At January 1, 2013	170,995
Foreign currency translation	(25,993)
Loss on revaluation of coal royalties	(13,568)
At December 31, 2013	131,434
Foreign currency translation	(2,515)
Loss on revaluation of coal royalties	(11,822)
At December 31, 2014	117,097

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

The coal royalty was valued during December 2014 at £117.1m (A$223.0m) (2013: £131.4m and A$244.4m) by an independent coal industry advisor, 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 £3.1m (A$6.0m) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 22). Were the coal royalty to be carried at cost the carrying value would be £0.2m (2013: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

The shares over the entity which is the beneficial owner of the Kestrel royalty have been guaranteed as security in connection with the three-year secured revolving credit facility in February 2015.

15 Royalty financial instruments

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

Project	Commodity	Original cost '000	Royalty rate	Escalation	Classification	December 31, 2014 Carrying value £'000
El Valle-Boinas/Carles mines	Gold, Silver, Copper	C$7,500	2.50%	3% gold >US$1,100/oz	Available-for-sale equity	5,742
Jogjakarta	Iron Sands	A$5,000	2.00%	–	Available-for-sale debt	2,400
Isua	Iron Ore	A$28,000	1.00%	–	Available-for-sale debt	–

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

	Group £'000	Company £'000
Fair value		
At January 1, 2013	41,945	24,032
Revaluation of royalty financial instruments recognised in the income statement	(8,735)	(7,002)
Revaluation of royalty financial instruments recognised in equity	(4,191)	(4,191)
Foreign currency translation	(1,172)	–
At December 31, 2013	27,847	12,839
Impairment of royalty financial instruments	(15,288)	–
Revaluation of royalty financial instruments recognised in equity	(4,697)	(4,697)
Foreign currency translation	280	–
At December 31, 2014	8,142	8,142

During the year, effective interest of £0.1m was recognised in other income (see note 9). This was directly offset by cash received in the year of the same amount.

On October 16, 2014 London Mining PLC, the operator of the Group's Isua royalty, announced that it had appointed administrators. Subsequent to year-end, the Isua royalty was sold to General Nice Development Limited, with the Group's royalty interest being transferred concurrently. However, given the inherent uncertainty of this asset reaching commercial production, the Group's royalty financial instrument arising from its interest in the Isua royalty has been fully impaired, resulting in an impairment charge for the year of £15.3m.

16 Royalty and exploration intangible assets

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

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
Gross carrying amount			
At January 1, 2014	951	48,713	49,664
Additions	47	13,166	13,213
Disposals	(275)	–	(275)
Foreign currency translation	(26)	(2,174)	(2,200)
At December 31, 2014	697	59,705	60,402
Amortisation and impairment			
At January 1, 2014	–	(12,376)	(12,376)
Amortisation charge	–	(759)	(759)
Impairment charge	(697)	(9,336)	(10,033)
Foreign currency translation	–	(124)	(124)
At December 31, 2014	(697)	(22,595)	(23,292)
Carrying amount December 31, 2014	–	37,110	37,110

Group	Exploration and evaluation Costs £'000	Royalty interests £'000	Total £'000
Gross carrying amount			
At January 1, 2013	931	55,773	56,704
Additions	101	–	101
Conversion of royalty option	–	248	248
Foreign currency translation	(81)	(7,308)	(7,389)
At December 31, 2013	951	48,713	49,664
Amortisation and impairment			
At January 1, 2013	–	(3,209)	(3,209)
Amortisation charge	–	(854)	(854)
Impairment charge	–	(8,313)	(8,313)
At December 31, 2013	–	(12,376)	(12,376)
Carrying amount December 31, 2013	951	36,337	37,288

Company	2014 £'000	2013 £'000
Royalty interests		
At January 1	3,050	3,997
Impairment charge	(701)	(947)
At December 31	2,349	3,050

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Disposals and impairments of exploration and evaluation costs

The exploration and evaluation costs comprise expenditure that was directly attributable to the Panorama and Trefi coal projects in British Columbia, Canada. The Group disposed of its interest in the Panorama coal project and fully impaired its interests in the Trefi coal project during the year, as outlined in note 13.

Additions to royalty interests

On June 10, 2014, the Group acquired a 2% net smelter return royalty interest on all mineral products sold from the area of the Maracás Project to which the royalty interest relates in exchange for total consideration of £13.2m, which comprised US$22.0m (£13.1m) of cash and 500,000 warrants which entitle the holder to acquire one Anglo Pacific ordinary share at a strike price of £2.50 which are exercisable over five years (which the Group valued at £0.1m).

A further US$3.0m (£1.9m) of cash is payable when the project reaches certain annualised production milestones. As set out in note 28, due to the Directors not considering payment of the contingent consideration to be probable at December 31, 2014, no liability has been recognised.

Amortisation of royalty interests

The Amapá royalty interest is the only producing royalty 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.

Impairments of royalty interests

As described in notes 3.6 and 3.7, an annual impairment review is carried out to determine whether the future expected cash flows (calculated on a value-in-use basis) exceed cost. This has resulted in the Directors determining that three of the Group's intangible royalties were impaired at December 31, 2014 as outlined below. See note 2 for the impairment methodology applied.

Year ended December 31, 2014

Amapá

Due to a lack of progress in rebuilding the Santana Port, royalty income from Amapá was minimal during the year, with only small shipments possible. The lack of shipping facilities, also resulted in production at the mine being scaled back during the year. Taking into account the Directors' assessment as to when production will restart, the discounted cash flow model, using a discount rate of 10%, required an impairment charge of £8.4m to be recorded at December 31, 2014 resulting in a residual carrying value of Amapá of £4.9m.

Bulqiza

In 2013, the Directors took the view that this project was no longer the principal focus of the owner of the licences and recognised an impairment charge of £0.9m in the year which left a residual carrying value of £0.7m. In light of there being no further advancement in this project during 2014, it is inherently uncertain that these licences will enter commercial production and, as a result, a further impairment charge of £0.7m was recognised in the year with the residual carrying value being reduced to £nil.

Creso

On January 16, 2014, the Group was notified by Creso Exploration Inc of its intention to abandon a number of the mining claims over which the Group held a 2% NSR. The Directors took the view that the remaining claims were unlikely to be commercially developed and fully impaired the Creso royalty, resulting in an impairment charge of £0.2m.

Year ended December 31, 2013

Ring of Fire

The operator, Cliffs Natural Resources Inc, announced the placing of its chromite asset onto care and maintenance. Although the Group believes that this is too important a project to all stakeholders for the project to be deferred indefinitely, in the absence of any other publicly available information, it has deferred the estimated production profile and applied a risk weighted probability measure accordingly. The combination of both has resulted in the estimated future royalty income being less than the acquisition cost of the royalty. Should the impasse resolve and production commence, this impairment would be reversed in the income statement. This has resulted in an impairment charge of £4.2m in the year (calculated using a pre-tax discount rate of 10%) with the residual carrying value being £5.4m. There has been no further impairment charge in 2014 nor any reversal of the previous provision.

Mount Ida

The Group acquired the Mount Ida royalty in 2012 for US$6.0m, settled by way of a cash payment of US$3.7m (£2.3m) and the issue of ordinary shares for the US$2.3m (£1.3m) balance. Due to the significant infrastructure required to bring the project into production, including the construction of port and rail facilities, the owner has placed this project on care and maintenance. Although this is a large, relatively high grade deposit which, with a recovery in iron ore prices, could become economic, in the meantime the Directors are of the view that it is unlikely that production will happen in a time frame such that the future cash flows will exceed cost (calculated using a pre-tax discount rate of 10%). This has resulted in the full carrying amount being impaired by £3.2m in the year.

17 Mining and exploration interests

(a) Available-for-sale

	Group £'000	Company £'000
Fair value		
At January 1, 2013	55,545	36,753
Additions	3,118	1,032
Disposals	(5,258)	(4,492)
Revaluation adjustment	(32,558)	(19,318)
Foreign currency translation	(775)	–
At December 31, 2013	20,072	13,975
Additions	1,161	391
Disposals	(8,197)	(6,350)
Revaluation adjustment	(3,162)	(1,826)
Foreign currency translation	22	–
At December 31, 2014	9,896	6,190

Historically, mining and exploration interests were acquired as part of a strategy to acquire royalty assets. This method of sourcing royalties is unlikely to be followed going forward and as a result, remaining mining and exploration interests are now considered non-core to the Group's primary business and are gradually being disposed. 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 2.

An impairment charge (representing the recognition of losses previously deferred to equity) is recognised in the income statement when the absolute decline in value below cost of any individual investment is considered 'significant' or 'prolonged' in accordance with the Group's impairment policy. Following significant declines in mining equity markets, the Group recognised an impairment charge of £4.9m for the year ended December 31, 2014 (December 31, 2013: £26.3m).

For the year ended December 31, 2014, the Group realised £9.5m in cash (December 31, 2013: £5.3m) through the disposal of a number of its mining and exploration interests from which management no longer considered royalty opportunities to exist. These disposals resulted in a gain of £1.4m for the year ended December 31, 2014 (December 31, 2013: loss of £6.4m).

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

	2014		2013	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Quoted investments	8,820	6,023	16,018	13,646
Unquoted investments	1,076	167	3,896	171
Royalty options	–	–	158	158
	9,896	6,190	20,072	13,975
Number of investments	16	12	29	26

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for the year ended December 31, 2014

18 Deferred costs

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2014	–	–	–
Additions	1,335	127	1,462
Carrying amount at December 31, 2014	**1,335**	**127**	**1,462**

Company	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
Carrying amount			
At January 1, 2014	–	–	–
Additions	1,254	127	1,381
Carrying amount at December 31, 2014	**1,254**	**127**	**1,381**

On March 11, 2015 the Group announced the completion of its acquisition of the Narrabri thermal coal royalty. This acquisition was funded by a firm placing and open offer, together with the partial utilisation of a newly agreed bank facility (refer to note 31 for further details).

As at December 31, 2014, the Group had incurred a significant portion of the costs associated with the transaction. Those costs directly attributable to the asset acquisition, together with those costs associated with the firm placing and open offer, have been deferred and classified as deferred acquisition costs.

The costs associated with entering into the new US$30.0m, three-year secured revolving credit facility have been deferred, will be amortised over the term of the facility, and have been classified as deferred financing costs.

19 Investments in subsidiaries

The Group's full listing of subsidiaries is provided in note 32. The Company's investment in subsidiaries as at December 31, 2014 and December 31, 2013 is as follows:

	£'000
Cost	
At January 1, 2014	49,662
Additions	1,452
At December 31, 2014	51,114
Impairment of investment in subsidiary	
At January 1, 2014	(4,187)
Current year charge	(9,954)
At December 31, 2014	(14,141)
Carrying amount December 31, 2014	36,973
Cost	
At January 1, 2013	33,890
Additions	15,772
At December 31, 2013	49,662
Impairment of investment in subsidiary	
At January 1, 2013	(345)
Current year charge	(3,842)
At December 31, 2013	(4,187)
Carrying amount December 31, 2013	45,475

As a result of impairing underlying royalty interests, the net asset value of certain subsidiaries held by the Company, have fallen below their carrying value and have therefore, been written down.

20 Trade and other receivables

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Current				
Income tax receivable	763	–	2,292	–
Prepayments and accrued income	13	–	100	87
Royalty receivables	98	–	2,824	195
Other receivables	4,398	328	116	97
Deposits with subsidiaries	–	15,353	–	18,749
	5,272	15,681	5,332	19,128
Non-current				
Other receivables	9,657	–	8,775	–
Amounts due from subsidiaries	–	22,318	–	12,351
	9,657	22,318	8,775	12,351

Trade and other receivables principally comprise amounts relating to royalties receivable for the final quarter in each year, the promissory noted received from Atrum Coal NL and the royalty related advances made to Hummingbird Resources PLC and Laramide Resources Ltd.

Promissory note

On September 2, 2014 the Group completed its disposal of the Panorama Coal Project to Atrum Coal NL as described in note 13. Forming part of the consideration received by the Group is a US$2.0m 12-month promissory note with an interest coupon of 8.0% per annum, which has been classified as current receivable as at December 31, 2014.

Hummingbird Resources PLC

On December 18, 2012 the Group entered into a royalty financing agreement with Hummingbird Resources PLC, under which the Group provided a non-interest bearing advance of US$15.0m in three tranches of US$5.0m subject to the satisfaction of various conditions precedent in return for 2.0-2.5% NSR over the Dugb1 project. During 2013, the Group advanced two of the three tranches. The third and final tranche of US$5.0m (£3.0m) was advanced on March 6, 2014.

Laramide Resources Ltd

On August 13, 2012, the Group provided Laramide Resources Ltd with an interest bearing facility of C$5.0m, which is repayable in December 2015. In return, Laramide Resources Ltd granted Anglo Pacific an option to acquire a 5% gross revenue royalty for an exercise price of US$15.0m. The facility bears interest at a rate of 7% per annum payable quarterly in arrears. In line with interest bearing facility becoming repayable in December 2015, it has been reclassified from non-current to current as at December 31, 2014. The option has not been valued at December 31, 2014, due to the likelihood that it will not be exercised.

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

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

21 Cash and cash equivalents

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

	2014		2013	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Cash at bank and on hand	7,395	622	15,501	3,902
Trading deposits with brokers	1,374	1,374	205	204
Cash and cash equivalents	8,769	1,996	15,706	4,106

22 Deferred tax

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

	Coal royalties		Available-for-sale investments					
Group	Revaluation of coal royalty £'000	Effects of tax losses £'000	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	Impairment of intangible royalties £'000	Accrual of royalty receivable £'000	Other tax losses £'000	Total £'000
At January 1, 2013	50,785	(607)	3,957	(5,809)	–	206	–	48,532
Charge/(credit) to profit or loss	(5,160)	(8)	(1,111)	(3,282)	(2,330)	641	–	(11,250)
Charge/(credit) to other comprehensive income	–	–	600	(204)	–	–	–	396
Exchange differences	(7,162)	99	–	(45)	–	(116)	–	(7,224)
Effect of change in tax rate:								
Income statement	–	–	(101)	237	–	–	–	136
Equity	–	–	(229)	4	–	–	–	(225)
At December 31, 2013	38,463	(516)	3,116	(9,099)	(2,330)	731	–	30,365
Charge/(credit) to profit or loss	(3,858)	(460)	–	7,682	2,330	(714)	(1,176)	3,804
Reclassification from current to deferred tax asset	–	–	–	–	–	–	(650)	(650)
Charge/(credit) to other comprehensive income	–	–	(1,629)	877	–	–	–	(752)
Exchange differences	10	33	–	19	–	13	41	116
Effect of change in tax rate:								
Income statement	–	–	–	–	–	–	–	–
Equity	–	–	(281)	(1)	–	–	–	(282)
At December 31, 2014	34,615	(943)	1,206	(522)	–	30	(1,785)	32,601

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2014 £'000	2013 £'000
Group		
Deferred tax liabilities	34,908	39,202
Deferred tax assets	2,307	8,837
	32,601	30,365

As at December 31, 2014, the Group has unused tax losses of £8.1m (2013: £1.7m) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses which may be carried forward indefinitely.

The Group has the following balances in respect of which no deferred tax asset has been recognised:

	2014				2013		
	Tax losses – trading £'000	**Tax losses – capital £'000**	**Other temporary differences £'000**	**Total £'000**	Tax losses – trading £'000	Tax losses – capital £'000	Total £'000
Expiry date							
Within one year	–	–	–	–	–	–	–
Greater than one year, less than five years	–	–	–	–	–	–	–
Greater than five years	–	–	–	–	–	–	–
No expiry date	4,843	4,879	22,828	32,550	8,501	2,906	11,407
	4,843	4,879	22,828	32,550	8,501	2,906	11,407

Timing differences associated with investments in subsidiaries, joint ventures and associates are insignificant.

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

	Available-for-sale investments		
Company	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	Total £'000
At January 1, 2013	3,958	(5,758)	(1,800)
Released to income for the year	–	(2,216)	(2,216)
Charge to equity for the year	(1,714)	(42)	(1,756)
At December 31, 2013	2,244	(8,016)	(5,772)
Released to income for the year	–	8,013	8,013
Charge to equity for the year	(1,038)	(2)	(1,040)
At December 31, 2014	1,206	(5)	1,201

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23 Trade and other payables

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Current				
Other taxation and social security payables	240	236	147	99
Trade payables	107	91	43	40
Other payables	231	225	426	424
Accruals and deferred income	2,359	2,331	146	133
	2,937	2,883	762	696

The average credit period taken for trade purchases is 16 days (2013: 26 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.

	2014		2013	
	Group £'000	Company £'000	Group £'000	Company £'000
Non-current				
Other taxation and social security payables	83	83	–	–
	83	83	–	–

Non-current other taxation and social security payables relates to employer national insurance due on vesting of certain share-based payments.

24 Share capital and share premium

Issued share capital

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Group and Company					
Ordinary shares of 2p each at January 1, 2013	**109,605,376**	**2,192**	**26,853**	**–**	**29,045**
Issue of share capital under private placing (a)	1,282,049	26	2,475	–	2,501
Ordinary shares of 2p each at December 31, 2013	**110,887,425**	**2,218**	**29,328**	**–**	**31,546**
Issue of share capital under private placing (b)	5,544,371	111	–	9,453	9,564
Ordinary shares of 2p each at December 31, 2014	**116,431,787**	**2,329**	**29,328**	**9,453**	**41,110**

(a) On October 21, 2013 the Company issued 1,282,049 ordinary shares at a share price of 195 pence per share by way of a private placing settled in cash with Mr J.A. Treger and Mr M.R. Potter.

(b) On June 2, 2014 the Group completed the placing of 5,544,371 new ordinary shares of 2 pence each at a price of 180 pence per share raising £10.0m, against which £0.4m in allowable transaction costs were offset. The proceeds of this placing were ultimately used in the acquisition of the 2% net smelter return royalty over the Maracás Project described in note 16. As the shares were placed in return for acquiring over 90% of the share capital of a related entity, the proceeds raised in excess of the nominal value issued is recorded in the merger reserve.

Own shares

Included in the Company's issued share capital are shares held by the Anglo Pacific Group Employee Benefit Trust ('EBT') in accordance with the Group's JSOP as follows:

	2014		2013	
	Number of shares	£'000	Number of shares	£'000
Own shares				
Own shares held by the EBT	925,933	(2,601)	925,933	(2,601)
Total	**925,933**	**(2,601)**	**925,933**	**(2,601)**

As the EBT has waived its right to receive dividends, the Company's shares held by the EBT are excluded from the weighted average number of shares in issue for the purposes of calculating earnings per share in note 11.

25 Share-based payments

The Group operates three equity-settled share-based compensation plans as follows:

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

(a) Company Share Ownership Plan

Under the CSOP, share options are granted to Directors and to selected employees. The exercise price of the granted options is equal to the average mid-market closing price of an ordinary share for the three days before the grant. The options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date, subject to the Group achieving its target growth in absolute TSR over the period of 3% per annum (not compounded) in excess of the UK Retail Price Index; the options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2014		2013	
	Options	**Weighted average exercise price (£)**	Options	Weighted average exercise price (£)
Outstanding at January 1	52,880	2.7406	76,928	2.7406
Granted during the year	24,600	1.6258	–	
Surrendered during the year	(33,258)	2.7060	–	–
Forfeited during the year	–	–	(24,048)	2.4950
Outstanding at December 31	44,222	2.1205	52,880	2.7406

Out of the 44,222 outstanding options (2013: 52,880), nil options (2013: nil) were exercisable.

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

		Options	
Expiry date	Exercise price in £ per share	**2014**	2013
2019	2.4950	–	24,048
2021	3.2570	–	9,210
2021	2.9535	–	–
2022	3.3043	9,079	9,079
2022	2.8454	10,543	10,543
2024	1.6258	24,600	–
		44,222	52,880
Weighted average remaining contractual life		9.11	7.48

The weighted average fair value of options granted during 2014 determined using the Black-Scholes valuation model was £0.816 per option granted in September 2014. The significant inputs into the model were weighted average share price of £1.626 at the grant date, exercise price shown above, volatility of 40%, expected option life of three years and an annual risk-free interest rate of 1.1%. See note 6a for the total expense recognised in the income statement for share options granted to Directors and employees. There were no grants made during 2013.

Three employees surrendered a total of 33,258 options in September 2014 after the options lapsed due to the performance criteria not being satisfied. In accordance with the rules of the CSOP, Mr. Theobald and Mr. Orchard forfeited all their outstanding options at the time of their resignation on October 21, 2013.

(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.

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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:

			Shares		
	Grant price in £ per share	Hurdle price in £ per share	2014	2013	Expiry date
Outstanding at January 1	2.480	3.150	277,357	866,610	2014
Awarded in March 2011	3.260	4.225	–	–	2015
Awarded in September 2011	2.919	4.625	–	–	2015
Awarded in March 2012	3.320	4.500	–	–	2016
Awarded in September 2012	2.668	3.692	–	–	2016
Surrendered during the year			(122,697)	(338,700)	
Forfeited during the year			–	(250,553)	
Outstanding at December 31			154,660	277,357	
Weighted average remaining contractual life			2.50	3.42	

No shares were awarded under the JSOP during 2013 or 2014. A total of 122,697 shares were surrendered in 2014 as a result of performance criteria not being satisfied in accordance with the terms of the JSOP (2013: 338,700).

In accordance with the terms of the JSOP, Mr. Theobald and Mr. Orchard forfeited their awards upon their resignation on October 21, 2013.

See note 6a for the total expense recognised in the income statement for share options granted to Directors and employees.

(c) Value Creation Plan

Following approval at the 2014 AGM, the Group implemented a new long-term incentive arrangement for the Executive Directors and selected senior management. The VCP was designed by the Remuneration Committee to incentivise the Executive Directors and senior management to drive growth in shareholder return over a five-year measurement period.

Under the terms of the VCP, no value would accrue to the participants unless growth in the Group's total shareholder return over the measurement period is at least equal to 7% per annum. Subject to such threshold growth, participants would become entitled to receive nil or nominal cost options over the ordinary shares of the Company, subject to a cap, set by reference to a share of a pool value equal to 10% of the growth in the Company's total shareholder return over the measurement period or, if less, 50% of the growth in the Company's total shareholder return over the measurement period in excess of the threshold growth.

Options granted under the VCP will comprise three equal tranches, the first tranche exercisable as from the time of the grant of the options and the other tranches exercisable as from one and two years thereafter respectively. Subject to appropriate adjustments in accordance with the terms of the VCP, the maximum number of shares set under the option grants will not be capable of exceeding such number equating to 7.5% of the Company's issued share capital as at the end of the measurement period.

VCP awards made during the year were as follows:

Expiry date	**Options 2014**
2019	88,000
	88,000
Weighted average remaining contractual life	4.50

The weighted average fair value of options granted during 2014 determined using the Monte Carlo valuation model was £54.86 per option granted in June 2014. The significant inputs into the model were weighted average share price of £1.833 at the grant date, exercise price of nil, volatility of 33.3%, expected dividend yield of 5.57%, expected option life of five years and an annual risk-free interest rate of 1.95%. See note 6a for the total expense recognised in the income statement for share options granted to Directors and employees.

26 Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended June 30, 2002. At December 31, 2014, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At January 1, 2014 and December 31, 2014	632	632

27 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:

Group	**2014 £'000**	2013 £'000
Within one year	176	168
In the second to fifth years inclusive	1,171	100
After five years	–	75
	1,347	343

Capital commitments

At the year end the Group had capital commitments of £nil (2013: £nil) in respect of purchases of quoted investments.

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.

28 Contingent liabilities

On June 10, 2014, the Group acquired a 2% net smelter return royalty interest on all mineral products sold from the area of the Maracás project to which the royalty interest relates in exchange for US$22.0 million and 500,000 warrants, which entitle the holder to acquire one Anglo Pacific ordinary share at a strike price of £2.50, which are exercisable over five years, and a further US$3.0m cash when the project reaches the following annualised production thresholds:

- US$1.5m cash when production reaches an annualised rate over a quarter of 9,500t;
- A further US$1.5m cash when production reaches an annualised rate over a quarter of 12,000t.

As Largo Resources Ltd are still in the process of ramping up production, a lower level of production is expected in the short term. Until such time that the Directors consider it probable that these criteria will be met, the deferred consideration is not recognised as a liability on the balance sheet.

Notes to the consolidated financial statements

for the year ended December 31, 2014

29 Related party transactions

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

	2014 £'000	2013 £'000
Net financing of related entities	5,625	(25,794)
Management fee	3,251	2,166
Amounts owed by related parties at year end	37,671	31,100

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 50 to 56*.

	2014 £'000	2013 £'000
Short-term employee benefits	1,177	1,098
Post-employment benefits	30	17
Share-based payment	563	–
	1,770	1,115

Directors' transactions

The Group made payments of £21,842.77 to Audley Capital Advisors LLP, a company which Mr J.A. Treger, Chief Executive Officer, is both a director and shareholder, for the reimbursement of travel related expenditure and IT recharges during the year ended December 31, 2014 (2013: £nil). During the same period, the Group received £48,201.60 from Audley Capital Advisors LLP for the reimbursement of office relocation expenditure. At December 31, 2014 a total of £nil was owing to or from Audley Capital Advisors LLP (2013: £nil).

30 Financial risk management

The Group's principal treasury objective is to provide sufficient liquidity to meet operational cash flow and dividend requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Group's activities expose it to a variety of financial risks including liquidity risk, credit risk, foreign exchange risk and price risk. The Group operates controlled treasury policies which are monitored by management to ensure that the needs of the Group are met while minimising potential adverse effects of unpredictability of financial markets on the Group's financial performance.

Financial instruments

The Group and Company held the following investments in financial instruments (this includes investment properties):

	2014		2013	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Investment property (held at fair value)				
Coal royalties (Kestrel)	117,097	–	131,434	–
Available-for-sale (held at fair value)				
Royalty financial instruments	8,142	8,142	27,847	12,839
Mining and exploration interests	9,896	6,190	20,072	13,975
Loans and receivables				
Trade and other receivables[1]	14,153	37,671	11,599	31,295
Cash at bank and in hand	8,769	1,996	15,706	4,106
Financial liabilities				
Trade and other payables[2]	2,466	2,422	189	173

[1] Trade and other receivables include royalty receivables and other non-current receivables only, as set out in note 20.

[2] Trade and other payables include trade payables and accruals only, as set out in note 23.

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

Liquidity and funding risk

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At December 31, 2014 and December 31, 2013 there was no debt outstanding. The addition of a 12-month US$15.0m revolving credit facility signed in February 2014 added further flexibility and liquidity to the Group's cash balances.

Credit risk

The Group's principal financial assets are bank balances, royalty instruments held as financial assets, trade and other receivables and investments. These represent the Group's maximum exposure to credit risk in relation to financial assets and total £22.9m at December 31, 2014 (£27.3m at December 31, 2013).

The Group's credit risk is primarily attributable to its other receivables, including royalty receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. In certain cases the Group has the right to audit the reported royalty income.

The Group's credit risk on royalty instruments held as financial instruments has been reviewed and the estimated current exposure is as disclosed in note 15 where the future contractual right to cash flows from these instruments is reflected in their fair value.

The credit risk on bank deposits is mitigated by banking with household name financial institutions in reputable jurisdictions. The Group has no significant concentration of credit risk, with exposure spread over a large number of currencies and counterparties.

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Share price risk

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

A 10% increase or decrease in the fair value of our mining and exploration interests (listed and unlisted) would increase/decrease the mining and exploration interests' balance (and investment revaluation reserve in equity) by £1.0m at December 31, 2014 (£2.0m at December 31, 2013). We note that if a 10% decrease were to occur then a further assessment would be required to determine whether the decrease was considered to be 'significant', with any resulting impairment recognised in the income statement.

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

Historically, mining and exploration interests were acquired as part of a strategy to acquire royalty assets. This strategy is unaffected by recent fluctuations in prices for mining and exploration equities; however, interests are continually monitored for indicators that may suggest problems for these companies raising capital or continuing their day-to-day business activities to ensure remedial action can be taken if necessary. This method of sourcing royalties is unlikely to be followed going forward and as a result, remaining mining and exploration interests are now considered non-core to the Group's primary business and are gradually being sold.

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.

Foreign exchange risk

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

Financial assets and liabilities are split by currency as follows:

	2014						2013					
	GBP £'000	AUD £'000	CAD £'000	USD £'000	NOK £'000	EUR £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	NOK £'000	EUR £'000
Financial assets	12,365	125,579	5,661	14,452	–	–	22,280	148,187	12,410	22,925	851	5
Financial liabilities	2,457	8	1	–	–	–	175	12	2	–	–	–
Net exposure	9,908	125,571	5,660	14,452	–	–	22,105	148,175	12,408	22,925	851	5

Foreign exchange sensitivities

With the exception of the cash balances, the majority of the financial instruments not denominated in GBP are held in entities with the same functional currency and for the purpose of this sensitivity analysis, the impact of changing exchange rates on the translation of foreign subsidiaries into the Group's presentation currency has been excluded.

In terms of the cash balance, the significant sensitivities are as follows:

- A +/- 10% change in the GBP:AUD rate would increase/decrease profit after tax and equity by £28k (2013: £104k);
- A +/- 10% change in the GBP:CAD rate would increase/decrease profit after tax and equity by £246k (2013: £506k);
- A +/- 10% change in the GBP:USD rate would increase/decrease profit after tax and equity by £355k (2013: £200k).

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

Capital management and procedures

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to realise the full value of its assets and to enhance shareholder value in the Company and returns to shareholders by acquiring further royalty assets.

The Directors continue to monitor the capital requirements of the Group by reference to expected future cash flows. Capital for the reporting periods presented is summarised in the consolidated statement of changes in equity.

The optimal capital structure for the Group is to fund its business via equity. In certain circumstances the Directors will tolerate a level of gearing. The targeted debt capacity will be 1.5-2 times free cash flow, although a higher ratio can be tolerated for shorter periods when there is a reasonable expectation of a recovery in free cash flow.

Fair value hierarchy

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

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

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

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2014:

		2014			
Group	**Note**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets					
Coal royalties (Kestrel)	(a)	–	–	117,097	117,097
Royalty financial instruments	(b)	–	–	8,142	8,142
Mining and exploration interests – quoted	(c)	8,821	–	–	8,821
Mining and exploration interests – unquoted	(d)	–	1,075	–	1,075
Mining and exploration interests – royalty options	(e)	–	–	–	–
Net fair value		8,821	1,075	125,239	135,135

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2013:

		2013			
Group	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Coal royalties (Kestrel)	(a)	–	–	131,434	131,434
Royalty financial instruments	(b)	–	–	27,847	27,847
Mining and exploration interests – quoted	(c)	16,018	–	–	16,018
Mining and exploration interests – unquoted	(d)	–	3,896	–	3,896
Mining and exploration interests – royalty options	(e)	–	158	–	158
Net fair value		16,018	4,054	159,281	179,353

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for the year ended December 31, 2014

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2014 and December 31, 2013:

		2014			
Company	**Note**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets					
Royalty financial instruments	(b)	–	–	8,142	8,142
Mining and exploration interests – quoted	(c)	6,024	–	–	6,024
Mining and exploration interests – unquoted	(d)	–	166	–	166
Mining and exploration interests – royalty options	(e)	–	–	–	–
Net fair value		6,024	166	8,142	14,332

		2013			
Company	Note	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Royalty financial instruments	(b)	–	–	12,839	12,839
Mining and exploration interests – quoted	(c)	13,646	–	–	13,646
Mining and exploration interests – unquoted	(d)	–	171	–	171
Mining and exploration interests – royalty options	(e)	–	158	–	158
Net fair value		13,646	329	12,839	26,814

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

The methods and valuation techniques used for the purposes of measuring fair value of royalty financial instruments gives more prominence to the probability of production by applying a risk weighting to the discounted net present value outcome in order to fully reflect the risk that the operation never comes into production, rather than factoring this risk into the discount rate applied to the future cash flow.

(a) Coal royalties (investment property)

The Group's coal royalties derive from its ownership of certain sub-stratum land in Queensland, Australia. In accordance with IAS 40, this land is revalued at each reporting date on the basis of future expected income discounted at 7% by an independent valuation consultant. See note 14 for further details. All unobservable inputs are obtained from third parties.

The Group's independent coal industry advisor, who prepares the coal royalty valuation, provided an analysis of the valuation's sensitivity to fluctuations in coal prices as follows:

- a 10% reduction in the coal price would have resulted in the coal royalties being valued at A$187.6m (£98.5m) and an additional charge to the income statement of £18.6m; and
- a 10% increase in the coal price would have resulted in the coal royalties being valued at A$259.4m (£136.2m) and a decrease in the charge to the income statement of £19.1m.

(b) Royalty instruments

At the reporting date the royalty instruments are valued based 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 underlying projects. The outcome is then risk weighted to reflect the likelihood of the project achieving production based on any published updates in the year. Note 15 details the discount rates used. This is the only unobservable input determined by management. All other unobservable inputs are obtained from third parties.

(c) Mining and exploration interests – quoted

All the quoted mining and exploration interests have been issued by publicly traded companies in well established security markets. Fair values for these securities have been determined by reference to their quoted bid prices at the reporting date.

(d) Mining and exploration interests – unquoted

All the unquoted mining and exploration interests are initially recognised using cost as the best approximation of fair value. The Group notes any trading activity in the unquoted instruments and will value its holding accordingly. At present, the Group holds these investments with a view to generating future royalties and there is no present intention to sell. The vast majority of these are in investments which the Group anticipates a realistic possibility of a future listing.

(e) Mining and exploration interests – royalty options

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

Fair value measurements in Level 3

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

The following table presents the changes in Level 3 instruments for the year ended December 31, 2014.

	Royalty financial instruments £'000	**Coal royalties (Kestrel) £'000**	**Total £'000**
At January 1, 2014	27,847	131,434	159,281
Revaluation gains or losses recognised in:			
Other comprehensive income	(4,697)	–	(4,697)
Income statement	–	(11,822)	(11,822)
Impairment	(15,288)	–	(15,288)
Foreign currency translation	280	(2,515)	(2,234)
At December 31, 2014	8,142	117,097	125,239

The following table presents the changes in Level 3 instruments for the year ended December 31, 2013.

	Royalty financial instruments £'000	Coal royalties (Kestrel) £'000	Total £'000
At January 1, 2013	41,945	170,995	212,940
Revaluation gains or losses recognised in:			
Other comprehensive income	(2,458)	–	(2,458)
Income statement	(8,735)	(13,568)	(22,303)
Foreign currency translation	(2,905)	(25,993)	(28,898)
At December 31, 2013	27,847	131,434	159,281

There have been no transfers into or out of Level 3 in any of the years.

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

31 Events occurring after year end

On March 12, 2015 the Group completed its acquisition of the Narrabri royalty for US$65.0m. The Narrabri royalty is a 1% gross revenue royalty over all coal produced from the Narrabri mine located in New South Wales, Australia, owned and operated by Whitehaven Coal Limited.

Of the total consideration of US$65.0m, US$60.0m was paid in cash and US$5.0m was satisfied by the issue of 4,135,238 ordinary shares. The cash component of the consideration was partly funded through the firm placing, placing and open offer that was completed on February 27, 2015, resulting in the issue of 49,375,000 new shares at a price of 80p per share, raising £39.5m, before costs.

In addition to the firm placing, placing and open offer, the Group entered into a new three-year US$30.0m revolving credit facility on February 19, 2015. The new facility is secured by way of a floating charge over the Group's assets and is subject to a number of financial covenants.

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32 Principal subsidiaries

	Country of registration and operation	Principal activity	Proportion of shares held at December 31, 2014
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Pty Ltd	Australia	Investments	100%†
Alkormy Pty Ltd	Australia	Investments	100%†
Argo Royalties Pty Ltd	Australia	Investments	100%†
Starmont Ventures Pty Ltd	Australia	Investments	100%†
Gordon Resources Pty Ltd	Australia	Owner of coal royalty	100%†
APG Aus No 1 Pty Ltd	Australia	Owner of iron ore royalties	100%
APG Aus No 2 Pty Ltd	Australia	Owner of iron ore royalties	100%
APG Aus No 3 Pty Ltd	Australia	Owner of uranium royalties	100%
APG Aus No 4 Pty Ltd	Australia	Owner of iron ore royalties	100%
APG Aus No 5 Pty Ltd	Australia	Owner of iron ore royalties	100%
APG Aus No 6 Pty Ltd	Australia	Owner of vanadium royalties	100%
APG Aus No 7 Pty Ltd	Australia	Investments	100%
Anglo Pacific Finance Ltd	Ireland	Treasury	100%†
Anglo Pacific Group Employee Benefit Trust	Guernsey	Administering Group incentive plans	100%
Anglo Pacific Cygnus Ltd	England	Investments	100%
Centaurus Royalties Ltd	England	Owner of iron ore royalties	100%
Southern Cross Royalties Ltd	England	Owner of iron ore and uranium royalties	100%
Shetland Talc Ltd	Scotland	Mineral exploration	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%†
Panorama Coal Corporation	Canada	Owner of coal royalty	100%
Trefi Coal Corporation	Canada	Owner of coal tenures	100%
Polaris Royalty Corporation	Canada	Intermediate holding company	100%†
Albany River Royalty Corporation	Canada	Owner of chromite royalty	100%†

†Denotes held by a subsidiary company

Performance measures

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

Adjusted earnings/(loss)

Adjusted earnings/(loss) represents the Group's underlying operating performance from core activities. Adjusted earnings/(loss) is the profit/(loss) attributable to equity holders less all valuation movements, non-cash impairments and amortisation charges (which are non-cash IFRS adjustments that arise primarily due to changes in commodity prices), finance costs, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing. See note 11 to the financial statements for adjusted earnings/(loss).

Operating profit/(loss)

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

Shareholder statistics

(a) Size of holding (at March 18, 2015)

Category UK and Canada	Number of shareholders	%	Number of shares	%
1 – 1,000	647	30.59	339,352	0.20
1,001 – 5,000	828	39.15	1,945,446	1.14
5,001 – 10,000	212	10.02	1,533,923	0.90
10,001 – and over	428	20.24	166,123,313	97.75
	2,115	100.00	169,942,034	100.00

(b) The percentage of total shares held by or on behalf of the 20 largest shareholders as at March 18, 2015 was 60.24%.

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