

Financing investment in  
natural resources to enable  
a sustainable future

**2019 Annual Report & Accounts**

ANGLO PACIFIC GROUP PLC



## Natural resources royalties and streams explained

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

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

### TYPES OF NATURAL RESOURCES ROYALTIES AND STREAMS

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

#### GRR : Gross Revenue royalty

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

#### NSR : Net Smelter Return royalty

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

### PRIMARY VERSUS SECONDARY ROYALTIES

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

### METAL STREAMS

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

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

### INNOVATIVE STRUCTURES

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

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## PERFORMANCE MEASURES

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

### Portfolio contribution

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

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

### Operating profit/(loss)

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

### Adjusted earnings per share

Adjusted earnings represents the Group's underlying operating performance from core activities. Adjusted earnings is the profit/(loss) attributable to equity holders, plus royalties received from royalty financial instruments carried at fair value through profit or loss, less all valuation movements and impairments (which are non-cash adjustments that arise primarily due to changes in commodity prices), together with amortisation charges, share-based payments, foreign exchange gains/(losses), any associated deferred tax and any profit or loss on non-core asset disposals.

Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share. Refer to **note 13** to the financial statements for adjusted earnings/(loss) per share.

### Dividend cover

Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share. Refer to **note 14** to the financial statements for dividend cover.

### Free cash flow per share

Free cash flow per share is calculated by dividing net cash generated from operating activities, plus proceeds from the disposal of non-core assets and any cash considered as repayment of principal, less finance costs, by the weighted average number of shares in issue. Refer to **note 35** to the financial statements for free cash flow per share.

## Financing investment in natural resources to enable a sustainable future

Our aim is to become a leading natural resources company through investing in high-quality projects in preferred jurisdictions with trusted counterparties, underpinned by strong ESG principles.



**08**

12.5% increase in dividends for 2019

The Board is recommending a final dividend of 4.125p, if approved total dividends for 2019 would be 9p, an increase of 12.5% on the 8p paid in 2018

**N.P.H. MEIER**



**11**

Another record year in 2019 for Anglo Pacific

Our portfolio contribution increased by 20% to £59.5m for the year, and we added a record £62.6m of income producing royalty assets to our portfolio

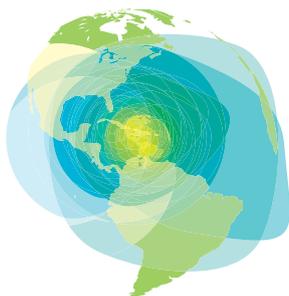
**J.A. TREGER**



**18**

We believe that a strong focus on ESG is vital for long-term success

We systematically integrate ESG factors into our investment decisions



**20**

Investing in less polluting commodities

We believe long-term value can only be achieved through sustainable and responsible investment with a strong focus on ESG

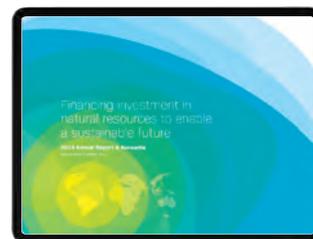


**51**

Facility in place to finance our growth ambitions

Our borrowing facility has been increased from US\$60m to US\$90m, maintaining a further US\$30m accordion option to finance further acquisitions

**K. FLYNN**



For more...

[www.anglopacifigroup.com](http://www.anglopacifigroup.com)

## ANGLO PACIFIC AT A GLANCE

### Key highlights



**PRIMARY LISTING**

London Stock Exchange (LSE: APF)



**SECONDARY LISTING**

Toronto Stock Exchange (TSX: APY)



**INVESTING RESPONSIBLY**

Commitment to investing in high-quality project underpinned by the strong ESG principles, with no further investment in thermal coal



**PRODUCTION POTENTIAL**

Significant organic growth in the current portfolio from Kestrel, Mantos Blancos, Piauí and Narrabri



**GLOBAL ROYALTY ASSETS**

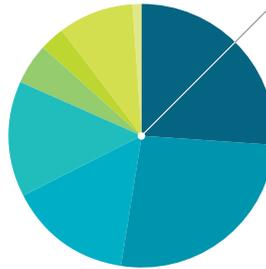
15 principal royalty and streaming related assets across five continents

### Diversified portfolio of royalties

See business review [page 35](#)

**60%**

of the royalty portfolio is non-coal



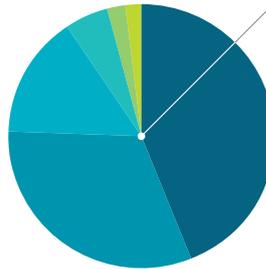
**COMMODITY EXPOSURE**

by asset value at 31 December 2019

Coking coal	26%
Iron ore	26%
Copper	15%
Thermal coal	14%
Vanadium	5%
Gold	3%
Uranium	9%
Other	1%

**98%**

of the portfolio is in established natural resources jurisdictions



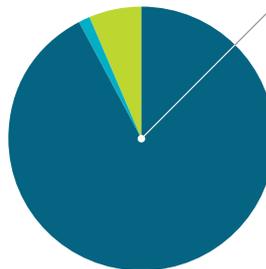
**GEOGRAPHIC EXPOSURE**

by asset value at 31 December 2019

Australia	44%
Canada	32%
Chile	15%
Brazil	5%
Spain	2%
Other	2%

**92%**

of the portfolio is producing royalties



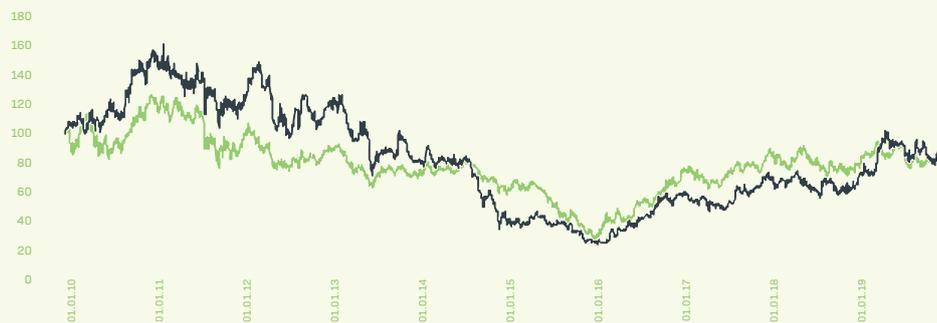
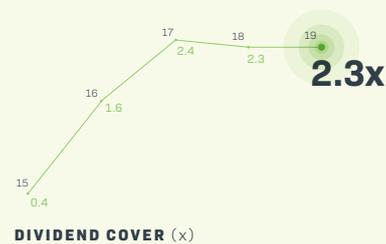
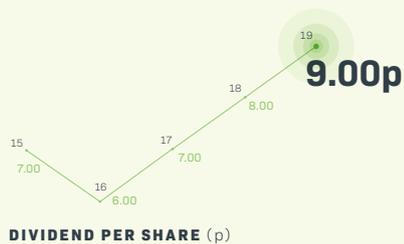
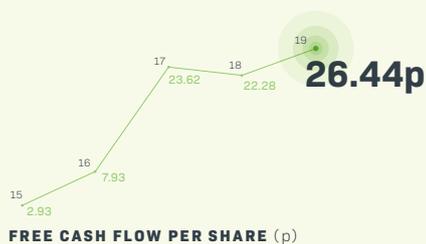
**STAGE OF PRODUCTION**

by asset value at 31 December 2019

Producing	92%
Development	2%
Early-stage	6%

## KPIs 2019

See five-year track record [page 29](#)



### SHAREHOLDER RETURNS

FTSE 350 Mining Index vs. Anglo Pacific Group 2010-2019

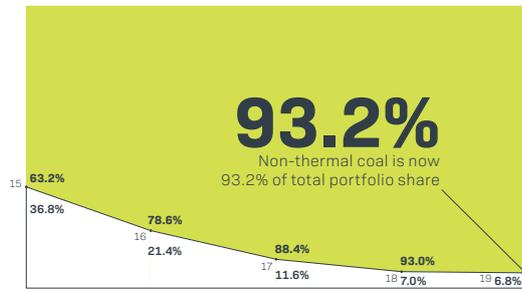
(Rebased to 100)

FTSE 350 Mining Index Anglo Pacific Group

**OUR APPROACH AND INVESTMENT STRATEGY**

We diligently evaluate each potential project, focusing on ESG impact together with the viability for production and potential exploration upside. We look to select the best operations, to support the sustainable growth of our diversified portfolio.

**Acquisitions have diversified our portfolio and significantly reduced our thermal coal exposure**



**NARRABRI SHARE OF TOTAL PORTFOLIO CONTRIBUTION (%)<sup>1</sup>**

□ Narrabri (thermal coal) ■ Other royalties/stream assets<sup>1</sup>

1. Other royalties/stream assets include the Kestrel, Mantos Blancos, Maracás, EVBC and Four Mile royalties, Denison financing principal and interest and LIORC dividend based on APG's ~6.3% stake and BBG broker consensus estimates

**Our disciplined investment approach**

**Commodity**

- Bulk materials
- Base metals
- Industrial minerals
- Opportunistically considering other commodities that also support a more sustainable world

**Asset specific considerations**

- Compliance with ESG criteria
- Management's operating track record
- Profit margin & position on the industry cost curve
- Counterparty risk
- Jurisdictional risk

**Valuation considerations**

- Detailed due diligence on mine production profile
- Site visits by technical team and independent technical advisors
- Production assumptions based on existing mineable reserves, resource conversion assumptions evaluated on case-by-case basis
- Consider other factors such as geology, infrastructure and permitting, which could impact production volumes or mine life

ESG emphasis has influenced our investment approach in the following ways...

## An agent for positive change

We look to be an influencer to our royalty and stream counterparties and seek to be an agent for positive change in the mining sector

### 1

#### IDENTIFY RISKS IN RELATION TO NEW INVESTMENTS

- ESG due diligence aimed at identifying key risk areas
- Anglo Pacific primarily targets jurisdictions where political risk and corruption/bribery are considered low

### 2

#### MITIGATE RISKS IN RELATION TO NEW INVESTMENTS

- Seek or require counterparty implementation of ESG practices and standards

### 3

#### MONITOR AND INFLUENCE

- Encourage royalty/stream counterparties to adopt best practices voluntarily

### 4

#### COMMUNICATE

- Disclose Anglo Pacific ESG policies and due diligence processes in relation to new investments as well as highlight best performing counterparties

#### KEY AREAS OF APG ESG DUE DILIGENCE

- Impact of mining, operations and related activities on surrounding communities
- Tailings impoundments and waste rock storage at the project
- Water requirements, water sourcing and water discharge
- Ethical track record and any history of corruption
- Workplace standards, protections and policies
- Community initiatives and engagement with indigenous peoples
- Safety and human rights records
- Mine closure plans
- Climate change risks specific to a project and plans adopted by the operator to manage such risks
- Impact of development and operations on fauna, flora and biodiversity

## Our responsible initiatives

Anglo Pacific continues to focus on how best to align our business with the development of socially responsible mining as part of our efforts to help address the challenges around carbon dependence and sustainability.

We have introduced three new initiatives:

### 1

#### MORE SUSTAINABLE COMMODITIES

- An increased focus on commodities that support a more sustainable world

### 2

#### COMMITMENT TO NO FURTHER INVESTMENT IN THERMAL COAL

- Consistent with our track record over the past five years, no further investment in thermal coal assets

### 3

#### ESTABLISHING SUSTAINABILITY COMMITTEE

- The establishment of a Sustainability Committee to further strengthen the Company's already rigorous ESG due diligence processes

## OUR PORTFOLIO

15 principal royalty and streaming related assets across five continents.

92% of the portfolio by value is producing and 98% of the portfolio is located in well established mining jurisdictions, providing diversified commodity exposure.



### Producing

Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
<b>Kestrel</b>	Coking coal	Kestrel Coal Pty Ltd	Australia	7 – 15% GRR <sup>1</sup>	Investment property
<b>Labrador Iron Ore Royalty Corporation ('LIORC')</b>	Iron ore & iron ore pellets	Iron Ore Company of Canada ('IOC') / Rio Tinto	Canada	Indirect interest in 7% GRR	Royalty financial instrument
<b>Mantos Blancos</b>	Copper	Mantos Copper	Chile	1.525% NSR	Royalty intangible
<b>Maracás Menchen</b>	Vanadium	Largo Resources	Brazil	2% NSR	Royalty intangible
<b>McClean Lake Mill</b>	Uranium	Orano	Canada	Tolling revenue	Loan & royalty financial instrument
<b>Narrabri</b>	Thermal & PCI coal	Whitehaven Coal	Australia	1% GRR	Royalty intangible
<b>Four Mile</b>	Uranium	Quasar Resources	Australia	1% NSR	Royalty intangible
<b>El Valle-Boinás / Carlés ('EVBC')</b>	Gold, copper & silver	Orvana Minerals	Spain	2.5 – 3% NSR <sup>2</sup>	Royalty financial instrument

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## Development

Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
<b>Salamanca</b>	Uranium	Berkeley Energia	Spain	1% NSR	Royalty intangible
<b>Groundhog</b>	Anthracite	Atrum Coal	Canada	1% GRR or US\$1.00/t	Royalty intangible
<b>Piauí</b>	Nickel & cobalt	Brazilian Nickel	Brazil	1.00% GRR	Royalty financial instrument

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## Early-stage

Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
<b>Pilbara</b>	Iron ore	BHP	Australia	1.5% GRR	Royalty intangible
<b>Cañariaco</b>	Copper, gold & silver	Candente Copper	Peru	0.5% NSR	Royalty intangible
<b>Ring of Fire</b>	Chromite	Noront Resources	Canada	1% NSR	Royalty intangible
<b>Dugbe 1</b>	Gold	Hummingbird Resources	Liberia	2 – 2.5% NSR <sup>3</sup>	Royalty financial instrument

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

**CHAIRMAN'S STATEMENT**

COVID-19 poses a significant global challenge but Anglo Pacific is in a strong financial position to continue growing its business following another record year in 2019

**N.P.H. MEIER**

Chairman

In these challenging times it would be easy to overlook the fact that 2019 was a record year for Anglo Pacific with portfolio contribution increasing by 20% to £59.5m (or ~US\$75m). We also deployed a record £62.6m of capital in income producing royalty assets.

The outbreak of COVID-19 is a very significant humanitarian and economic event facing many countries and businesses. It has become clear that the combination of supply chain disruption, widespread travel restrictions and the lock down of many conurbations will result in a significant economic slowdown if not recession in the months ahead. The additional factor of a price war between major oil producers has added to the negative pressures.

Despite the severe disruption, there are some positives for Anglo Pacific in that the prices of the commodities from which the majority of our revenue is derived have held up well thus far this year. Furthermore, as of writing, we understand that there has not been any significant disruption reported by the majority of the operators of the mines from which we generate our royalty income, with Kestrel thus far unaffected. We have seen temporary shutdowns at EVBC and Cigar Lake (from which we earn a toll revenue) for a two and four week period respectively which would have represented less than 1% of our 2019 portfolio contribution. We are encouraged that the countries from which our material royalty revenue is derived, namely Australia and Canada, classify mining activity as a key economic activity and it is likely that every effort will be made to keep these businesses operational but naturally this could change depending on localised outbreaks of the virus which could see restrictions being imposed.

In this period of huge uncertainty, it is very difficult to make forward looking statements or predictions with any great certainty. However, we believe that the impact of COVID-19 will be a temporary disruption and will ultimately pass. In the meantime, we have stress tested our business model to understand what the impact would be under several shut down scenarios, as discussed in the Going Concern statements in this report.

We take comfort from the geographic diversification of our portfolio and that our revenue derives from multiple royalties. Importantly, the Group has a low level of gearing, with a leverage ratio of under 0.7x at December 2019 and no amortisation or deleveraging commitments. We remain in strong financial health and continue to look for growth opportunities despite the macro economic turmoil going on around us. With the cost of equity having increased significantly of late, we would anticipate opportunities arising as we move forward in 2020.

Given the strength of the cash flow we generated during 2019, and despite recent events, we are pleased to propose an increase in the full year dividend to 9p in line with our previous guidance, which would represent a 32% increase in the final dividend to 4.125p should it be approved by shareholders at the 2020 AGM. With access to liquidity and with market conditions being favourable for deal flow given the significant recent increase in the cost of capital for many, we believe that we are well placed to continue delivering on our growth strategy in the year ahead.



Although the threat posed by COVID-19 is serious and will impact on many economies, it should eventually pass. It is rightly consuming the focus of all governments, central banks and investors at present. However, the other longer-term priority is how the world responds to the threat posed by climate change. This remains at the forefront of our minds as we enter 2020 and we have recently refined our approach to this as discussed below.

**2019 PERFORMANCE**

Our record year of portfolio contribution is attributable to both organic growth and income from the £62.6m (~US\$75m) of acquisitions undertaken during the year. Allowing for a modest increase in costs associated with investment in business development, our profit after tax is in line with the previous year at £29.0m, resulting in earnings per share of 16.06p. When valuation and other non-cash items are removed, our underlying adjusted earnings per share increased by 13% to 20.41p.

At the beginning of 2019 we noted the owners of Kestrel were targeting a 40% increase in volume output for the year. Whilst this seemed ambitious at the time, we were very pleased to see that during the year a 42% increase in saleable coal production was achieved resulting in a 13% uplift in revenue from our royalty, despite pricing pressure.

Continuing our growth strategy during the year, we added two income producing royalties to our portfolio, representing a capital allocation ratio of 4:1 towards growth. The highlight for the year was the acquisition of a £42.3m (~US\$50m) royalty over the Mantos Blancos copper project in Chile. Copper is a commodity which we have sought for several years and is a material which will play an increasingly significant role in developing the technology to enable the ongoing electrification movement. This will be an important part of the climate change solution in the years ahead.

We recently increased our financing capabilities by negotiating an increase in our committed lending facilities from US\$60m to US\$90m whilst retaining the option of a further US\$30m through an accordion feature. Total potential borrowing lines now stand at US\$120m of which some US\$75m is available to finance future acquisitions.

**DIVIDEND**

On the back of another record year, we have recommended that the final dividend be 4.125p, a 32% increase on the 2018 final dividend. Should this be approved at the 2020 AGM, the total dividends for 2019 would be 9p, an increase of 12.5% on the 8p paid in 2018. We believe that this level of dividend rewards the continued support of our shareholders whilst also allowing us to invest in growth opportunities which are essential for the long-term future of the business.

**KEY RESULTS IN 2019****+21%**

Royalty related revenue increased by 21% from £46.1m to £55.7m

**16.06p**

Basic earnings per share 16.06p (2018: 15.97p)

**£47.1m**

Cash flow from operations increased from £36.9m to £47.1m

**REFINED STRATEGY AND ESG**

The Company has refined its strategy to move towards lighter, greener materials, which encompass environmental benefits. Many of these materials form part of the new wave of technologies around electrification, including renewable energy. Examples include higher quality iron ore pellets enabling improved energy efficiency by steel mills, base materials linked to energy storage or power transition, specialist alloying materials like niobium, vanadium and aluminium and battery materials like lithium, cobalt and nickel.

Anglo Pacific has been focused on environmental, social and governance (ESG) matters for some time. We have recently been engaged, with the help of expert consultants, in updating our policies and practices such that we ensure we operate to the highest standards. This is more fully described later in this Annual Report.

The acquisitions we have undertaken during the year are representative of the transactions we intend to pursue in the future, with commodities that will make a positive contribution towards climate change solutions – (Mantos) or those which are purer and more energy efficient (LIORC – premium iron ore pellet). As we have recently announced, the Group will not make any additional investments in thermal coal and with the Kestrel depletion now accelerating we would expect our coal contribution to be very low in five years' time.

We are enthusiastic about our ability to play a positive role by implementing our refined strategy and financing those commodities which will be essential in delivering the technology required to reduce dependence on fossil fuel and ultimately improve the planet.

**BOARD**

We were delighted to announce the appointments of Graeme Dacomb, Jim Rutherford as Non-Executive Directors and Kevin Flynn as an Executive Director to the Board during the year – a detailed biography of each is included on [pages 60 and 61](#).

Graeme was a partner at Ernst and Young for 26 years where, for his last 12 years, he was a lead partner in the extractive industry. He brings a wealth of finance, governance and risk analysis experience to the Board. In June 2019, he was appointed as a non-executive director of Ferrexpo plc and chair of its audit committee.

Jim has over 25 years' experience in investment banking and investment management and brings capital markets expertise and an in-depth knowledge of the mining industry to the Board. He is an independent non-executive director of Anglo American plc, deputy chairman of Centamin plc, and independent non-executive director of GT Gold Corp.

Kevin has been with Anglo Pacific since 2012 as Chief Financial Officer & Company Secretary and his appointment to the Board is in recognition of his strong contribution to the Company.

Following five years of service on the Board, David Archer stepped down as a Non-Executive Director as of 1 November 2019 in order to focus on his other business interests. David was instrumental in assisting the Company through its considerable growth, particularly with his perspectives from his experience in the international mining industry.

We recently announced that Mike Blyth will retire from the Board after the forthcoming AGM. Mike joined the board as a Non-Executive Director in March 2013 and served as Chairman from April 2014 to May 2017. He was instrumental in establishing the current board structure and alignment with governance requirements and assisting the Company through its considerable growth.

**+21%**

Operating profit increased from £37.1m to £44.8m

**20.41p**

Adjusted earnings per share 20.41p (2018: 18.02p)

**26.44p**

Free cash flow per share 26.44p (2018: 22.28p)

I would like to express my sincere thanks to both Mike and David for their enormous contribution to the Company and their wise advice over the years. We all wish them well. They will be missed.

Following Mike's retirement, Vanessa Dennett will assume the Chair of the Remuneration Committee and Graeme Dacomb will assume the Chair of the Audit Committee. Jim Rutherford has assumed the role of Senior Independent Director.

We have resolved to establish a Sustainability Committee under the chairmanship of Jim Rutherford, which will be responsible for overseeing compliance with the Group's Environmental, Social and Governance policy and the development, implementation and on-going monitoring of the Group's processes supporting sustainable investment.

The changes listed above leave us with an invigorated and diverse Board with an excellent collection of varied skills and experience, which will be instrumental in determining strategy for the Company and providing guidance and oversight to management. The composition of the Board will be kept under constant review and further changes may be made when appropriate.

I would like to reiterate our commitment to ensuring that we maintain the highest standards in all areas of our business. It is a key responsibility of the Board to set the right tone and guidelines for the Group to operate with integrity and to the highest ethical standards.

**OUTLOOK**

Despite the recent threat posed by COVID-19 and the resultant economic turmoil, our focus has not changed, and will not change so long as the underlying mining operations from which we generate our royalties suffer no material disruption. We remain committed to building on the significant progress we have made recently in creating a portfolio of royalties which will replace our Kestrel income when mining moves outside of our private royalty area in the next five years. We believe that we are on track to do so.

With a recently upsized borrowing facility available to us to utilise we would expect to see opportunities arise in the near-term for those who have access to capital such as Anglo Pacific. With a refined investment focus and a clear strategy to be part of the climate change solution, along with a well-covered dividend, we are confident that our equity story continues to be appealing to a wide range of stakeholders.

Finally, I would like to thank the Board, the executive team under the leadership of Julian Treger and all staff for their hard work and dedication to the success of Anglo Pacific and its development and growth. We were delighted that this was recognised at the recent 2019 Mines and Money awards when the Company was announced joint winner of the Best Alternative Finance Provider of the Year recognising the great work by our team. We have a first-class management team in place capable of sourcing and delivering the growth we are targeting in the coming years.

The team's response to the recent extraordinary challenges has been exemplary and their loyalty and ability to adjust to working in these difficult times has been very impressive. The health and well being of all our employees has been our top concern and we have worked hard to ensure that our working practices have been amended to eliminate unnecessary risks to staff.

Our 2019 strategic report from [pages 02 to 51](#) was reviewed and approved by the Board on 6 April 2020.

**N.P.H. MEIER**

Chairman

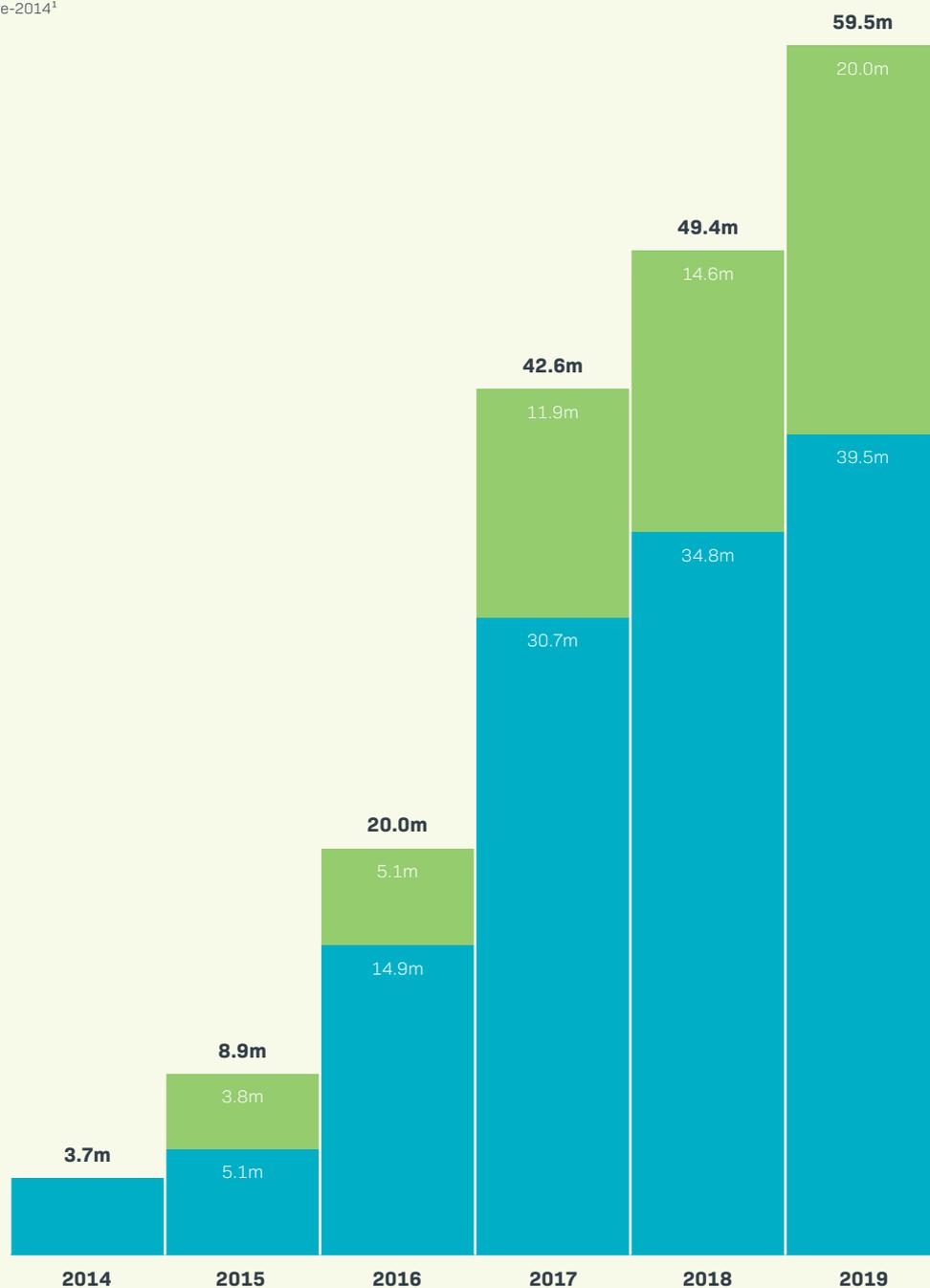
6 April 2020

## ROYALTY PORTFOLIO CONTRIBUTION EVOLUTION

### PORTFOLIO CONTRIBUTION (£m)

■ Anglo Pacific royalty related portfolio pre-2014<sup>1</sup>

■ Acquisitions 2014 to 2019<sup>2</sup>



<b>Portfolio contribution (£m)</b>	3.7m	8.9m	20.0m	42.6m	49.4m	59.5m
<b>Asset</b>	<b>Maracás Menchen</b>	<b>Narrabri</b>		<b>McClellan Lake</b>	<b>LIORC 4.25%</b>	<b>Mantos Blancos</b>
<b>Commodities</b>	Vanadium	Thermal & PCI coal		Uranium	Iron ore	Copper
<b>Transaction date</b>	June 2014	March 2015		February 2017	August 2018	August 2019
<b>Acquisition consideration (£m)</b>	14.4m <sup>3</sup>	41.7m		26.6m	58.7m <sup>4</sup>	42.3m
<b>Cumulative income (£m)</b>	12.0m	19.9m		11.8m	8.4m <sup>5</sup>	1.0m

1. Includes Kestrel, EVBC, Four Mile and Jogjakarta royalties.

2. Includes Narrabri, Maracás Menchen and Mantos Blancos royalties, Denison/McClellan Lake royalty financing agreement and investment in LIORC.

3. US\$22m payable in cash on completion plus up to US\$3m in milestone payments. First US\$1.5m deferred payment paid in Q3 2017.

4. The Group made an initial investment of £38.4m during 2018 to acquire a 4.25% interest in LIORC. During 2019, the Group increased its holding to 6.30%, investing a further £20.3m.

5. Represents the cumulative income on the Group's initial investment of £38.4m in 2018. The Group has received dividends totalling £9.9m between 01 January 2018 and 31 December 2019 on its entire holding.

## CHIEF EXECUTIVE OFFICER'S STATEMENT

Our strong financial position is largely due to another year of record revenue and investment activity in 2019 as we continued to deliver on our strategy

### J.A. TREGER

Chief Executive Officer



As the Chairman has noted, the recent COVID-19 pandemic has caused significant market turmoil. This remains largely outside of our control, but the Company is in sound financial health operating well within our banking covenants and with no near-term refinancing pressures. The flight to safe assets has inevitably impacted on the global equity markets. In times of equity sell offs such as these, there is often an opportunity for alternative finance providers to put capital to work and, with our strong balance sheet and access to liquidity, we remain firmly in growth mode as the market conditions move in our favour.

Our strong financial position is largely due to another year of record revenue and investment activity in 2019 as we continued to deliver on our strategy. We posted record portfolio contribution for the second year in a row, added £62.6m (~US\$75m) of income producing royalties to our portfolio – financed entirely from our balance sheet – and increased our dividend once again from 8p per share in 2018 to 9p for 2019.

The business and finance reviews will go into further detail on our results, but it is particularly noteworthy that the ambitious 40% volume growth from the operators of Kestrel materialised during the year – a record level of saleable coal production for the mine which bodes well for the coming years.

Although pricing for coking coal and vanadium posted gains in the early part of 2020, the outlook for the year remains uncertain in light of the recent COVID-19 outbreak and its potential to impact on global economic growth, mining operations and commodity demand. At present, we are not aware of any significant operational disruptions at the mines from which our material royalty revenue is derived and absent any COVID-19 related restrictions we would anticipate further volume growth to come in 2020, but clearly there is a lot of uncertainty involved in making predictions at present.

Our focus remains on growth, and the recent spike in the cost of capital caused by the COVID-19 pandemic could create opportunities for us to invest our capital in a sector starved of liquidity. It remains business as usual for us in trying to uncover further investment opportunities and our team remains fully operational and active despite having to work remotely.

### KESTREL

The accelerated volumes which we are receiving from Kestrel will boost our cash flow in the short-term, but will also shorten the expected life of mining within our private royalty land. Replacing the Kestrel revenue has been a clear focus over the past number of years. We have made great progress to date and are confident that we will see opportunities in the coming years not just to replace the Kestrel revenue but to exceed it and create a bigger, more diversified business for our stakeholders.

We would expect, at the current levels of production, that there will be two to three years of very high volumes from Kestrel, following which we would expect volumes to reduce for a further two to three years before tailing off.

We have added ~£20m of annual income, based on 2019 revenue, to our portfolio through acquisitions over the past five years at a cost of ~£190m. To replace the Kestrel income earned in 2019 would require a further £17m of additional annual revenue to be acquired over the next five years. We believe we are on track to do so and add even more, given that we have access to liquidity through our borrowing facilities and we expect to generate significant free cash flow in the coming years. This is in stark contrast to many who operate in the sector, where capital continues to be scarce and alternative financing, including royalties, are becoming more mainstream, which should create further opportunities for the Group.

**CHIEF EXECUTIVE OFFICER'S STATEMENT**

continued

**PORTFOLIO CONTRIBUTION** (£m)**ROYALTY ASSETS ACQUIRED** (£m)**ADJUSTED EARNINGS PER SHARE** (p)**DIVIDENDS** (£m)**ACQUISITIONS**

We completed £62.6m (~US\$75m) of income producing acquisitions in 2019, all financed without needing to raise capital. These transactions, as detailed below, are not only financially accretive to the Company, but are also additive to the quality of the portfolio of royalties which we are building, particularly from an ESG perspective. These acquisitions were made in the second half of the year, so 2020 will see the benefit of a full year of revenue from these acquisitions compared to the partial benefit reported in our 2019 results.

**MANTOS BLANCOS ('MANTOS')**

A clear highlight of 2019 was the £42.3m (~US\$50m) copper royalty over the Mantos mine in Chile which provides us with our first exposure to copper without having to compromise on our strict investment and ESG criteria.

Conclusions from the ESG diligence conducted at the time of the acquisition include an environmental mitigation policy which seeks to minimise the mine's environmental impact, and that Mantos has a good safety track record which is underpinned by integrated safety, occupational health, environmental management and quality policies which are applied consistently across the organisation under an Integrated Management System in compliance with the ISO 9001 certification. Mantos produces high grade copper concentrates with low levels of deleterious materials such as arsenic, as well as cathode products which are primarily Grade A 99.99% purity and LME registered. Mantos maintains a dialogue with communities in the areas of its mining operations and seeks to provide targeted economic and social development.

We are confident in the medium-term outlook for copper given the limited new supply coming online and what should be increased demand as the world transitions towards electrification as a means of reducing dependence on carbon intensive energy production. For this reason, we believe that there is a reasonable prospect that copper will perform well over time. Along with ramp up potential at the operation, we believe we identified a good entry point for copper over what will be a mine life in excess of 15 years.

**LABRADOR IRON ORE ROYALTY CORPORATION ('LIORC')**

In 2018 we announced that we had acquired a 4.28% equity stake in Labrador Iron Ore Royalty Corporation (LIORC). LIORC is a Toronto listed company which holds both a royalty and equity interest in the Labrador Iron Ore (IOC) project. This entitles LIORC to revenue from its 7% gross revenue royalty (along with a small commission) on revenue from the operation, along with dividend income from its equity stake.

The investment thesis behind this was based on the underlying quality of the premium iron ore pellet product which the operation produces. This is very much in keeping with our view that, over time, cleaner, purer and more efficient commodities will command premium pricing (or conversely, those lower quality products will become unmarketable). High-quality iron ore pellets are much more efficient in the production of steel, meaning that steel mills which use iron ore pellets as an input will have a better carbon footprint than those which do not. We believe that a big focus for the steel industry will be on reducing carbon emissions in future years, and high-quality iron ore pellet can greatly assist in this.

A cornerstone of our ESG agenda is to support those commodities which will contribute towards a cleaner planet. However, the quality of the product will not be sufficient. We must be certain that the mines are operated to the highest standards in respect of safety, environmental impact and social support. This is, in our view, key to ensuring sustainability in mining. Mining operations which source electricity from renewable energy sources, such as the Iron Ore Company of Canada which benefits from access to hydro power generation, are key to reducing the mining industry's carbon footprint.

From a financial perspective, the investment we made in 2018 yielded 16.5% in 2019. Following a decline in the share price in the middle of the year, we identified an opportunity to add to this investment during 2019, acquiring a further 1.83% at a cost of £20.3m (~US\$25m), bringing our total investment to £62.6m (~US\$75m) for a 6.12% ownership. We have added a further £5.7m (~US\$7.5m) in 2020, which represents the reinvestment of the dividend received, taking our holding up to 7%.

## Key investment highlights

### PROVEN TRACK RECORD

~\$250 million of acquisitions in the last six years achieving portfolio diversification

Adjusted earnings growth of ~8x between 2014 and 2019 to ~18p/sh

### RELATIVE VALUATION

Steady increase in dividend per share since 2016 with ~6% dividend yield

Currently trading at a relative discount to Canadian royalty company peers

### HIGH MARGIN, SCALABLE BUSINESS MODEL

Growth requires minimal increase in cost base driving high operating margins

Lower operating costs in 2019 vs. 2014 despite ~13-fold increase in portfolio contribution

The investment is considered by management to be the part ownership of a royalty given its single exposure to the Labrador Iron Ore project, but the investment was acquired through on-market share purchases in the single asset vehicle.

The LIORC share price has not been immune to the recent global equity sell off, which has resulted in a significant reduction in value on our balance sheet. However, we do not hold this for trading or for capital, our investment is based on our income expectation based on the high quality iron ore pellet premium we would expect this operation to generate. As equities are now in many cases undervalued, we consider this to now represent an even more attractive entry price and may choose to selectively increase our exposure as we go through 2020.

### INCOA

We were pleased to announce our recent participation in the Incoa Financing Arrangement, led by Orion Mine Finance Partners ('Orion') which affords the Company the opportunity to invest \$20m into a calcium carbonate project at a point when it is in production and generating a certain level of revenue.

There are various conditions precedent which need to be met before our financing is unconditional so we see this as a de-risked option to invest capital at a time when the operation is successful, and the product has found an end market and is being operated in compliance with our ESG requirements.

The investment would further diversify our portfolio and represent our first exposure to industrial minerals which is less correlated with more cyclical base materials. The operation is located in the Dominican Republic. The product will be shipped untreated to the US where it will be treated at Incoa's processing plant and converted into its final state ready for market. The financing transaction is with Incoa's US parent company.

We are delighted to once again work with Orion (whom we participated with in the Mantos project) and hope to create other co-investment opportunities with them as a means of generating deal flow in the coming years.

### HIGH-QUALITY PORTFOLIO WITH STRONG ESG FOCUS

Investment in high-quality projects in preferred jurisdictions with significant upside potential underpinned by strong ESG principles

### STRONG GOVERNANCE

High-quality Board provides leadership to the Group and is responsible for its long-term success

Strong governance and rigorous DD process reduces risks and enables us to better determine the long-term success of a project

### UNCORRELATED INVESTMENT OPPORTUNITY

Limited exposure to mine operator cost base

Demonstrably lower correlation to MSCI World Index than global mining peers

### OUTLOOK

Ordinarily, the market background would be favourable for our prospects in the year ahead, both from our existing portfolio and also for growth opportunities. However, the outbreak of COVID-19 and its impact on the global economy has created a market environment rarely witnessed before. Global economic growth will be affected and the outlook for capital markets looks highly volatile and uncertain.

Those in the strongest position will be those with access to capital. Having recently announced an upside and extension to our borrowing facility, along with operating at less than 0.7x levered, we are confident that we are not only in a strong financial position to withstand the current headwinds but to also continue deploying capital into growth opportunities.

We will continue to focus on diversifying our portfolio away from coal, with ESG at the forefront of our strategy going forward. A strong mining industry will be vital in providing the materials to enable the technological change required to reduce the global dependency on carbon generated energy. Mining will ultimately form part of the climate change solution and we will work to promote its virtues by financing the most sustainable operations which produce the materials required for a better world. This will remain our focus in the year ahead.

### J.A. TREGER

Chief Executive Officer

6 April 2020

## OUR BUSINESS MODEL

We seek to create long-term value for our stakeholders by investing responsibly and generating superior cash returns from a diverse and growing portfolio.

### 1

#### OUR PURPOSE

**Financing investment in natural resources to enable a sustainable future**

### 2

#### STRATEGY

To become a leading natural resources company through investing in high-quality projects in preferred jurisdictions with trusted counterparties, underpinned by strong ESG principles

### 3

#### OUR VALUES UNDERPIN EVERYTHING WE DO...

##### Sustainability

We believe long-term value can only be achieved through sustainable and responsible investment

##### Integrity and Respect

We are committed to the highest ethical standards of conduct and best practices

##### Diversity

We seek to achieve diversity in our investments and our team

##### Collaboration

We believe teamwork is essential to achieving our purpose and delivering value to our stakeholders

### 4

#### STRATEGIC DRIVERS

**Achieving our strategy through acquisitions which satisfy these criteria**

- High-quality and low-cost assets
- Attractive returns
- Strong operational management teams
- Long-life assets
- Diversification of royalty portfolio
- Established natural resources jurisdictions
- Strong ESG credentials
- Production and exploration upside potential

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

## How we create value for our shareholders

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

### GENERATING LONG-TERM CASH RETURNS

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

### LOWER RISK THROUGH TOP-LINE, REVENUE PARTICIPATION

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

### LOWER VOLATILITY THROUGH COMMODITY AND GEOGRAPHIC DIVERSIFICATION

The Group is building a diversified portfolio of royalties across a variety of different commodities and geographic locations. This diversification reduces the dependency on any one asset or location and any corresponding cyclicalities. A fully diversified portfolio can help to reduce the level of income volatility, stabilising cash flows which contribute towards investment returns and dividend payments.

### EXPOSURE TO INCREASES IN MINERAL RESERVES AND PRODUCTION

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

### EXPOSURE TO COMMODITY PRICES

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

### INNOVATIVE STRUCTURES

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

## How we create value for our counterparties

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

### WE SERVE AS A PARTNER TO THE OPERATORS

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

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

Compared to the issuance of new equity, royalties and streams do not depend on the prevailing state of the capital markets but are rather the result of bilateral negotiations. Royalties and streams are not dilutive, unlike the issuance of new equity. In addition, royalties and streams are not regarded as debt nor do they encumber assets.

### PRIMARY ROYALTIES

#### Alternative form of finance to conventional debt providing greater flexibility and which does not impact on credit ratings

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

### SECONDARY ROYALTIES

#### Source of liquidity for holders of existing royalties

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

## ENGAGING WITH OUR STAKEHOLDERS

Anglo Pacific aims to create both short and long-term value for its stakeholders. In doing so, we actively engage with our stakeholders to understand the issues and factors that are significant for them and to ensure the Group's purpose, culture and values are aligned with this objective.

### Employees

#### HOW WE ENGAGE

With only 11 employees, the Board is often in direct contact with the Group's entire workforce. In addition to such direct contact, Ms. Dennett was appointed as the designated Non-Executive Director for workforce engagement and is responsible for meeting with employees at least twice per year through one-on-one meetings and town halls.

#### SIGNIFICANT TOPICS RAISED

- Engagement and alignment with the Group's revised purpose and values
- Proposed changes to the Group's workforce related policies and procedures
- Opportunities for personal development
- Workforce remuneration policies, particularly focused on long-term retention

ANGLO  
PACIFIC

### Investors

#### HOW WE ENGAGE

AGM, investor roadshows, one-on-one meetings, conferences and results webcasts

#### SIGNIFICANT TOPICS RAISED

- Progress on the diversification of the Group's royalty portfolio
- Acquisition of the Mantos Blancos royalty
- Capital returns to shareholders – dividends and share buy backs

### Counterparties & mine operators

#### HOW WE ENGAGE

Contract negotiation, site visits and ongoing monitoring of developments, with a focus on ESG at the operations generating our royalty related income.

#### SIGNIFICANT TOPICS RAISED

- Evidence of environmentally and socially responsible performance and risk management
- Performance of the underlying operations and outlook
- Terms and conditions of royalty and streaming agreements

### Communities

#### HOW WE ENGAGE

As a royalty and streaming company, Anglo Pacific does not operate any of the underlying assets within its portfolio. While this limits the direct involvement the Group has with the communities impacted by the operations underlying the portfolio, the Board, through the Executive Committee led by the Chief Executive Officer, engage with the mine operators seeking to influence and encourage compliance with relevant environmental, social and governance standards.

#### SIGNIFICANT TOPICS RAISED

- Updates on significant environmental or community related incidents
- The standards adopted by the Group in relation to ESG and the standards expected of our operators

### Industry peers

#### HOW WE ENGAGE

We are currently engaging with other royalty and streaming companies globally with the intention to establish a Royalty Forum.

#### SIGNIFICANT TOPICS RAISED

- Educating the markets to the benefits of royalty and streaming financing arrangements.
- The ability of the royalty and streaming industry to positively influence the ESG performance of mine operators.

## Having regard to our stakeholders in Board decision-making.

### SECTION 172(1) STATEMENT

When making decisions, the Directors have acted in a way that they considered to be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with or are impacted by its business. In doing so the Board had regard, amongst other matters, to:

- the likely consequences of any decision in the long-term;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with its counterparties;
- the impact of the Company's operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

You can find out more about how Anglo Pacific engages with its stakeholders on the [previous page](#).

Considering a broad range of stakeholder interests is an important part of the Board's decision-making process, however in doing so, it will not always be possible to deliver everyone's desired outcome.

### HOW DOES THE BOARD ENGAGE WITH STAKEHOLDERS?

Due to the size of the Group's operations and the niche position it has as the only listed natural resources royalty company on the London Stock Exchange, the Board will sometimes engage directly with certain stakeholders on certain issues. Where this is not possible or efficient, stakeholder engagement takes place at the Executive Committee level, led by the Chief Executive Officer.

The Board considers and discusses information from across the organisation to help it understand the impact of the Group's operations, and the interests and views of our key stakeholders. It also reviews strategy, financial and operational performance, as well as information covering areas such as key risks, and legal and regulatory compliance. This information is provided to the Board through reports sent in advance of each Board meeting, and through in-person presentations.

As a result of these activities, the Board has an overview of engagement with stakeholders, and other relevant factors, which enables the Directors to comply with their legal duty under section 172 of the Companies Act 2006.

### ENGAGEMENT IN ACTION

The following are some examples of how the Directors have considered matters set out in sections 172(1)(a)-(f) when discharging their section 172 duties and the effect of such considerations on certain decisions taken by them. These examples also illustrate how the views and interests of some of the stakeholder set out on the [page opposite](#) impact the Directors' decision-making.

### PRINCIPAL DECISIONS

#### Revision to commodity focus and commitment to no further thermal coal investment

As outlined in 'Our approach and investment strategy' on [pages 04 to 05](#) and the Chairman's statement on [pages 08 to 09](#), the Board has refined the Group's commodity focus to move towards lighter, greener materials, which encompass environmental benefits, while committing to no further investment in thermal coal.

During our engagement with investors and to some extent potential lenders, the Group's exposure to thermal coal was seen as a potential barrier to entry for new institutions and an incentive to sell for others. Despite the Group choosing not to invest in a thermal coal asset since 2014, the Board decided to publicly commit to no further investment in thermal coal, which is aligned with the Group's stated purpose of financing investment in natural resources to enable a sustainable future.

In order to support the Group's revised commodity focus, the Group, with the assistance of external consultants, has developed an ESG framework to both manage ESG in existing investments and evaluate initial investment opportunities to assess the full range of ESG risks facing the Company. This is explained more fully on [pages 18 to 19](#).

### ACQUISITION OF MANTOS BLANCOS ROYALTY

In August 2019, the Board approved the £42.3m (~US\$50m) acquisition of a royalty over the Mantos copper mine in Chile. Before approving this acquisition, the Board considered its alignment with and the achievement of the Group's purpose, strategy and values; full details on these considerations are provided in the case study on [page 30](#).

The Board gave significant consideration to Mantos as a counterparty and the positive impact the Group's investment could have, and pleasingly has had, on their operations.

Further supporting the Board's decision to approve this acquisition is the Group's positive medium-term outlook for copper given the limited new supply coming on stream and the anticipated increased demand as the world transitions towards electrification as a means of reducing dependence on carbon intensive energy production. Such outlook provides a reasonable prospect that copper will outperform consensus prices over time. In addition, the operations are immediately cash flow generative with ramp up potential and a 15 year + mine life. Weighing up all the above considerations, the Board concluded that the acquisition of the Mantos Blancos royalty is an excellent opportunity to create both short and long-term value for our investors.

## Our approach

We believe that a strong focus on ESG is vital for the long-term success of our underlying assets and the maximisation of shareholder value. As a result, we are committed to integrating ESG considerations into our strategic decision-making and capital allocation.



We systematically integrate ESG factors into our investment decisions

**While we do not control or directly operate any of the assets in which we have an interest, we recognise that our main ESG exposure results from the investments we make. Our investment decision-making is guided by our ESG policy, which outlines how we mitigate ESG risk through our investment decisions, due diligence, contractual agreements and ongoing engagement with our operating partners.**

## Investing responsibly

We systematically integrate ESG factors into our investment decisions to ensure that we allocate capital in accordance with the highest environmental, social and governance standards.

### ESG-FOCUSED INVESTMENT DECISIONS

Our robust due diligence processes enable us to select projects and operators facing low levels of ESG risk and which have strong ESG management processes in place.

#### HOW WE DO IT

Our investment decision-making process involves the following steps:

- We employ a rigorous ESG screening tool to evaluate initial investment opportunities
- Following this, we use a tailored and detailed due diligence framework to assess the full range of ESG risks facing particular assets
- We assess potential investments using a set of qualitative and quantitative criteria, which look at the level of a particular ESG risk and the way in which it is being managed

### PORTFOLIO WITH A STRONG ESG PERFORMANCE

We are focused on building a diversified portfolio comprised of projects characterised by strong ESG performance. All our assets meet a set of stringent ESG investment criteria.

#### HOW WE DO IT

In our due diligence process and our ongoing monitoring of the portfolio, we look for counterparties that:

- Take adequate measures to avoid adverse environmental impacts on stakeholders and effectively mitigate climate risks
- Implement international best practice on water and waste management
- Respect and protect internationally recognised human rights and labour rights
- Conduct their operations in accordance with high health and safety standards
- Establish positive social and community relationships
- Maintain high integrity standards in all areas of their business

### ENGAGEMENT WITH OPERATING PARTNERS

We aim to positively influence our operating partners and ensure their continued strong ESG performance.

#### HOW WE DO IT

To the maximum extent achievable, we aim to:

- Incorporate ESG-related audit and inspection rights into our agreements
- Conduct regular site visits and gather periodic reports from our operating partners on their ESG activities
- Insert change of control clauses which help us ensure that the assets will continue to be operated by responsible companies in cases of ownership change
- Encourage our counterparties to align with leading ESG initiatives, including the ICMM Sustainable Development Framework, IFC Performance Standards and the Voluntary Principles on Security and Human Rights, among others

### TAKING A LEADERSHIP ROLE

We work with our peers to encourage and promote best practice in the mining industry.

#### HOW WE DO IT

- We participate in roundtable discussions with sector participants, our peers and our investee companies
- We are establishing an industry forum of royalty companies, which provides a platform for ensuring a unified approach on ESG
- We regularly review our internal ESG systems and processes to ensure that we are meeting evolving stakeholder expectations and continuously improving our ESG performance

## Our portfolio

We proactively engage with our operating partners to stay informed of their overall ESG performance and to encourage ESG best practice.

Some of the recent ESG achievements of our operators include:

### ENVIRONMENTAL

#### Mine site rehabilitation

The Iron Ore Company of Canada progressively rehabilitates its project sites through a comprehensive revegetation programme. It has already restored over 600 hectares of land and commits to increasing this amount each year.

#### Regular environmental monitoring

The Cigar Lake Mine regularly monitors water, flora and fauna around the project to effectively mitigate any environmental impacts. Its environmental monitoring results are regularly reviewed by relevant regulatory authorities.

#### Climate resilience testing

Whitehaven Coal, the operator of our Narrabri asset, mitigates climate risk by testing the resilience of its portfolio under the International Energy Agency climate scenarios. The Company also aligns its climate reporting with the guidelines set by the Task Force for Climate-Related Financial Disclosures (TCFD).

### SOCIAL

#### Engagement with indigenous peoples

Cameco, the operator of the Cigar Lake Mine, has a wide range of initiatives in place to support the local indigenous population. Cameco's socio-economic contributions to aboriginal communities are enshrined in collaboration agreements and memorandums of understanding.

#### Community development

Whitehaven, the operator of our Narrabri asset, supports local communities through strong social investment practices. Over the last three years, they have contributed nearly A\$1.0million to local groups, and since 2012 have contributed more than A\$1.5billion to the local economy in north-west New South Wales.

#### Promoting local services

Largo, the operator of our Maracás Menchen asset, puts a strong focus on fostering local economic development. In 2018, nearly half of its approved suppliers were from the local Bahia region and 65% of the mine's materials and services were locally sourced.

### GOVERNANCE

#### Strong ESG policy architecture

Cameco, the operator of the Cigar Lake Mine, structures its ESG activities under a strong governance framework, which includes an overall Sustainability Policy supported by initiatives such as its Global Anti-Corruption Programme and its Code of Conduct and Ethics.

#### Alignment with leading industry standards

The Iron Ore Company of Canada is a member of the Mining Association of Canada and complies with the Association's Toward Sustainable Mining programme's guiding principles.

#### Business integrity

Largo, the operator of our Maracás Menchen asset, encourages employees to raise any business integrity concerns through a secure reporting channel. The operator also requires all of its sub-contractors to abide by its Terms of Business Commitment, which obliges them to meet high integrity standards.

## Commitment to continuous improvement

Anglo Pacific continues to focus on how best to align our business with the development of socially responsible mining as part of our efforts to help address the challenges around carbon dependence and sustainability. We have introduced three new initiatives:

1

#### MORE SUSTAINABLE COMMODITIES

- An increased focus on commodities that support a more sustainable world

2

#### NO FURTHER INVESTMENT IN THERMAL COAL

- Consistent with our track record over the past five years, no further investment in thermal coal assets

3

#### ESTABLISHING SUSTAINABILITY COMMITTEE

- The establishment of a Sustainability Committee to further strengthen the Company's already rigorous ESG due diligence processes



# Financing investment in natural resources to enable a sustainable future

## Investing in lighter, greener materials

We believe long-term value can only be achieved through sustainable and responsible investment with a strong focus on ESG

2019

**60%**

60% of the Group's royalty portfolio was non-coal

2013

**40%**

40% of the Group's royalty portfolio was non-coal



**A low-carbon future is coming and vanadium can play a big role.**

Vanadium-flow batteries could become a valuable substitute for lithium-ion batteries.

Vanadium-flow batteries can be charged thousands of times without degrading, making them ideal for projects that require immense cycling. In addition to being long-lasting, vanadium-flow batteries are extremely durable and can hold immense amounts of energy.

Currently, more than 80% of the vanadium produced is used as a steel alloy in products like car crankshafts and gears and jet engine parts and springs and tools. However, its importance to the energy sector, is rapidly growing.

As we accelerate the ongoing energy transition and rely increasingly on renewable energy storage technologies, the transparent and responsible sourcing of strategic minerals will become even more necessary.



## PRINCIPAL RISKS AND UNCERTAINTIES

### BACKGROUND

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

Risk is not a static constant within the Group's business model, and changing circumstances and sentiment plays a significant role in shaping strategy. At Anglo Pacific we have seen this many times over the years: new technologies (Electric vehicles, mass storage) and their impact on certain commodities; natural and manmade disasters (Fukushima, tailings dam collapses); banking crisis of 2008; macroeconomic policies (US led trade wars, Chinese economic policy), uncertainty surrounding Brexit; and most recently COVID-19 and its potential to impact on global economic growth. It is for this reason, that risk is a regular agenda item at Board meetings and is formally reviewed at least twice a year to ensure that the Group's strategy responds to any changes in our risk profile.

### VIABILITY STATEMENT

#### Context

Viability for Anglo Pacific is to have a long-term diversified stream of income producing royalty assets, which creates a sustainable business that can grow and provide investors with a compelling investment story with ESG at its core. But the current outlook is now very much influenced by significant uncertainty surrounding the possible impact and escalation of COVID-19.

Putting COVID-19 to one side, there are certain key strategic challenges to meet in order to achieve our objectives, primarily generating the deal flow to replace and exceed the Kestrel royalty income as it declines over the coming years. Although the strategic focus remains on replacing the Kestrel revenue, viability is measured on the next three years, a period when it is expected that volumes from Kestrel will remain very high.

The Board regularly receives cash flow projections which show the Group's expected net debt position. At the end of 2019, the Group had £28.8m of net debt under a facility which matures, and therefore becomes repayable, in September 2022, within the viability review period.

As such, the Group must be sure that it will either generate enough cash flow in order to repay its borrowings in full by that time or be sufficiently confident that any refinancing risk is low. In order to conduct a base case review, we have held the cost base (overheads and dividends constant) and assumed no further investment. On this basis, the Group would expect to repay its borrowings well in advance of maturity in 2022.

#### The assessment process and key assumptions

Assessment of the Group's viability is based on a financial forecast covering the next three years, which is consistent with the Group's medium-term planning horizon and the terms of its borrowing facility. The financial forecast has been stress tested on a 'severe but plausible' scenario to see whether the same conclusion would be reached should this materialise. In normal circumstances this scenario would be the Group's base case financial model adjusted for:

- 20% reduction in volumes (this does not impact on LIORC which is not volume based)
- 20% reduction in consensus commodity price assumptions (Denison is not impacted by this as it is a toll)
- 20% weakening in the pound from its current level

On this basis, it would be expected that there would be a small amount outstanding on the Group's borrowing facility at maturity but there would be several financial levers available to the Group in order

to remedy any potential breaches in covenants or amounts due at maturity including reducing the overall level of dividend to align with the level of income being generated or to liquidate certain assets.

However, given the recent COVID-19 pandemic, the possibility of operational disruption has heightened and we have already seen some instances of mines being placed on care and maintenance.

COVID-19 will cause widespread economic disruption but its impact should be temporary. Although the Group has reasonable geographical diversity within its royalty portfolio, we have materially increased our stress testing to assess the impact of up to a 12-month operational shutdown across the portfolio, which we believe is an extreme downside scenario. In this circumstance, the Group would breach certain borrowing covenants in the next 12 months and would require either waivers from its lending banks or to liquidate certain assets to repay borrowings.

Given the widespread government-led support to businesses, including certain guidance to lending banks, it is the expectation of management, however, that in this downside scenario the banks will waive the covenants for a short period due to the nature of any covenant breaches being solely as a result of COVID-19 imposed restrictions and being of a temporary nature and upon resumption of mining activities we would expect to become compliant and being to repay borrowings. For Anglo Pacific, with a low and flexible cost base, COVID-19 should result in the deferral rather than the loss of revenue and should not impact on the Group's longer-term prospects once business returns to normal. The assumption of bank support for covenant breaches is a significant judgement of the Director's in the context of approving the Group's prospects and viability under this downside case.

#### Directors' statement on viability

The Directors confirm they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the next three years, despite the material uncertainties associated with production assumptions as a result of COVID-19.

From a non-financial perspective, the execution of the Group's strategy is vital to sustain Anglo Pacific as a viable concern for all stakeholders in the longer-term. With an ever closer alignment to the interests of stakeholders following recent strategic modifications, along with the current favourable demand environment for alternative finance, the Directors remain confident that management will generate the deal-flow required to continue growing and diversifying the Company's sources of revenue for the long-term benefit of all stakeholders.

### RISK APPETITE

Although the ultimate success of Anglo Pacific will depend on its ability to continue to add value enhancing royalties and streams to its portfolio, the focus of the viability statement is on the existing business of the Group and the ability of the current portfolio to generate sufficient cash to meet the Group's outgoings, including the dividend. Under our 'severe but plausible' case it would be expected that there would be a need to refinance the Group's facility at maturity or take other corrective action. The Directors' risk appetite is therefore capped with reference to an acceptable and supportable level of borrowings relative to the Group's income profile over the next three years on a 'severe but plausible' basis. We have run a further extreme downside scenario to stress test the financial model for COVID-19 shutdowns across our portfolio for up to a 12 month period, although this is not the case on which the Board considers risk appetite in normal business circumstances.

### EMERGING RISKS

We define an emerging risk as a risk that may become a principal risk in time but is not expected to materialise in the next five years. Emerging risks that are currently being monitored are:

- Long term demand for the minerals in the Group's royalty portfolio may change (positively or negatively) as a result of societal demands for climate change abatement and the growth of the circular economy; and
- Failure to acquire new royalties to replace our existing portfolio of producing royalties which by their very nature are depleting.

The above risks are closely monitored and actively managed to minimise their threat.

## 2019 APPROACH TO RISK

Risk is a regular item on the board agenda and is formally reviewed twice a year in line with the Group's overall strategic review. In the year just past, the Board has completed a robust assessment of the Group's emerging and principal risks, focusing on three risks in particular: ESG & climate change; progress to date in replacing Kestrel; and stakeholder support. These are discussed in turn below. The Board also refreshed the Group's principal risks for changes observed during the year as summarised in the ranking table on [pages 24 to 25](#) and detailed on [pages 26 to 28](#). The impact of COVID-19 already features throughout the risk framework in places such as catastrophic events, financing capability and demand.

### COVID-19

There is little doubt that the outbreak of COVID-19 will have severe economic and humanitarian consequences in 2020, and this is already underway. For Anglo Pacific, the risk posed by what should be a temporary (less than one-year) event can largely be mitigated. The threat will come either through disruption to production at the underlying operations or through an inability to finance the Group's growth ambitions. The former cannot be mitigated per se, although our geographic diversification should mean that any disruptions will not all happen at once, whilst the latter can be somewhat mitigated by virtue of the liquidity available to the Group through its undrawn and available borrowing facility.

The global response to COVID-19 has seen equity markets suffer in particular as investors realign their portfolios towards safer assets. Although Anglo Pacific's share price has suffered along with the market, the companies we look to finance will now find the cost of their equity prohibitively high which could in turn present greater investment opportunities for the Group in the year ahead.

We will remain vigilant and keep a close eye on the underlying operations as the year progresses. However, with low levels of debt and no significant debt maturities until September 2022 the Group is well placed to weather the current market turmoil whilst seeking further growth opportunities. In light of the speed at which the pandemic has spread and the drastic actions which authorities have taken to reduce the spreading of the virus, we have performed additional stress tests on our financial model specific to COVID-19 and these are discussed more in the viability statement section.

### Climate change and ESG

It could be argued that the most important change facing every organisation today is climate change and the way in which companies understand how their business models contribute towards it. We at Anglo Pacific, have been giving this careful consideration over the past number of years.

No longer is profit or stakeholder returns the sole underlying motivation when appraising investment. We will continue to use our expertise to identify the commodities which will be required to create the technologies needed to address climate targets with a focus on supporting those projects which are operated ethically and which have a strong social licence to operate in jurisdictions which govern the industry in a responsible and sustainable manner.

We believe that this approach is in line with those of our principal stakeholders, who will likely focus more on sustainability when making investment decisions in future.

We have outlined in this report how we have modified our strategy and our investment criteria in this regard. We have decided that we will not add any further thermal coal royalties to our portfolio. We will continue to monitor our portfolio for instances of ESG breaches.

However, as described in the ESG section on [pages 18 and 19](#), we see the area of ESG and climate change as an opportunity for Anglo Pacific to shape its business model and investment practices to align to the requirements of stakeholders. Mining will continue to be essential to enable the technological change required for a cleaner world and we will work to identify those commodities and operations which can deliver these in the most sustainable fashion. We remain believers that high quality, lower polluting commodities will command more of a premium over time. Our portfolio is well positioned in this regard.

Climate change will impact on the mining sector in other ways. The last decade was officially the hottest on record. The decade showed signs of more extreme weather that is expected to be a

feature of a two-degree hotter world. Such extreme weather could impact day to day life in future. For the mining industry, this could result in additional operational disruption through flooding or bush fires. For lower lying operations, the impact of higher sea levels could threaten the ongoing sustainability of projects. Port infrastructure could also be impacted by rising sea levels.

Although it is difficult to predict what the impact of a warmer world will be, our diligence focuses on these issues when we look at projects. As the impact of climate change materialises, we would expect to see the interaction between local communities and mining operations become even more important in providing mining companies with a social licence to operate.

One area which is likely to be of significant importance will be the access and use of water which, at present, is an important input into many mining processes. Mining companies will also be held to further account for their own local carbon footprint and the sources of energy which they use to power their operations. We will build this analysis into our diligence and monitoring.

Our ESG agenda is set out in further detail on [pages 18 and 19](#). We at Anglo Pacific see this as a key risk facing the business over the next generation, and we believe there will be a real determination by governments and business leaders to make a difference. There is no doubt the mining industry will continue to play an important role in building the technologies needed to deliver tangible benefits on climate change and also provide the materials which will lift populations out of poverty. At Anglo Pacific we will focus on those projects which can deliver this in the most responsible manner for the benefit of a better world.

### Kestrel & growth

Risk is regularly discussed by the Board at micro level also, primarily in relation to generating the deal-flow required to continue diversifying the Group's royalty portfolio.

Mining assets are, by their very nature, depleting, with every dollar earned ultimately needing to be replaced. This is particularly the case in instances such as Kestrel where there is limited reserve upside within a pre-determined royalty area.

The strategic challenge facing the Group is to replace this revenue in order to have a long-term sustainable business which will support a progressive dividend policy whilst allowing cash to be reinvested for growth.

There can be no certainty that sufficient deal-flow will materialise in order to fully replace the Kestrel revenue, although as outlined on [pages 10 to 13](#) the Group has, based on annualised revenue from transactions acquired up to 2019, acquired ~£20m of additional annual income and has a three to five year window in which to add further growth.

Deal-flow and the demand for royalties is an inherent risk in the Group's business model. It can never be mitigated in full. Furthermore, given the cyclical nature of the mining sector, the risk appetite of management can alter as the demand for royalties change through the cycle. Anglo Pacific has strict investment criteria, outlined on [pages 14 and 15](#), which shapes the discussion around acquisitions at the board level and the underlying risks within each opportunity.

### Stakeholder support

The Board considers stakeholders interests and views through every decision which it makes. Stakeholder views help to shape the Group's strategy. Stakeholders are not simply shareholders who are interested in financial returns. Our stakeholders also include our employees, counterparties, suppliers, co-investors and financiers amongst others. Stakeholder support is key to the Group's viability.

As outlined above, ESG has become a focal point for all stakeholders. We have reviewed our business model and strategy against that background. We are mindful that in order to execute on our strategy we will need to attract and retain the support of shareholders and banks. As such, our strategy and focus must be aligned to the values, reputation and investment criteria of stakeholders.

Whilst we acknowledge that some potential investors will have a closed investment mandate around mining as a blanket rule, we expect others will continue to see the virtue of the sector as an enabler of continued technological advancement and ultimately part of the solution to climate change.

**PRINCIPAL RISKS AND UNCERTAINTIES**

continued

We have witnessed the continued pressure which the thermal coal industry has come under from investment groups, lobbyists and environmental activists. We have seen some investors clarify their position around coal and fossil fuel extraction generally. At Anglo Pacific we have not invested in thermal coal since 2015 and we have always communicated to stakeholders that a significant part of our strategy is to reduce our exposure to coal. We have recently announced our formal policy not to add any further thermal coal to our asset base.

Further, the evolution of our ESG programme will, we hope, provide the comfort to our stakeholders that this is something at the very heart of our investment decisions and that by investing in Anglo Pacific they are supporting commodities for the future good of the planet.

Outside of ESG, the equity markets continue to be impacted by the ever-rising trend of indexation and passive investment. As such, vast quantities of capital are being concentrated at the larger end of stock exchanges primarily driven by the need for liquidity.

Furthermore, the fund industry suffered its own reputational damage during 2019 with widespread redemptions caused by liquidity issues in underlying investments. It remains to be seen whether the sector can recover its reputation. A large portion of the Group's shareholder base is represented by UK income funds so a healthy fund industry will be important for Anglo Pacific in the years ahead.

We never take the support of our stakeholders for granted and remain in regular dialogue with them to ensure that the Group's strategy and focus does not adversely impact on their ability to remain invested both now and in the future.

**SUMMARY**

Overall, it was concluded that the risks which were identified as principal in the 2018 Annual Report had not materially changed, but the way in which they might impact on the business has. Some changes to the risk register have been made and these are outlined in the Principal risks summary **table below and opposite**.

**PRINCIPAL RISKS SUMMARY TABLE**

2019 Rank	Risk	Risk category	Examples	ESG interaction	2018 Rank	Cause of change
1	<b>CATASTROPHIC EVENT</b>	Market	<ul style="list-style-type: none"> <li>The COVID-19 pandemic could spread in a way which prevents mining or shipping activities</li> <li>Material change in mining legislation / nationalisation</li> </ul>	<ul style="list-style-type: none"> <li>Environmental disaster could result in loss of social licence to operate</li> <li>Extreme weather / natural disasters (i.e. recent Australian bush fires) could impact severely on the ability to operate</li> <li>Rising sea levels could impact both on operations (flooding) or shipping infrastructure</li> </ul>	1	<ul style="list-style-type: none"> <li>Increased volumes from Kestrel in the year results in continued concentration risk on this royalty – a catastrophic event would adversely impact on the Group's long-term prospects</li> <li>The recent COVID-19 outbreak heightens the risk of disruption to operations and the deferral of revenue for a period of time</li> </ul>
2	<b>SUPPLY &amp; DEMAND FOR ROYALTIES</b>	Market	<ul style="list-style-type: none"> <li>Availability of conventional capital</li> <li>General level of M&amp;A</li> <li>Credibility of Anglo Pacific in marketing and bidding</li> </ul>	<ul style="list-style-type: none"> <li>Demand for primary royalties will usually require wider activity in the equity and debt market – but ESG issues are impacting on the investment mandates within conventional capital providers</li> <li>ESG discipline could be tested by the prospect for greater financial returns</li> </ul>	2 6	<ul style="list-style-type: none"> <li>Remains high on register due to the strategic imperative of replacing the Kestrel income and creating a long-term sustainable business for stakeholders</li> <li>The recent global equity sell off following the COVID-19 outbreak means it will be even more challenging and expensive to raise capital</li> </ul>
3	<b>STAKEHOLDER SUPPORT</b>	Operating	<ul style="list-style-type: none"> <li>Changing perception of mining industry among some stakeholder groups</li> <li>Continuing trend of passive investment indexation jeopardises liquidity for small / medium cap companies</li> <li>Reputation of UK fund industry post Woodford</li> </ul>	<ul style="list-style-type: none"> <li>Ever increasing numbers of institutions are withdrawing support from the mining industry on ESG / climate change grounds, potentially shrinking the pool of capital which Anglo Pacific can access to execute on its strategy</li> <li>Danger that institutions will prevent themselves from supporting the supply of key commodities required to provide greener energy technology</li> </ul>	4	<ul style="list-style-type: none"> <li>Significant activity in this area during 2019 with many institutions removing their support for the sector on ESG grounds</li> </ul>
4	<b>FINANCING CAPABILITY</b>	Financial	<ul style="list-style-type: none"> <li>Accessing capital for acquisitions</li> <li>Complying with financial covenants</li> </ul>	<ul style="list-style-type: none"> <li>Increasing levels of ESG compliance within borrowing terms (aligned to APG's investment criteria)</li> <li>Some institutions are withdrawing from the sector, or specific parts of the sector (i.e. fossil fuels) in line with stakeholder demand</li> </ul>	8	<ul style="list-style-type: none"> <li>Capital markets have not yet recovered from a year in limbo due to Brexit, now compounded by COVID-19 effects – it remains to be seen whether investment levels increase in 2020</li> </ul>
5	<b>OPERATOR DEPENDENCE</b>	Financial / Strategic	<ul style="list-style-type: none"> <li>Operating the mine in accordance with the Group's ESG criteria</li> <li>Honouring royalty obligations</li> <li>Change of control and smooth transition</li> <li>Remaining focused on maximising the social and economic returns of the project</li> </ul>	<ul style="list-style-type: none"> <li>It is vital that the operators of the projects subject to our royalties operate in a way which is in line with our ESG criteria and remain fully integrated with the local communities which allow them to operate – any environmental or social violations could impact the Group's reputation and jeopardise stakeholder support</li> </ul>	3	<ul style="list-style-type: none"> <li>Reduced in the year as we became familiar with the new operator of Kestrel and their ability to meet their operational targets</li> </ul>

PRINCIPAL RISKS SUMMARY TABLE (continued)

2019 Rank	Risk	Risk category	Examples	ESG interaction	2018 Rank	Cause of change
6	<b>INCREASED COMPETITION</b>	Strategic	• Some precious metal royalty companies and private equity houses are considering branching out into other commodities	<ul style="list-style-type: none"> <li>Competitive bidding processes or limited deal-flow could challenge ESG objectives in favour of growth or financial returns</li> <li>Co-investors might have less stringent ESG criteria</li> </ul>	5	• Limited new competition during the year and no significant deals missed out on
7	<b>INVESTMENT APPROVAL</b>	Strategic	• Incorrect judgement on ESG / jurisdiction / commodity / price / counterparty / tax	<ul style="list-style-type: none"> <li>Failure to identify environmental or social issues or to predict the likely future governmental commitment to a sustainable mining industry could result in reputational damage for Anglo Pacific and jeopardise stakeholder support</li> <li>Going forward, and in conjunction with the Sustainability Committee, the Group will seek greater contractual influence in relation to compliance with ESG and, in some instances, sanctions for breaches</li> </ul>	7	• Management track record to date is good, with investment criteria effectively applied
8	<b>OPERATIONAL MANAGEMENT</b>	Operational	<ul style="list-style-type: none"> <li>Monitoring performance of portfolio</li> <li>Internal controls/cost control/FX</li> <li>Focused and motivated to deliver strategy</li> </ul>	<ul style="list-style-type: none"> <li>Future compensation packages will need to include ESG targets and performance in order to ensure alignment with stakeholder criteria</li> </ul>	9 10	• Management track record to date is good, with investment criteria effectively applied

The Group's template for recording its principal risks has remained the same as in previous years and is briefly described in the **diagram opposite**

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

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

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



Characteristics	Management / mitigation	2020 Action points
<p><b>MARKET AND EVENT</b></p> <ul style="list-style-type: none"> <li>Difficult to predict outside of the short-term</li> <li>Tend to be driven by market forces or extreme localised events</li> </ul>	<ul style="list-style-type: none"> <li>Limited ability to manage or mitigate other than through on-going <b>monitoring</b></li> <li>The Group modified its strategy during 2019 as it saw pressure from the market in relation to coal / fossil fuel exposure</li> </ul>	<ul style="list-style-type: none"> <li>Be proactive in terms of ESG and how this represents an opportunity and not just a threat</li> </ul>
<p><b>FINANCIAL</b></p> <ul style="list-style-type: none"> <li>Easier to predict through regular cash flow projections, pipeline review and operator updates</li> <li>Harder to control as dependent on counterparties</li> </ul>	<ul style="list-style-type: none"> <li><b>Increasing control</b> is important, with regular dialogue with lenders and shareholders (both existing and potential) considered important in anticipating the availability of finance.</li> <li>Dialogue with counterparties is also equally important to discover any early warning signs of underperformance.</li> </ul>	<ul style="list-style-type: none"> <li>Regular dialogue with all stakeholders and counterparties to ensure there are no financial surprises or misalignment of interests</li> </ul>
<p><b>STRATEGIC</b></p> <ul style="list-style-type: none"> <li>Easier to control as the Board can influence strategic direction based on market conditions</li> <li>Deal-flow is harder to predict</li> </ul>	<ul style="list-style-type: none"> <li><b>Increasing prediction</b> of strategic risks (deal-flow, ESG) is a core focus. The Group invested significantly in growth during the year both in terms of deal-flow and costs associated with sourcing potentially transformational acquisitions.</li> </ul>	<ul style="list-style-type: none"> <li>Accelerate the rate of growth in the year ahead</li> </ul>
<p><b>OPERATIONAL</b></p> <ul style="list-style-type: none"> <li>Risks for which good governance and internal controls should limit any financial or reputational loss</li> </ul>	<ul style="list-style-type: none"> <li>Board Committees, along with management focus and internal controls, are designed to <b>mitigate and prevent</b> loss due to operational events or mismanagement.</li> </ul>	<ul style="list-style-type: none"> <li>Zero-tolerance for escalation i.e. ensure that operational risk remains in the 'green box'.</li> </ul>

**PRINCIPAL RISKS AND UNCERTAINTIES**

continued

**MARKET AND EVENT***Risk***CATASTROPHIC EVENT****IMPACT : HIGH**

A significant event which causes revenue to halt from one of the Group's key income producing royalties would have a profound impact on the Group's prospects.

*Possible cause*

- Significant operational disruption (COVID-19)
- Mine collapse
- Environmental disaster (inc. climate change and potential for increased sea levels)
- Natural disaster
- Destruction of infrastructure
- Resource nationalisation
- Resource contamination
- Failure by royalty counterparty to make payments

*Mitigation***MONITOR**

- These risks, by their nature, are difficult to predict or influence. The Board monitors its royalty portfolio and underlying performance regularly.
- The impact of climate change is also difficult to predict with certainty and ESG targets will often be subjective and difficult to measure accurately. We engage specialist technical advisors to assist us in understanding risk around permitting and social licence to operate.

*Management comment and actions***LIKELIHOOD : MEDIUM**

- The recent COVID-19 pandemic has seen significant humanitarian and economic disruption, particularly in Europe. In many instances, whole cities have been in lock down with significant restrictions on movement of people. If COVID-19 reaches the remote locations from where the Group receives the majority of its revenue, then there could be a deferral of revenue if mines are forced to go on care and maintenance.
- Ordinarily, by continuing to focus on investing in well-established mining jurisdictions with stable political and geological history, along with investing in good operations with strong management and community support, the Group can reduce the likelihood of the occurrence of this risk, although COVID-19 presents unprecedented challenges.

**SUPPLY AND DEMAND OUTLOOK FOR THE GROUP'S ROYALTY PRODUCT****IMPACT : HIGH**

- In order to execute its strategy, the Group needs to acquire further royalties to ultimately replace the income from Kestrel.
- Demand for royalties can change depending on macro-economic conditions at any point in the cycle.
- The Group must be sufficiently connected in the investment communities from which it seeks to source investment opportunities.

- Recovery in market conditions for conventional sources of capital
- M&A activity
- Demand for commodities
- Global GDP growth
- Maintaining APG's brand and reputation in being able to identify and execute successful royalty transactions
- Having financial credibility in bidding processes

**MONITOR**

- The Group monitors the market closely and pays close attention to trends and commentary.
- Secondary royalties are less sensitive to market conditions and are generally available through the cycle.
- APG has built a credible global brand and network, backed by a successful track record of identifying and executing royalty transactions.

**LIKELIHOOD : MEDIUM**

- Demand for royalties can never be predicted, but demand is usually greater when the underlying market conditions are challenging for small/mid-sized operators.
- However, the recent COVID-19 outbreak has led to a sudden equity sell off with investors fleeing to safety. We have seen widespread declines in indices and individual stocks across the sector, including our own. Ordinarily, this could prevent opportunities, but there is a risk that some operations could face temporary closure should COVID-19 reach remote mining locations. The prospect of this risk is likely to see limited appetite for capital raisings in the mining sector in the short-term.
- In addition, capital raising in the mining sector faced significant challenges over the past year in light of ESG mandate changes within the institutional investor universe. This should, if and when the threat of COVID-19 subsides, result in a more favourable financing environment for Anglo Pacific in 2020.
- APG believes it is generally aware of all significant royalty transactions that take place and receives regular inbound calls for financing. We participate in all material sale processes in our target market. We remain confident that we are not missing out on any material opportunities.

**STRATEGIC****INVESTMENT APPROVAL****IMPACT : MEDIUM**

- Anglo Pacific's success will depend on the performance of the royalties acquired matching or exceeding expectations at the point of acquisition.
- The importance of ESG when appraising investments, alongside more value and operating based criteria, has become even more important as underperformance in this area post acquisition threatens APG's reputation and jeopardises stakeholder support.
- The governance and due diligence process adopted by the Group when looking at each unique investment is key to reduce the risk of making a bad investment.

*Misjudging:*

- Projected operating assumptions, environmental compliance and best practice
- Social licence to operate
- Geology & technical process
- Long-term commodity price assumptions
- Country risk
- Time to production
- Counterparty covenant
- Economic viability (project or counterparty)
- Tax regime

**THOROUGH DUE DILIGENCE**

- The Group has considerable in-house technical, financial and tax expertise to identify potential fatal flaws and uses consultants to assist with due diligence.
- The Group has worked with specialist consultants in the year to develop a bespoke ESG template to help appraise the environmental and social risks associated with each potential investment.
- The Board also has significant experience and constructively challenges management on the due diligence process.

**LIKELIHOOD : MEDIUM / LOW**

- The current management team has demonstrated a track record of successful investments to date.
- The Board was strengthened during the year by the appointment of Jim Rutherford and Graeme Dacomb, both of whom have a wealth of experience in the sector.
- Anglo Pacific has strict and exacting investment and ESG criteria and avoids overly competitive bidding processes where these could result in sub-optimal outcomes or compromising on fundamental strategic principles.

**STRATEGIC**

*Risk*

**INCREASED COMPETITION**

**IMPACT : MEDIUM**

- Anglo Pacific does not compete with the well-established precious metals royalty companies, instead focusing on the base and bulk sector.
- New competition can always arise, and Anglo Pacific is not complacent in driving the growth of its business.

*Possible cause*

- Recovery in the mining sector
- Inflows into private equity funds
- Low bond yields entice life assurance / pension funds
- Change of focus from precious metal peers

*Mitigation*

**CONTINUE TO SCALE**

- Anglo Pacific has considerable first mover advantage in a capital-intensive business model, with a highly cash generative portfolio to leverage and facilitate growth.
- It also has considerable contacts throughout the sector to generate deal-flow along with expertise in terms of appraising and valuing royalty transactions.

*Management comment and actions*

**LIKELIHOOD : MEDIUM / LOW**

- Some direct competition exists but this has not had a material impact on our growth hitherto, as demonstrated by the \$75m of acquisitions completed during 2019.
- With a focus on non-precious metals and being a permanent capital vehicle, management considers itself well placed to be an attractive partner for small/ medium-sized operators.
- Increased competition can also result in opportunities and we have enjoyed working with other capital providers recently such that the risk of financing projects can be spread amongst several counterparties reducing the risk.

**OPERATIONAL**

**OPERATIONAL MANAGEMENT**

**IMPACT : LOW**

- Inadequate attention to detail in managing the business
- Ensuring that management is performing to the standards expected of them for the benefit of all stakeholders

- Monitoring accuracy of royalty payments
- Monitoring news flow impacting counterparties
- Insufficient interaction with counterparties
- Lax cost control
- Managing risky investment processes
- Appropriateness and functioning of internal controls
- Poor leadership

**MAINTAINING HIGH STANDARDS**

- The Group undertakes a thorough budgeting process each year which highlights the reasons for variances.
- Management performance is monitored by the Board and the Remuneration Committee.
- Compensation is aligned to strategic objectives of the Company

**LIKELIHOOD : LOW**

- Management are committed to the highest standards of internal control, in running the Company to the standards which would be expected of a FTSE listed organisation in order to maximise shareholder returns.
- Despite our considerable growth over the past five years, our cost base has remained largely unchanged over the same period.
- Anglo Pacific is a small organisation in terms of headcount where everybody has to perform to the highest standards.
- Any underperformance should be readily evident and dealt with by the CEO and Board promptly.

**STAKEHOLDER SUPPORT**

**IMPACT : MEDIUM / LOW**

Anglo Pacific needs to be well supported by all stakeholders including:

- Royalty counterparties
- Employees
- Shareholders
- Lending banks
- Brokers
- Analysts
- Media

- Reputational consequences of mining disasters / poor standards of social responsibility
- Failure to respond to emerging trends within the investment community (particularly around ESG)
- Underperformance
- Deviation from strategy
- Alterations to dividend
- Excessive risk-taking
- Poor communications

**CLOSE DIALOGUE WITH STAKEHOLDERS**

- Anglo Pacific keeps in close contact with all stakeholders. This influenced the recent modifications to the Group's strategy in the current year, particularly in relation to future coal investment in order to align our portfolio to the investment criteria of stakeholders.
- We spend a considerable amount of time working with our bankers, brokers and analysts, explaining our strategy, progress and development plans which gives us a gauge for what the likely market reaction to our plans will be.
- We remain close to lenders and brokers to anticipate demand for any increase in debt/equity capacity.

**LIKELIHOOD : MEDIUM / LOW**

- We regularly conduct roadshows to see major shareholders, engage with retail investors through private client broker networks and often visit potential new investors, both in Europe and North America. This enables us to understand the key concerns which potential investors face when considering investing in Anglo Pacific, particularly around ESG and the mining industry.
- Recent market turmoil as a result of COVID-19 has seen considerable market uncertainty. The support of all stakeholders in coming months will be more important than ever in retaining access to liquidity for growing our business.
- We actively encourage participation at our AGM, which gives shareholders of all sizes the opportunity to ask questions of our entire Board.

**FINANCIAL**

**OPERATOR DEPENDENCE**

**IMPACT : MEDIUM / HIGH**

The Group is dependent on the operators of the mines over which it has royalties to continue to operate effectively and thereby provide the expected sustainable royalty income and to operate in line with our ESG principles.

We also rely on operators to honour royalty contracts and make timely and accurate royalty payments.

- Substandard CSR/ environmental record
- Overleveraging
- Inaccurate royalty calculation
- Non-payment/disputes

**DIVERSIFY DEPENDENCE**

- The best way the Group can mitigate dependence on any one operator is to continue to expand and diversify its royalty portfolio to ensure that it has a well-balanced source of income. This is particularly important in light of the recent COVID-19 pandemic and its potential to disrupt mining operations.
- APG has audit rights which it generally exercises on the identification of any unexpected royalty outcome. It has also developed an ESG template which assists pre and post-acquisition reporting on matters which are fundamental to the APG investment thesis.
- The Group tries to insert change of control clauses into its new royalty agreements to help ensure its exposure continues to be to counterparties of good reputation.

**LIKELIHOOD : MEDIUM**

- The Group has a good relationship with most of the underlying operators.
- Site visits conducted over the past 12 months include Kestrel and Narrabri, two of the top three sources of the Group's revenue, and we will target other visits in the next 12 months.

**PRINCIPAL RISKS AND UNCERTAINTIES**

continued

**FINANCIAL***Risk***FINANCING CAPABILITY****IMPACT : MEDIUM / HIGH**

The Group is dependent on access to capital in order to finance its growth ambitions.

*Possible cause*

- Coal exposure limiting the universe of potential investors
- Sudden adverse change in equity market conditions
- Production issues or significant price volatility could adversely impact on the Group's borrowing capacity
- Execution risk through inadequate immediate access to finance

*Mitigation***HIGH-QUALITY DEAL-FLOW**

- The recent COVID-19 outbreak has had a significant impact on the capital markets both for potential investee companies and for the Company. This could make raising equity prohibitively expensive.
- We regularly meet with advisors, shareholders and lenders to discuss the types of deals we are looking at to gauge their support - which has resulted in strategic modifications to our coal policy (see opposite).
- We will look to finance non-income producing royalties primarily from our internal resources.

*Management comment and actions***LIKELIHOOD : MEDIUM**

- We remain confident that stakeholders identify the advantages of the derisked nature of the royalty business model and that we will be able to leverage our track record to finance our growth ambitions in the years ahead.
- However, the recent equity market sell off caused by COVID-19, along with the potential significant economic deterioration and/or recession could result in liquidity pressures for many.
- We have reviewed the terms of our borrowing facility and, although there are some areas where material adverse event clauses exist, we have not yet seen any instances where lending banks are trying to enforce these. As such, we retain significant liquidity to both withstand the current turmoil and to act opportunistically should investment opportunities arise through recent capital constraint.
- The Group does not have any material capital commitments or debt amortisations until Q3 2022 and as such has a significant time horizon from which to withstand the current, near-term, impact of COVID-19.

**CREDIT RISK****IMPACT : LOW**

That there is a risk of default by those owing the Group money or those institutions holding the Group's cash reserves.

- Royalty payment default
- Bank collapse

- Our due diligence process focuses on the creditworthiness of counterparties with whom we transact ongoing monitoring
- The Group operates controlled treasury policies which spreads the concentration of the Group's cash balances amongst separate financial institutions with sufficiently high credit ratings.

**LIKELIHOOD : LOW**

- The risk of counterparty default is assessed when entering into new royalty agreements. Absent the potential for operational disruption as a result of COVID-19, which in any case could result in the deferral rather than the loss of review, the Group is comfortable that our material royalties, which represent the majority of the Group's receivables, are at relatively low-risk of default due to the nature of the operators involved and their track record over the past number of years.

**FOREIGN EXCHANGE RISK****IMPACT : MEDIUM**

That foreign exchange movements adversely impact on the Group's cash flow projections.

- Cash flow risk associated with dollar derived income and costs (including dividend) largely payable in pounds
- Translation risk of having a presentational currency in GBP but assets denominated in other currencies
- Financing risk when raising equity in GBP to fund dollar denominated acquisitions

- The Board approved a currency hedging policy which looks to enter into forward contracts sufficient to acquire the majority of the sterling required to meet the Group's dividend and overhead cost.
- Under the policy, the Group can hedge up to 70% of the next quarter's income, 60% of the second quarter followed by 30% and 25% thereafter.

**LIKELIHOOD : MEDIUM**

- Commodity price risk represents the primary risk and the objective is to keep foreign exchange as a secondary risk.
- The recent COVID-19 outbreak has led to unprecedented global Central Bank responses which have impacted on exchange rates. The Australian dollar has weakened significantly against both the USD and the pound. The former is important as a weaker Australian dollar increases the weighted average royalty rate at Kestrel (assuming constant coal prices), and the favourable exchange variable on this more than offsets the adverse variance of translating the resulting Australian dollar income back to pounds.
- We have protected forward a good portion of our expected Australian dollar revenue for 2020 at rates more favourable to the current spot rate.

**INTEREST RATE RISK****IMPACT : LOW**

That an increase in interest rates could adversely impact on the Group's prospects.

- The Group is exposed to the US and UK LIBOR rate as part of its bank facility

- The Group has a relatively low level of borrowings and, as such, interest rate risk is not considered material when assessing the Group's longer-term prospects

**LIKELIHOOD : LOW**

- Recent Central Bank activity in responding to COVID-19 has seen most authorities cut their interest rates to record lows and, in some cases, close to 0%. This will benefit Anglo Pacific in the near-term by reducing the cost of borrowing and increasing the accretion metrics for acquisitions when financed through borrowings.

**COMMODITY AND OTHER PRICING RISK****IMPACT : HIGH**

The Group's results are impacted by commodity and certain other pricing inputs which could result in lower earnings and cash flow and unrealised losses at each reporting date.

- The Group's asset values are underpinned by the forward commodity price outlook at each reporting date. A decline in these prices could result in further impairment or revaluation charges
- The Group has a portfolio of certain publicly quoted equity investments which are marked to market at each reporting date, the most significant of which is LIORC where the Group has invested ~US\$82m to date.

- The Group uses independent third-party consensus prices at each reporting date in assessing for impairment.
- The success of the Group's investment will largely depend on the point of entry in relation to the commodity at the time of investment. To date, the Group's investments have largely proved to be well timed. Equally important is to avoid making investments in commodity price bubbles, recent examples of which include vanadium, lithium and cobalt.

**LIKELIHOOD : HIGH**

- The Group is exposed to commodity prices and a significant decrease in commodity prices is likely to result in lower earnings and cash flow and further impairment charges and a narrowing of dividend cover.
- At this stage the Board does not hedge against specific commodity risk, as derisked commodity price exposure is what we understand our stakeholders to be looking for, and will continue to review this position in light of market conditions.
- The recent equity market sell off following the COVID-19 outbreak has impacted on the carrying value of the Group's LIORC royalty as its value is determined based on the share price of the publicly quoted vehicle which holds the royalty.

## KEY PERFORMANCE INDICATORS



Royalty related revenue reflects the revenue from the Group's underlying royalty and streaming assets on an accruals basis, including the interest earned on royalty financing arrangements and the dividend income received from the Group's investment in LIORC (refer to **note 5** for further details).

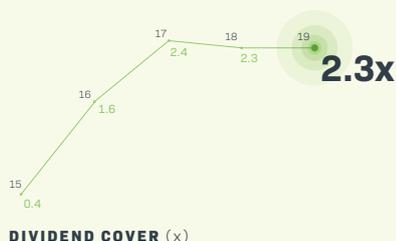


Adjusted earnings per share excludes any non-cash valuation movements, impairments, amortisation, foreign exchange gains/(losses) and share-based payment expenses.

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

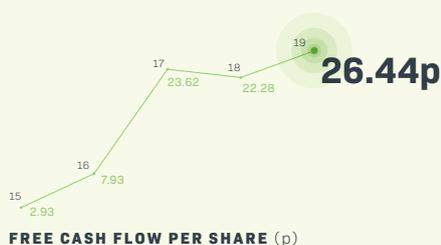
Valuation and other non-cash movements such as these are not considered by management in assessing the level of profit and cash generation available for distribution to shareholders. As such, an adjusted earnings measure is used which reflects the underlying contribution from the Group's royalties during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

Adjusted earnings divided by the weighted average number of shares in issue gives adjusted earnings per share (refer to **note 12** for further details).



It is a policy of the Group to pay a significant portion of its royalty income as dividends. Just as important as maintaining the dividend is maintaining the quality of the dividend. Dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share (refer to **note 13** for further details).

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

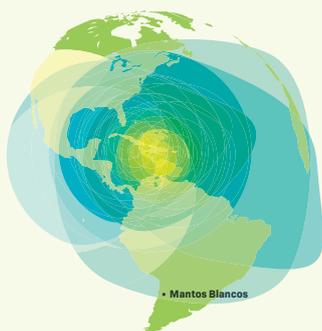


The structure of a number of the Group's royalty financing arrangements, such as the Denison transaction completed in February 2017, result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. Management have determined that free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

Free cash flow per share is calculated by dividing net cash generated from operating activities, plus proceeds from the disposal of non-core assets and any cash considered as repayment of principal, less finance costs by the weighted average number of shares in issue (refer to **note 34** for further details).



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



## Mantos Blancos royalty acquisition

OUR STRATEGY IN ACTION / AUGUST 2019

# Transaction consistent with Anglo Pacific's investment criteria

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Producing	Copper	Mantos Copper	Chile	1.525% NSR	Royalty intangible

### STRUCTURE

#### The Mantos Blancos mine

Producing open pit mine located in Chile, approximately 45km from the city of Antofagasta

Produces high purity copper concentrates, LME Grade A copper cathodes and silver by-products

Proceeds will part fund US\$219m of capital costs as well as working capital associated with a concentrator debottlenecking project which is expected to increase sulphide ore throughput capacity to 7.3Mtpa from 4.3Mtpa currently, prior to the expected depletion of oxide ore Reserves in 2023

This project extends the life of the Mantos Blancos mine to 2035 and reduces operating costs

During the first ten years following the completion of the debottlenecking project in 2021, the mine is expected to produce an average of 52 Kt of copper per annum at an average C1 cash cost of US\$1.87/lbs (including silver by-product credits) with further production upside and mine life extension potential

### MEETING OUR INVESTMENT CRITERIA

#### Enhanced commodity mix with exposure to highly attractive copper market outlook

- Portfolio further diversified to include producing copper royalty
- Global copper supply currently in a deficit position which is forecast to further widen

#### Immediately accretive and maintains low-risk geographic footprint

- Producing royalty immediately accretive to EPS
- Chile ranks amongst the top six most attractive global jurisdictions for mining investment

#### Mantos Blancos mine produces high-quality copper products

- High grade copper concentrates with low levels of impurities or deleterious materials and primarily Grade A LME registered 99.99% purity cathode products

### Strong ESG practices

- **Community support** – Mantos has implemented programmes to regularly assess the community impact of its operations in line with national laws and guidelines. A Sustainability Committee manages several local community support projects
- **Health and safety** – Systems comply with international best practices with critical controls in place to prevent fatal or severe incidents. Mantos Copper has repeatedly obtained the J.T. Ryan prize awarded by the Mine Institute of Canada and Sernageomin
- **Environmental responsibility** – Environmental performance and management policies are in place - the environmental mitigation policy seeks to minimise the environmental impact of Mantos' operations

### Long production track record with upside potential

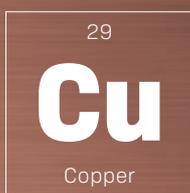
- One of the first private copper mines in Chile with demonstrated ability to operate through the cycle
- 16-year reserve based mine life at planned production rates, with extension upside
- Production upside potential via concentrator plant capacity expansion to ~9.7Mtpa and treatment of oxide ore stockpiles

### High-quality management team

- Proven operational track record at Chilean and South American copper mines
- Prior experience at blue-chip miners including Anglo American, BHP, Codelco, and Barrick South America

### Demonstrates Anglo Pacific's ability to finance acquisitions from its balance sheet

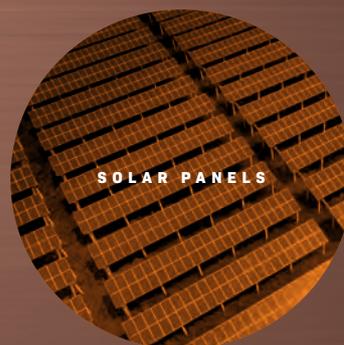
- Approximately US\$75m in balance sheet financed acquisitions over the past 12 months



**Copper is an essential component in the infrastructure for renewable energy.**

Copper is relatively inexpensive and extremely plentiful. Used for its superior properties, such as having the best electrical and thermal conductivity of any commonly used metal, as well as its durability and hygienic properties, copper is a key material for innovation in a number of sectors including renewable energy supplies, energy efficiency, sustainable buildings, transport systems and healthcare.

Therefore copper is a prominently relied upon and utilised material of any emerging or expanding industrial economy.



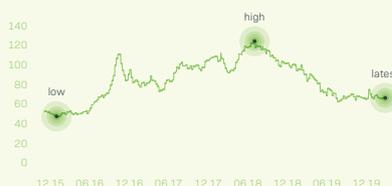
## MARKET OVERVIEW

### COMMODITY PRICES 2017-2019



**US\$75**  
low  
**US\$300**  
high  
**US\$160**  
latest  
at 27 March 2020

### COKING COAL (US\$/t)



**US\$47**  
low  
**US\$122**  
high  
**US\$67**  
latest  
at 27 March 2020

### THERMAL COAL (US\$/t)

#### The following section includes an overview of financing in the mining sector in 2019 and certain trends which emerged.

However, two recent events dominate the market outlook for the mining sector as a whole: COVID-19; and ESG investing. The former is a recent event which is largely outside of the control of the industry but likely to have a significant impact on the global economy in 2020. The latter, however, has been a trend which is gathering momentum and is impacting the way in which the sector has been viewed over the past year and is likely to attract even greater scrutiny in the years ahead. Both will be discussed after we recap 2019.

The analysis and commentary below looks at mining specific factors and trends which have emerged during the course of the last year.

#### 2019 MINING FINANCE REVIEW

**Equity markets in general performed well during 2019** as investors sought income and returns in an environment of low corporate and government bond yields, in many cases negative yielding. The low yielding bond market led investors to look elsewhere for returns and, coupled with the abundant capital in the financial markets following widespread quantitative easing over the last number of years, led to record highs in major equity indices.

**The strong global growth of technology and fin-tech stocks** led to a further withdrawal of support from more blue-chip, traditional industries, of which mining is part. This impact was felt particularly by companies at the small to medium end of the mining indices which sit outside of most index tracking funds. As a result, the smaller end of the mining sector struggled to find new sources of capital.

**Further, certain sub sectors of the mining industry performed better than others.** A large portion of the overall financing activity in the mining sector was represented by those in the precious metals space with greater levels of M&A in the year particularly by those at the larger end of the scale. There was a lot of competition for acquisitions along with steady capital market support to finance this activity.

**It remained a challenging year for those operators of financing bulk and base materials,** as ongoing uncertainty surrounding trade wars and sentiment surrounding climate change and ESG increased the cost of capital as discussed below.

#### ROYALTY AND STREAMING YEAR IN REVIEW

**Although financing in the wider industry totalled ~US\$117bn,** the vast majority of this was represented by either asset sales or bond issuances. Many of the bond issuances in 2019 were refinancings and not necessarily new capital. Conventional

financing in the form of debt and equity, crucial for those advancing their projects towards production, was at its lowest level since 2014.

Given the challenges in accessing capital in conventional forms, the conditions were favourable for alternative financings. Transactions in the royalty and streaming sector in 2019 were just over US\$1.3bn.

**The largest transactions in the royalty and streaming industry were once again by those focused on precious metals,** with the top four transactions representing 58% of overall transactions (although the Franco Nevada acquisition was that of an oil and gas royalty), reflecting the level of M&A within the sector. Anglo Pacific's ~US\$50m Mantos Blancos copper royalty transaction is all the more impressive in the context of the limited number of overall transactions outside of the precious metals space.

**In the precious metals space,** the increased competition for assets during the year led to an expansion of investment into direct ownership of the underlying mining assets, which to some degree erodes the de-risked nature of a royalty vehicle in gaining commodity exposure. We do not see the same level of competitiveness or pressure for growth in the base and bulk space and will continue to focus on taking non-operational exposure.

#### EQUITY MINING MARKETS

**According to the Mining Journal, in their annual review to October 2019,** the number of IPOs in the mining sector grew from 43 to 46 but the value of these IPOs was down 57%. The equity capital markets have fundamentally changed over the past number of years. In the past, a good mining asset would have had a good chance of being identified and supported by specialist mining funds, who would attract financing through their specialist skill and expertise to deploy capital in the sector.

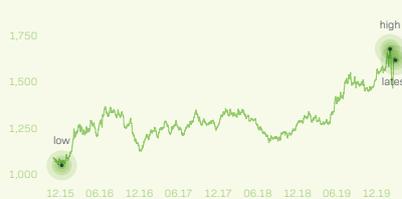
**However, the rise of indexation and the losses that have been experienced in the mining sector** in recent years have resulted in less capital flowing into specialist fund managers meaning that the pool of capital available to smaller companies has shrunk. The lower supply of capital has, therefore, increased the cost of equity, regardless of the quality of the underlying asset. For mining, this has led to a concentration of capital being invested in the largest companies, as they have been paying high dividends and also enjoy significant liquidity. As a result, the funds raised from IPOs have declined sharply.

Alternative finance providers traditionally seek to be part of a balanced capital structure. Absent a fluid equity or debt capital market, it is unlikely that any one provider of alternative financing will accept significant equity style risk by financing an entire



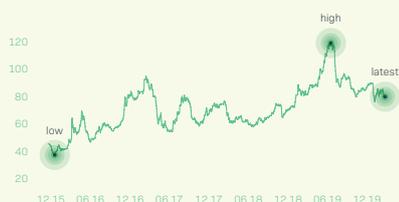
**US\$2.40**  
low  
**US\$34.00**  
high  
**US\$6.20**  
latest  
at 27 March 2020

**VANADIUM** (US\$/lbs)



**US\$1,051**  
low  
**US\$1,680**  
high  
**US\$1,625**  
latest  
at 27 March 2020

**GOLD** (US\$/oz)



**US\$38**  
low  
**US\$119**  
high  
**US\$80**  
latest  
at 27 March 2020

**IRON ORE** (US\$/t)



**US\$1.96**  
low  
**US\$3.33**  
high  
**US\$2.17**  
latest  
at 27 March 2020

**COPPER** (US\$/lbs)

operation. Consequently, we saw a higher level of collaboration during the year between alternative finance providers, as was the case with our recent Mantos Blancos and Inco transactions. We would see this trend continuing in the years ahead as capital, particularly equity capital, remains very scarce and expensive, especially following the recent global equity sell off following the outbreak of COVID-19.

**RECENT MARKET VOLATILITY AROUND COVID-19**

**As noted above, the equity markets were challenging for many mining operators over the past year.** The recent market reaction to COVID-19 and the equity sell off that ensued in a flight to safety has had a significant impact on valuations and the ability for new equity capital to be raised. The hardest hit in the mining sector have been those who have had a high level of debt in their business.

**It would now seem inevitable that there will be considerable economic decline in the year ahead.** However, for Anglo Pacific, at present, it is business as usual as no material asset is located in Europe and virtually none of the products on which the Group earns a royalty are sold to the European markets. There is the possibility that the virus could impact on the labour force and the ability to operate in jurisdictions in which the mining operations are located. We will be keeping a close eye on this in the coming months.

With the virus now almost in decline in China, as this is written, the focus there will continue to be on their infrastructure led economic stimulus measures. This will continue to require coking coal and iron ore and prices have remained robust in the year to date despite considerable market turmoil.

With subdued equity markets we would expect to see opportunities to deploy capital in an environment where capital has become even scarcer and more expensive in the past few months.

**ESG INVESTING**

**The other noticeable trend in the mining industry is in relation to ESG,** with considerable attention being paid to the fossil fuel extractive industry and the carbon footprint of each underlying operation, including scope 3 emissions. This is an aspect in which Anglo Pacific has been proactive in approaching through our ESG framework and the particular commodities which we have been targeting.

It is becoming increasingly likely that some projects will struggle to obtain public funding due to either the nature of the product being produced or the way in which it is being produced. We have seen some noticeable recent announcements by large mining and extractive companies in relation to their targets for carbon emissions and ESG initiatives.

Consequently, for public companies, it would seem that an increasing trend will be to run off existing operations in commodities like thermal coal and oil whilst committing to explore ways in which to create new technology to replace its use in energy generation. This new technology will require increasing quantities of commodities such as copper, lithium, niobium, vanadium and other rare earths in order to create the infrastructure required to transition the world away from dependence on fossil fuel energy.

**At present, parts of the investment community and environmental lobbyists** do not seem to differentiate between the fossil fuel extractive side of the mining industry and that which focuses on the commodities which will be required to facilitate the transition away from such carbon dependence. As long as all mining is perceived to be part of the climate change problem, rather than an enabler of the changes which will be required, then there is the risk that the sector will continue to be underrated and financing new sources of vital materials like copper will be prohibitively expensive, and could actually hold back technological advances in addressing climate change solutions. At Anglo Pacific, we believe that mining can be part of the solution and that these trends around lack of access to wider capital are favourable for our business.

**OPPORTUNITIES**

**The outlook for the year ahead remains uncertain given recent global events.** It looks like the small and mid-tier operators will continue to find traditional forms of finance difficult to source which should increase the demand for alternative forms of financing including royalties.

**We would expect to see the market for primary royalties as an area where numerous opportunities will arise,** but investment grade opportunities will remain limited given the quantum of capital required to bring most projects into development. This could, however, result in more collaboration amongst providers of alternative finance being prepared to take a larger portion of the capital structure through sharing of the risk, as demonstrated by our two most recent transactions where we have co-invested with Orion (refer to the case studies on page 30).

**The alternative finance industry has become more innovative in terms of how it can create opportunities to invest.** We would expect this trend to continue both in relation to primary and secondary transactions. Alternative financing has become more of a mainstream feature as part of the capital structure and this bodes well for our deal-flow and growth in the years ahead.

## Producing royalties

**A record £62.6m of income producing royalty assets was added to our portfolio in 2019, increasing our total number of producing royalties to 8.**

# 92%

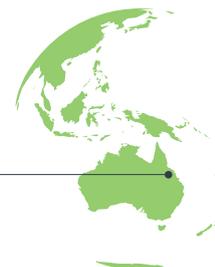
92% of the portfolio by value is in production

**BUSINESS REVIEW**

The following review covers each of our material assets. The COVID-19 pandemic is causing significant humanitarian and economic disruption worldwide. Although most of this is currently focused in Europe and the USA there can be no certainty that the virus will not spread further in Australia, Canada and Brazil, the jurisdictions where most of our revenue is generated from. We are unaware of any material operational disruptions to our existing operations caused by the COVID-19 pandemic, however that is not to say that our existing operations could not be affected by it should there be more widespread cases in jurisdictions where the underlying operations are undertaken. The following section is based on the current position assuming no material operational disruption other than those which we are currently aware of.

**26.2%**

Kestrel is 26.2% of the portfolio by asset value as at 31.12.19

**Kestrel**

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Producing	Coking coal	Kestrel Coal Pty Ltd	Australia	7 – 15% GRR	Investment property

**WHAT WE OWN**

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

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	7%
	Balance	12.5%
More than A\$150	First A\$100	7%
	Next A\$50	12.5%
	Balance	15%

The mine is operated by Kestrel Coal Resources (KCR), a private joint venture between EMR Capital (an Australian private equity investment company) and Adaro Energy (a major coal mine operator and developer based in Indonesia). KCR acquired the operation from Rio Tinto in the second half of 2018 for US\$2.25bn and immediately embarked on a programme to significantly increase production. KCR has made exceptional progress in doing so in the 18 months since they took over operational control.

**PERFORMANCE**

For the third year in a row the Group received record royalty income from Kestrel in 2019. Total revenue in 2019 was £37.0m, a 13.4% increase on the previous record of £32.6m in 2018. We have seen our income grow tenfold over the past five years, primarily due to volume increases, initially as mining moved further within our private royalty land and latterly as overall volumes increased following the change of operator.

At the end of 2018, Adaro announced its intention to increase saleable production at the mine by 40% in 2019 compared to 2018, following the implementation of a change programme by new management. Although this seemed to be quite a stretch target at the time, we were delighted to see the progress made during the year resulting in overall sales volumes increasing by 36% for the year as a whole, a fantastic achievement by the new operating team.

The record level of sales volumes in 2019 generated £37.0m of revenue for the Group. This number would have been higher had it not been for an 11% decrease in average pricing during the year compared to 2018, and the associated impact on the weighted average royalty rate.

Pricing came under pressure in the second half of 2019 due to a combination of slower economic growth in China resulting in subdued steel demand and additional supply coming online from Australia and Russia. The ongoing trade dispute between the US and China has largely impacted other commodities, although it is likely there has been some impact on the demand for domestically produced steel. The spot price has also been impacted by port restrictions imposed by Chinese authorities and, although this has largely impacted thermal coal imports, it has also impacted the risk, and therefore the price, which traders are prepared to take in securing seaborne coal, including metallurgical coal.

**OUTLOOK**

We would expect production to continue to increase at the mine in 2020, building on the fantastic track record that the new owners have set in the short time that they have been operating the project. At these rates of production, we would expect to see higher levels of production within our royalty land for the next 24 months, at which stage we would then expect to see volumes reduce by approximately 50% as production commences to move outside of the Group's private royalty land. The very high volumes expected in the next two years will have a positive impact on the Group's cash flow, depending on commodity prices.

Currency is also an important determinant for the Kestrel royalty, as the royalty ratchet is determined based on the average Australian dollar price achieved. As the price is set in relation to US dollars, the AUD:USD rate influences the weighted average royalty rate. Given the headwinds facing the Australian economy of late we have seen its currency continue to weaken. We have seen the AUD:USD reduce from an average of 0.78 in 2017 to 0.695 in 2019, and currently spot is at 0.65. As an illustration, at a US\$130t average price this would result in a weighted average royalty rate of 9.45% in 2017 versus 10.05% in 2019. At current spot levels however, this would increase to 10.9%.

The pricing outlook for coking coal has softened somewhat since the end of 2019 as demand from China remains uncertain in light of the COVID-19 outbreak, although the spot price has held up well in the year to date. The December 2019 consensus price forecast for coking coal in 2020 was US\$154.5t, a small increase on what prices were expected to be twelve months ago.

Absent any COVID-19 disruption, either at mine site or elsewhere in the logistic chain, including import restrictions for the end user, we would expect the output from Kestrel to continue to find demand from customers in the Asian market and the growth targets from the owners to be met.

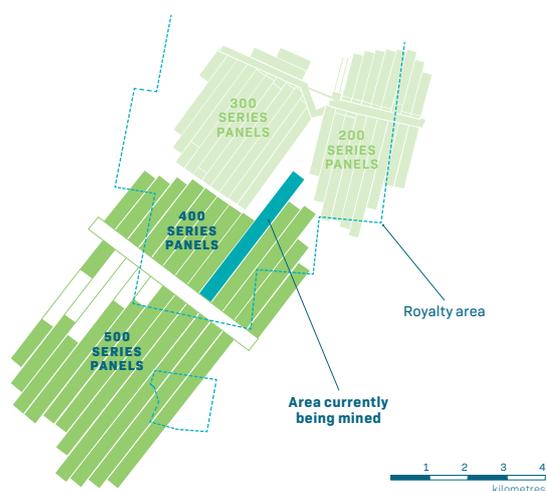
**VALUATION**

The Kestrel royalty's carrying value of £96.4m (A\$181.3m) is based on an independent valuation and accounts for 31% of the Group's total assets as at 31 December 2019 (2018: A\$198.2m; £109.8m; 41%).

Depletion associated with the record revenue of £37.0m was offset by the impact of significantly higher levels of production which brings forward cash flow, along with revisions to pricing inputs, noticeably more favourable underlying exchange rates and a revision downwards to the discount rate due to falling global government bond rates.

The independent valuation of Kestrel was undertaken by a Competent Person in accordance with the Valmin Code (AusIMM, 2005), which provides guidelines for the preparation of independent expert valuation reports. The Group monitors the accuracy of this valuation by comparing the actual cash received to that forecasted. The value of the land is calculated by reference to the discounted expected royalty income from mining activity, as described in *note 15*.

As the asset has a nominal cost base, the carrying value almost entirely represents the valuation surplus. The Group recognises a deferred tax provision against the valuation surplus and, as such, the net value on the balance sheet is £66.9m (2018: £75.3m).



**Kestrel mine plan**  
Showing area being mined compared to private land boundary



**14.8%**

Mantos Blancos is 14.8% of the portfolio by asset value as at 31.12.19

## Mantos Blancos

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Producing	Copper	Mantos Copper	Chile	1.525% NSR	Royalty intangible

### WHAT WE OWN

The Group acquired a 1.525% royalty over the Mantos Blancos copper mine in Chile for US\$50.25m. The Mantos Blancos mine is an open pit operation located in Chile, producing copper with silver by-products. The NSR entitlement applies exclusively to copper production at the Mantos Blancos mine. The operation is majority owned by Orion Mine Finance LLP, who acquired the asset from Anglo American plc. The operators are former Anglo American employees with an impressive operational track record.

### PERFORMANCE

The royalty contributed to cash flow for the last four months of 2019. In that period, revenue was in line with our expectations at the time of acquisition, at £1.0m.

### OUTLOOK

2020 will be the first year we will earn a full year of revenue from the royalty. A simple extrapolation of the revenue earned in the four months of ownership in 2019 would produce £3.0m of income, although there is potentially some upside to these numbers, depending on copper prices.

The proceeds of the investment are to be deployed for the construction of a process plant debottlenecking project which is, when complete, expected to improve throughput and therefore sales volumes.

In addition to volume upside, we remain of the view that over the medium-term there is the potential for a supply shortage of copper given the continued demand for the metal, both in its traditional end use and also its growing demand for use in electric vehicle manufacturing. In the short-term, copper continues to get caught up in the cross winds of the trade war between the US and China and declining global copper grades of existing mines. Our view at the time of acquisition was that the longer-term copper consensus price was on the conservative side and did not fully recognise the potential supply shortages in light of demand growth.

Furthermore, the copper produced at the Mantos Blancos mine is of very high-quality, with low levels of impurities and therefore should be in high demand as consumers look to meet ESG targets for their manufacturing processes. This is very much in line with our view that high-quality products will command a greater premium going forward.

### VALUATION

The Mantos Blancos 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.



#### Did you know...?

Mantos Copper has repeatedly obtained the J.T. Ryan prize awarded by the Canadian Institute of Mining, Metallurgy and Petroleum for health and safety.



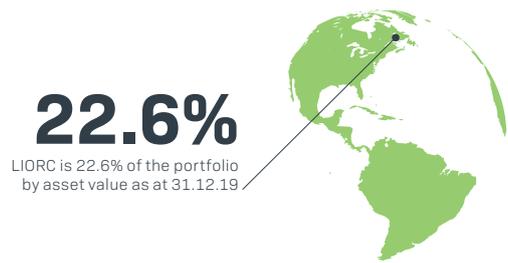
**The primary use of iron ore is to make steel, which is one of the world's most recycled materials.**

98% of the world's iron ore is made into steel which accounts for over 90% of all metals used in the world.

As a necessary input for the production of primary steel, iron ore feeds the world's largest metal market and the backbone of global infrastructure. The trillion-dollar-a-year steel market accounts for 95% of all metal sold every year.

Most of the iron produced is used to make steel. Steel is used to make automobiles, locomotives, ships, buildings, furniture, tools, bicycles, and thousands of other items.





## Labrador Iron Ore Royalty Corporation (LIORC)

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Producing	Iron ore & iron ore pellets	Iron Ore Company of Canada ('IOC')/Rio Tinto	Canada	Indirect interest in 7% GRR	Royalty financial instrument

### WHAT WE OWN

Anglo Pacific acquired a 4.28% equity stake in Labrador Iron Ore Royalty Corporation (LIORC) during the second half of 2018, investing £38.4m. A further 2.03% was acquired during 2019 for £20.3m bringing the total holding to 6.31% at a cost of £58.7m (~US\$75m). LIORC is a Toronto listed company which holds both a royalty and equity interest in the Labrador Iron Ore (IOC) project. This entitles LIORC to revenue from its 7% gross revenue royalty (along with a small commission) on revenue from the operation, along with dividend income from its equity stake.

LIORC is effectively a pass-through vehicle in so much that it has limited mandate other than to pass through its net cash to shareholders by way of dividend, subject to retaining sufficient working capital. This dividend is paid on a quarterly basis and includes a base level and a special dividend, the latter fluctuating depending on the level of distributions received from the underlying iron ore operation. Given the restricted investment mandate available to its management, Anglo Pacific considers this to effectively be a part ownership of the IOC royalty and accounts for this income as such.

### UNDERLYING OPERATION

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

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

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

### PERFORMANCE

The Group earned income of £8.0m in 2019 from its investment in LIORC, an increase of 321% earned in 2018 due to a full year of revenue in 2019 along with an increased stake acquired during the year.

The total dividend paid during 2019 by LIORC was C\$4.00 per share. This reflected the distribution of excess cash retained in the business at the beginning of 2019 along with the continued strong iron ore pellet prices achieved during the year as supply restrictions remained in force in Brazil following the regrettable Vale tailing dam collapse in February 2019.

The dividend in Q1 2019 benefitted from the distribution of surplus funds retained in the business as management sought shareholder approval to amend their articles of association in order to invest in other royalties. When it became apparent that shareholder support would not be forthcoming the surplus cash was distributed to shareholders. The closed investment mandate, reinforced by shareholders in Q1 2019, supports our view that this is a single asset vehicle and that our holding represents an indirect ownership in the underlying royalty.

### OUTLOOK

We continue to believe in the long-term outlook for premium iron ore pellets given that they reduce the carbon footprint associated with steel manufacturing from reduced energy consumption versus iron ore concentrate. Pricing during 2019 benefitted from the continued supply currently offline in Brazil due to the Vale tailing dam disaster.

Our pricing and investment thesis focused more on a 'normal' pricing environment. The dividend received in 2019 of C\$4.00 per share also benefitted from the distribution of surplus cash which is no longer held by LIORC. It is possible that this number will be lower in 2020 and, prior to the outbreak of COVID-19 the broker consensus was C\$2-2.50. The recent announcement by IOC that it is going to focus on producing slightly more concentrate following the slowdown in demand for pellets caused by COVID-19, will have some impact on the level of dividend we expect to receive.

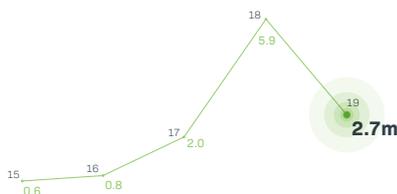
The average cost of the position acquired in 2018 was C\$24.06 per share. As such, the C\$4.00 dividend for 2019 represented a very impressive running yield on the holding of 16.6%. At the end of 2019 the average cost of the entire holding was C\$24.55 per share, just below the price at the end of the year of C\$24.62. Following the global equity market sell off as a result of the COVID-19 pandemic the share price has recently traded significantly lower.

We have reinvested the dividends we received at the end of January 2020, adding a further C\$7m to our position.

### VALUATION

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

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



MARACÁS ROYALTY RELATED REVENUE (£m)

**5.0%**  
Maracás Menchen is 5.0% of the portfolio by asset value as at 31.12.19



## Maracás Menchen

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

### WHAT WE OWN

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

### PERFORMANCE

Revenue from Maracás Menchen was impacted by the noticeable decline in the vanadium price which began in Q4 2018 and persisted through 2019. As a result, revenue from the Maracás Menchen royalty decreased by 54% in the year to £2.7m despite a 4.5% increase in sales.

Production benefitted from the successful expansion project completed in December 2019 which was designed to achieve a 20% increase in throughput at the processor. As a result, total production in 2019 was 10.6kt, an 8% increase on 2018 production. This included a record 3kt produced in Q4 2019, suggesting that its expansion targets are well on track to achieve 12kt of annual production going forward.

The increased efficiency and output have also had a positive impact on their unit cost, which averaged US\$3.21 per pound, a ~20% improvement on 2018.

The reduction in operating cost derived from the expansion plan was timely given the fortunes of the vanadium price during 2019. The vanadium price began to decline as China announced a general relaxation of certain regulatory policies in an attempt to stimulate its heavy industries as its economy came under pressure due to its trade dispute with the US. This included the implementation timetable for its new rebar standards. This meant that steel stocks on hand and steel in the process of being manufactured could conform to the previous standards.

This was important for vanadium as it is a key strengthening alloy for steel whilst also acting as a light weighting agent. As such, when the new rebar standard was announced it led to a rush for supply which drove prices. When the timetable for the implementation of the new standard was clarified it meant that stocks of vanadium in China were high and demand for new vanadium reversed. This explains the volatility in the price of vanadium experienced over the past 18 months, where the price peaked in the mid \$30lbs range and reverted back below \$6lbs in 2019.

It is encouraging that, even at \$5-6lbs vanadium pricing Maracás is still generating operating margin, suggesting that Largo's aim to become one of the lowest cost producers is being achieved.

### OUTLOOK

The outlook remains relatively positive both in the short-term and medium-term.

In the short-term, the expansion project delivered during the year has resulted in increased volumes and lower unit costs. Annual maintenance to the plant is scheduled for April, which will see lower production in the month. As such, guidance for the year is

11.75-12.25kt of production with sales forecast to be 9.5-10.0kt – the latter would suggest a slight decline in volumes for the Group's royalty in 2020.

Largo announced during 2019 that they are terminating their offtake agreement with Glencore when it expires in April 2020. This will remove the offtake discount and increase margin. It will also enable Largo to determine which market it chooses to sell its vanadium into, and may result in Largo targeting the premium end of the market given quality of the vanadium produced is to the standard required for use in mass energy storage and battery equipment. Due to the transition of bringing sales in house it is expected there will be a one-off stock level spike whilst initial lead times are delivered.

In addition, Largo announced it has approved the construction of a ferrovanadium conversion plant, which will enable it to produce a ferrovanadium product in addition to vanadium pentoxide which is currently produced. Combined with bringing the sales function in house, these developments should result in higher margins for Largo and for our royalty in the medium-term.

It is looking likely that the pronounced volatility in the vanadium market might calm down somewhat in the coming months and remain within a narrower range. However, it remains to be seen what the impact of COVID-19 will have on the vanadium market in 2020 given the impact on the Chinese economy in Q1 2020.

Volatility in 2019 saw some trade buyers in Europe switching to niobium as their strengthening alloy given greater certainty of supply and less volatile prices. However, there are certain constraints on the perfect substitution from vanadium to niobium, not least that the niobium market is around half the size of the vanadium market at present and so there is simply not enough niobium to replace vanadium.

The switch to niobium in 2019 served to increase vanadium volumes on the seaborne market going to China at a time when Chinese demand wavered and Chinese supply increased. The impact on the price was profound. At prices sub \$8lbs it is highly likely that Chinese production is not economic and may well come offline, providing support to the seaborne market which was lacking in 2019.

The recent volatility has been driven largely by short-term market forces, particularly the demand shock from the Chinese rebar standard relaxation. The trend for more robust steel is likely to remain though, as is the use of lower polluting more energy efficient iron ore, particularly in China which could see domestic Chinese iron ore supply, and therefore vanadium, reduce in the medium-term.

The growing use of vanadium in large, mass energy storage technologies is also likely to continue, and the vanadium produced by Largo conforms to the necessary standards. This could become a key focus for Largo's new in-house sales function going forward.

### VALUATION

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

8.0%

McClellan Lake Mill is 8.0% of the portfolio by asset value as at 31.12.19



## McClellan Lake Mill

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Producing	Uranium	Orano	Canada	Tolling revenue	Loan & royalty financial instrument

### WHAT WE OWN

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

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

### PERFORMANCE

The cash flow received by Denison under the toll arrangement should produce a regular and predictable flow of cash, owing to high-quality of the deposit and mine operator supplying the mill. Receipts from the financing arrangement in 2019 were £3.5m compared to £3.3m earned in 2018.

The income from the toll revenue is not sensitive to movements in the uranium price, which continues to be depressed. As such, the Group's cash flows will not alter with uranium price fluctuations. The risk to the Group's cash flow from this asset could arise if uranium prices fall to a level where the operation providing the throughput to the mill became uneconomic and shut down. The Group currently considers this unlikely in the case of Cigar Lake. However, Cameco, the operator of the Cigar Lake mine, has, due to COVID-19, enforced a four-week shut down of operations. This shut down is in place at the time of writing this report. Upon the resumption of operations, we continue to expect revenue of ~C\$0.5m per month.

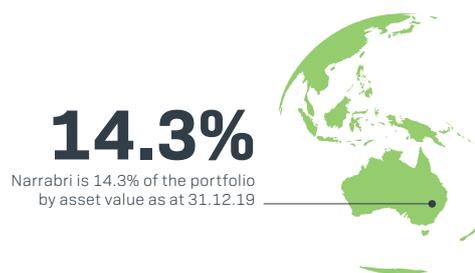
### VALUATION

The loan instrument is accounted for as a receivable and carried at amortised cost. The stream is considered a financial instrument in accordance with the Group's accounting policies and is therefore carried at fair value. All valuation movements are recognised directly in the income statement.



#### Did you know...?

*Cameco, the operator of the Cigar Lake Mine, has a wide range of initiatives in place to support the local indigenous communities, including socio-economic contributions which are enshrined in collaboration agreements and memorandums of understanding which underpin its licence to operate.*



## Narrabri

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

### WHAT WE OWN

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

The Narrabri mine has scope to increase production over the short and medium term, following Whitehaven's approval to expand production to 11Mt per annum. Whitehaven estimates Narrabri to have a reserve based mine life to 2042.

### PERFORMANCE

Total revenue from Narrabri increased by 14% in the year to £4.0m (A\$7.4m). This was due to increased levels of production offset somewhat by lower prices.

The geotechnical challenges faced by Whitehaven over the past number of years in respect of a localised fault within the coal body had impacted production numbers as there was a delay in passing the longwall infrastructure through the fault. This now appears to be coming to an end, and Whitehaven announced that they successfully mined through the fault in Q2 2019 with normal production rates resuming immediately afterwards.

Total production for the year was 20% higher at 5.7Mt. Due to successful mining through the fault area during the year, Whitehaven beat their production guidance for their FY 2019 (ended 30 June 2019), achieving 6.4Mt of ROM compared to guidance of 5.6-6.0Mt.

Anglo Pacific's royalty is paid based on cash received during the quarter. Due to working capital and higher stock levels on hand at the beginning of 2019, the Group received royalties based on sales volumes of 6.2Mt in 2019, a 48% increase compared to 2018.

Offsetting the significant volume increases was a decline in the realised price achieved for those sales during the year. Coal prices were 19% lower on average during 2019. Pricing was impacted by a higher portion of higher ash quality coal from Narrabri in H2 2019 primarily due to out of seam dilution at the end of the Longwall (LW) 08 panel. This dragged the weighted average price down in the second half of the year. Whitehaven expect product quality to improve as they move into LW 09 at the beginning of 2020 and for pricing to converge towards the benchmark.

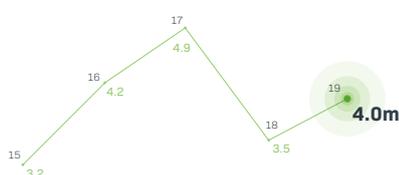
On a macro level, Australian thermal coal markets were impacted by an import restriction at various Chinese ports. This resulted in a surge of capacity being available on the seaborne market as suppliers searched for alternative trade buyers. Chinese purchasers seeking immediate access to thermal coal were instead turning towards alternative supply from Indonesia and Russia, which were not included in the port restrictions, driving down the price of seaborne Australian thermal coal.

It was unclear as to whether this specific restriction on Australian thermal coal was an attempt to promote the domestic coal market or whether there was a greater political motivation behind it. Either way, the price of thermal coal came under pressure, as did the Australian dollar.

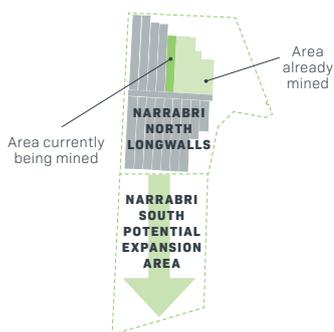
The majority of the thermal coal produced at Narrabri is not exported to China, so certainty of demand should remain for this product. However, with a huge market now closed to Australian thermal coal, the increased supply available on the seaborne market has driven the price down. It looks likely that the port restrictions are set to endure into 2020.

At the same time as thermal coal restrictions, the price of seaborne LNG reduced further at the same time as the price of carbon in developed economies, particularly in mainland Europe, increased. This encouraged those who could use either to switch towards LNG, increasing the volumes of thermal coal on the seaborne market.

The weakening of the Australian dollar during the year largely rounded out as the benefit of higher Australian dollar revenue on a US dollar price was offset by a stronger pound when translating back into pounds. There is no equivalent ratchet in place as there is with Kestrel.



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



**Narrabri mine plan**  
Showing south potential expansion area

**OUTLOOK**

Whitehaven is guiding between 6.0-6.5Mt for Narrabri in its FY 2020 which runs to 30 June 2020. Having produced just over 2Mt in the second half of 2019 this would suggest the mine will produce between 4-4.5Mt in H1 2020 which would be the highest level in three years.

Pricing should move closer to the benchmark during the first half of 2020 as the product mix being produced reverts more towards higher quality thermal coal from the high ash coal produced towards the end of 2019. However, it would appear that the wider Australian thermal coal market will continue to face downward pressure from Chinese import restrictions and cheap LNG seaborne prices.

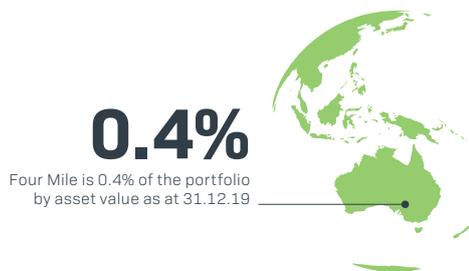
Whitehaven continues to advance its Narrabri expansion ambitions, which will see future longwall panels extended into the Narrabri South Exploration Licence area. Anglo Pacific has a royalty over the Narrabri North and Narrabri South licences.

The project has received its Secretary’s Environmental Assessment Requirements from the NSW Government as well as its EPBC Act referral from the Federal Government. Based on these requirements, Whitehaven has been developing an EIS which it plans to lodge with DPIE in the second half of the year.

**VALUATION**

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

**Four Mile**



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

**WHAT WE OWN**

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

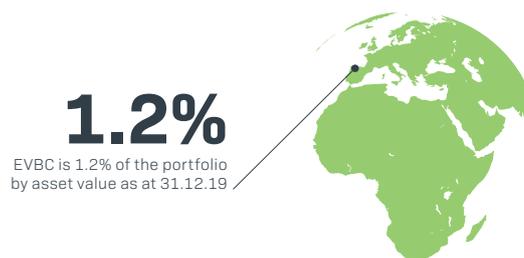
**PERFORMANCE**

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

During 2019 we continued the legal process with an application to the court for a date for a hearing in an attempt to resolve the ongoing dispute. We will provide further updates as and when they materialise, but as we are in a legal process, it is prudent not to disclose further details. We remain of the view that we have a very good case to be heard, that our legal argument is robust and are confident of a positive outcome.

**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.



## El Valle-Boinás/Carlés (EVBC)

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

### WHAT WE OWN

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

### PERFORMANCE

Income from EVBC continues to outperform our expectations, and showed a further 8% growth in 2019. Growth was largely due to the higher gold prices during 2019, particularly in the second half of the year.

Volumes from EVBC were largely in line with those of 2018, and would have been higher had it not been for abnormally high rainfall in November and December 2019 which impacted production and increased ore stock levels. Despite this, Orvana have maintained their guidance for their FY 2020 (ending 30 September 2020) which would suggest higher sales levels to come in 2020.

The gold price experienced considerable gains during the second half of 2019, moving from a range around US\$1,275oz to >US\$1,500oz and now above US\$1,600oz.

There are many macro factors which have increased the demand for gold. The trend during the past 12 months of negative yielding bonds has made holding bullion attractive once again. Further, continued economic stagnation in many developed economies and falling interest rates have increased the demand for safe haven assets, of which gold tends to be one of the easiest to access. Also, previous safe haven assets, such as the Japanese yen, have appeared less safe. With the outlook for bond yields set to remain subdued demand for gold has increased and looks set to remain so in the short-term.

### OUTLOOK

Orvana management has done a great job in improving efficiencies at the mine over the past two years, focusing on feeding higher grade ore whilst continuing to explore for additional resources to extend mine life.

Orvana has committed capex to exploration development at EVBC during the final quarter of 2019 and has commenced a drilling program. They carried out 320 metres in drill holes in Q1 2020, and a relevant drilling program at EBVC will continue during 2020. This will include a larger exploration drill program is targeted at the Carles mine, comprising 3,500 metres. It is also considering exploring other regional targets within its licence area.

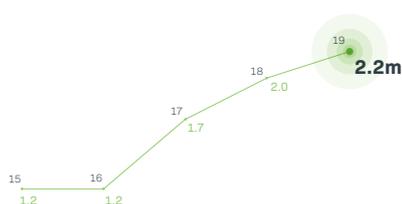
All of the above is positive for potential mine life extension, and Orvana will provide further updates on progress during the course of 2020. In the meantime, absent specific updates, we continue to consider the mine life to be approximately three to four years. Orvana is guiding production in the range of 60koz to 65koz in its FY 2020.

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

As a result of the severity of COVID-19 in Spain, Orvana announced that it is placing its operations on care and maintenance for a period of 14 days. This is in effect at the time of writing this report.

### VALUATION

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



EVBC ROYALTY RECEIPTS (£m)

## Development royalties

**The Group holds three development royalties, across three commodities, in three well established mining jurisdictions.**

2%

2% of the portfolio by value is in development

**0.9%**

Salamanca is 0.9% of the portfolio by asset value as at 31.12.19



## Salamanca

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

### WHAT WE OWN

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

### PERFORMANCE

The uncertainty at the end of 2018 in relation to permitting continued in 2019 with limited progress being made. Management has continued to meet with and provide evidence to the Ministry for Ecological Transition and Demographic Challenge ('MITECO'), the Nuclear Safety Council ('NSC') and regional authorities and governments. Finding a resolution remains the core focus.

The outlook for uranium continues to remain uncertain as the US have not yet concluded on their position following the s232 trade investigation.

As the Company awaits the finalisation of the permitting process, it remains fully financed and ready to commence construction upon the granting of remaining permits.

### 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.

**0.3%**

Groundhog is 0.3% of the portfolio by asset value as at 31.12.19



## Groundhog

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

### WHAT WE OWN

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

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

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

### PERFORMANCE

Atrum's focus for 2019 was on the Elan project, and so there was limited progress in relation to the Groundhog licences. Atrum is hoping to complete their expanded Elan feasibility study in Q1 2020.

### VALUATION

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



## Piauí

Stage	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
Development	Nickel & cobalt	Brazilian Nickel	Brazil	1.00% GRR	Royalty financial instrument

### WHAT WE OWN

The Group entered into an agreement with Brazilian Nickel Limited in 2017 to acquire a royalty over its Piauí nickel project in Brazil. The initial investment was for US\$2m which provided the Group with a 1.0% GRR. Anglo Pacific has, at its election, the right to increase this investment by a further US\$70m for a total gross royalty of 5.75% upon the satisfaction of certain developmental milestones. The transaction is very much in keeping with the Group's strategy of investing in materials closely aligned to 21st century technological developments around electric vehicles and mass storage infrastructure.

### PERFORMANCE

During the year, the project received its Preliminary Environmental Licence (Licença Prévia) from the Brazilian Piauí State Environmental Agency which confirms government and community support for the project. The company is focused on securing the remaining finance it needs in order to continue its path towards construction. Should the project come online in accordance with our expectations, and once fully invested, this could become the Group's second largest source of income. As such, we have been in regular dialogue with the company to provide any support or advice in relation to their fund raising.

### VALUATION

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



#### Did you know...?

High purity nickel and cobalt hydroxide products to be produced from Piauí are expected to be used for lithium ion batteries and used in electric vehicles

## Early-stage royalties

**The Group holds three early-stage royalties, across three commodities, in three well established mining jurisdictions.**

6%

6% of the portfolio by value is early-stage



## Ring of Fire

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

### WHAT WE OWN

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

### PERFORMANCE

Noront successfully refinanced its borrowings during the year, extending the terms and agreed an additional royalty over its Eagles Nest project with Franco Nevada. We were encouraged to see both Franco Nevada and Resource Capital Funds continue to support the Company during the year as they continue to progress their Eagles Nest project and required infrastructure.

Eagles Nest will be the first deposit to be brought into production. Anticipated timing of first production is 2024, with construction due to start in 2021. This reflects positive discussions with the province of Ontario and First Nation groups over the past few years.

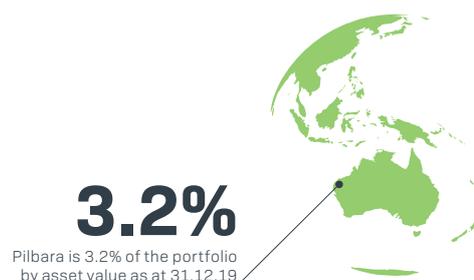
Although there is no specific guidance in relation to the Group's royalties, the Black Thor deposit is the third deposit expected to be brought online should market conditions be favourable for chromite projects at that time.

### 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.

Given the guidance in relation to first production at Eagles Nest we have altered our expectation for first production at Black Thor and now estimate this will commence in 2034 (2018: start date 2030). Applying this start date to the Group's valuation model, together with a pre-tax nominal discount rate of 10.00% and a long-term chromite price of US\$175/t resulted in a net present value of the discounted future royalty cash flows of C\$3.9m, compared to the carrying value of C\$6.2m. As a result of the net present value being lower than the carrying value, the Group recognised an impairment charge of C\$2.3m (£1.4m) for the year ended 31 December 2019.

## Pilbara



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

### WHAT WE OWN

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

The tenements, covering 263km<sup>2</sup>, 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 Angeles 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

Although no tangible progress on the royalty tenements was seen in 2019, BHP continue to progress the permitting of their South Flank licences. Whilst this will have minimal consequences for Anglo Pacific's tenements, we are encouraged that BHP are expanding their plans adjacent to Mining Area C, and that it remains likely they will focus on higher grade deposits, that the Group's royalties cover.

### VALUATION

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

## Dugbe 1

# 1.5%

Dugbe 1 is 1.5% of the portfolio by asset value as at 31.12.19



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

### WHAT WE OWN

The Group entered into a royalty financing agreement with AIM-listed Hummingbird Resources PLC ('Hummingbird') in December 2012 in relation to its Dugbe 1 gold project in Liberia. In exchange for US\$15m, payable in three tranches of US\$5m, the Group is entitled to a 2% life of mine NSR royalty from any sales of gold mined within a 20km radius of a specified point within the Dugbe 1 resource.

### PERFORMANCE

We were pleased to see that Hummingbird has been evaluating options for the Dugbe 1 project and has signed a non-binding memorandum of understanding with ARX Resources Limited whereby ARX would acquire the operation and commit US\$30m towards its development.

Although there are many conditions precedent to be performed, the current gold price is clearly making the project more economically interesting. Our royalty would survive any change of control, and depending on how this would be structured, could result in Anglo Pacific electing to terminate its royalty in return for the US\$15m invested.

### VALUATION

The Dugbe 1 royalty is classified as a royalty financial instruments on the balance sheet. It is carried at fair value by reference to the discounted expected future cash flows over the life of the mine.

Despite there being limited progress made by Hummingbird in developing the Dugbe 1 project during 2019, the Group continues to estimate the likely start date for production to be 2030 (2018: start date 2030). Applying this start date to the Group's valuation model with a pre-tax nominal discount rate of 30.00% (2018: 22.00%) and a long-term gold price of US\$1,507/oz resulted in a net present value of the discounted future royalty cash flows of A\$1.3m, compared to the carrying value of A\$2.2m.

As a result of the net present value being lower than the carrying value, the Group recognised a valuation charge of A\$0.9m (£0.5m) for the year ended 31 December 2019.

There are certain provisions within the contract which would entitle Anglo Pacific to seek its capital to be returned, as noted above.



#### Did you know...?

*The Government of Liberia passed Hummingbird Resources' 25 year mineral development agreement into law during Q2 2019. A requirement of the mineral development agreement is the establishment of a community development fund to support the local communities neighbouring the mine.*

## FINANCIAL REVIEW

The recently upsized and extended borrowing facility provides us with ~\$75m to finance further acquisitions in the year ahead

**K. FLYNN**

Chief Financial Officer & Company Secretary



**2019 was another year of growth for Anglo Pacific, with record income from our royalty portfolio – the third consecutive year of record income. Total portfolio contribution was £59.5m, a 20% increase year on year. This was mainly due to increased volumes from Kestrel during the year as the operator delivered on its target to increase saleable coal production by 40% in the year, achieving an actual increase of 42%.**

The story in 2019 was very much volume driven, with record production numbers achieved at Kestrel and Maracás, a recovery at Narrabri following the impact of a fault intrusion during 2018 and EVBC continuing to benefit from ongoing plant efficiencies. Offsetting some of these gains was a softer commodity pricing background, particularly for coking and thermal coal and vanadium following a slowdown in the Chinese economy due to its ongoing trade dispute with the US.

With a low and flexible cost base, our income translates directly to cash. The Group generated free cash flow of £47.7m which, along with utilising our borrowing lines, financed £62.6m of income generating acquisitions and dividends of £14.4m, a capital allocation of 4.3:1 in favour of growth. The level of earnings and cash flow enabled us to once again recommend an increase in dividend for 2019, to 9p per share from 8p in 2018, a 12.5% increase in the total dividend and a 32% increase in the recommended final dividend.

The increased volumes from Kestrel and the revenue generated from the £100.9m (~US\$125m) of acquisitions completed over the past two years has significantly increased the Group's borrowing capacity. We negotiated an increase to our borrowing facility from US\$60m to US\$90m, maintaining a further US\$30m accordion option, and extending the maturity by twelve months to September 2022.

The Group ended 2019 with drawn borrowings of £36.5m. This leaves approximately US\$75m available to finance further acquisitions, a number which will increase as we generate additional free cash flow during the year. With accelerated volumes from Kestrel, our leverage ratio remains low at under 0.7x.

On a more macro level, currencies continued to be volatile during the year. The pound was marginally weaker against the dollar during 2019 as Brexit uncertainty persisted, although the US dollar was also held back due to ongoing concerns in its economy regarding low inflation and the downward pressure on interest rates. The Australian dollar weakened in the year, against both the US dollar and the pound. The former is important as a weaker Australian dollar impacts favourably on the weighted average royalty rate at Kestrel, and therefore Anglo Pacific benefitted from this rate during the year. This benefit reversed when translating the Australian dollar income back to pounds as the pound was almost 3% stronger in 2019. Currency is discussed further on in this section, particularly in relation to recent market volatility as Central Banks attempt to shield the market from the economic impact of COVID-19.

The outlook for the year ahead was positive for volume growth as we expected further increases from Kestrel, Narrabri, Maracas and a full year of contribution from Mantos and our increased shareholding in LIORC. However, this depends on whether the operations remain free from restrictions being imposed as a result of COVID-19 and its impact on the global demand for our commodities. We have seen minor disruption at EVBC and Cigar Lake with the operators putting a temporary shutdown in place for a period of two and four weeks respectively – shut downs of this nature would only have represented ~1% of our 2019 portfolio contribution which is immaterial to our day to day business.

With a strong balance sheet, modest levels of leverage and no refinancing obligations until Q3 2022 our balance sheet is strong enough to endure a period of COVID-19 related revenue disruption whilst we retain access to liquidity to take advantage of any opportunities which could arise as a result of the recent spike in the cost of capital in the sector.

### INCOME STATEMENT

Profit after tax for the year of £29.0m was largely in line with the previous year and resulting in basic earnings per share of 16.06p (2018: 15.97p). The results for both years were impacted by the fair value movement in relation to Kestrel, with a £10.1m surplus being recognised in the Income Statement in 2018 and a £9.2m reduction being recorded in the current year. There was a £1.4m impairment charge recorded in the Income Statement in the year in relation to the Ring of Fire royalty as the royalty remains many years from generating income as detailed on [page 49](#). Finally, 2018 benefitted from the utilisation of tax losses whereas there was a full tax charge in 2019.

### Adjusted earnings

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

**FINANCIAL REVIEW**

continued

	2019 £'000	%	2018 £'000
Royalty related revenue	55,728	21%	46,104
Receipts from royalty financial instruments	2,166	10%	1,975
Operating expenses – excluding share-based payments	(6,018)	28%	(4,709)
Finance costs	(1,337)	28%	(1,042)
Finance income	34	-58%	82
Net foreign exchange gains/losses	-	-100%	(593)
Other (losses)/income	(165)	-110%	1,656
Tax	(13,560)	23%	(10,991)
Adjusted earnings	36,848	13%	32,483
Weighted average number of shares ('000)	180,544		180,278
	20.41p	<b>13%</b>	18.02p

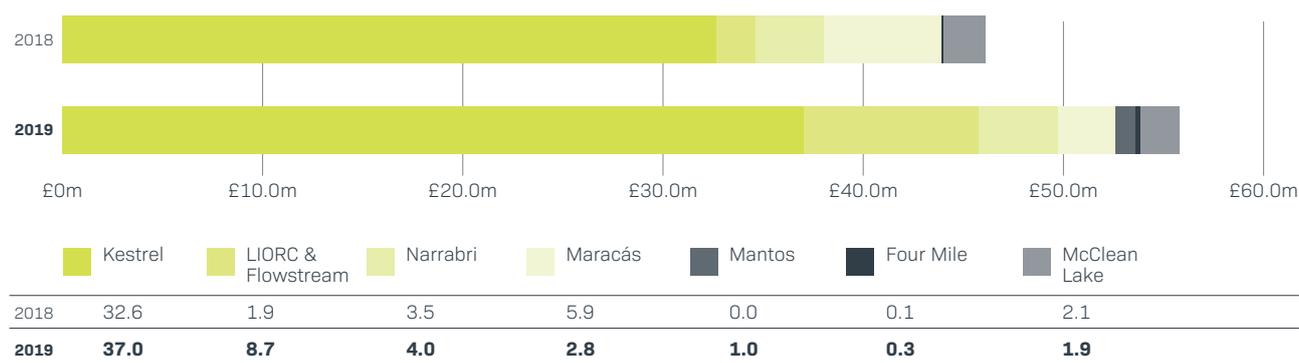
Adjusted earnings increased by 13% to £36.8m in 2019 from £32.5m the previous year. This translated into a 13% in adjusted earnings per share to 20.41p in 2019 from 18.02p in 2018. The main reason this increase was the significant increase in volumes from Kestrel as the operators delivered on their ambitious target to increase saleable coal production by 40% in 2019.

**Royalty related revenue**

The Group's royalty related revenue is represented by royalties received from Kestrel together with the Group's royalty intangible assets (Narrabri, Maracás Menchen, Mantos Blancos and Four Mile) in addition to the interest received from the Denison financing arrangements and dividends received from the Group's investments in LIORC and Flowstream (both flow through royalty companies).

For the year ended 31 December 2019, the Group recorded its third year of record royalty related revenue, increasing from £46.1m in 2018 to £55.7m in 2019.

Kestrel was once again the single largest contributor to the Group's portfolio, although less concentrated than the previous year owing to the acquisitions we have made over the past two years, accounting for 62% (2018: 66%) due to a significant increase in volumes during the year. The £8.0m in dividends received from the Group's investment in LIORC became the second largest contributor in the Group's portfolio, driven by a combination of the Group investing a further £20.3m into LIORC and holding its 2018 investment for a full year. There was a significant decline in contribution from Maracás Menchen despite setting record production levels at the mine as the underlying vanadium price fell from an average of U\$16.20/lbs achieved in 2018 to U\$9.25/lbs in 2019.

**Movement in royalty related revenue**

As can be seen in the chart opposite, volume increases were the largest factor behind the increase in 2019, predominantly as a result of significant increases from Kestrel, where the operator delivered on its target to increase volumes by 40% in the year resulting in an uplift in our revenue of £11.7m. In addition, the benefit of a full year of revenue from the LIORC position acquired during 2018, along with further additions in 2019, combined with four months of revenue from Mantos, contributed £7.8m. The benefit of the increased volumes and acquisitions was somewhat offset by lower commodity prices on average during the year.

#### **Kestrel**

Revenue from Kestrel increased by 13% in the period, as the operator increased its saleable coal production by 42% in the year, meeting its ambitious target to increase production by 40%. Some of this benefit was offset by a lower coal price, particularly in the second half of the year as the Chinese authorities enforced import restrictions at certain ports in an attempt to promote their domestic industry. Our revenue also benefitted from a more favourable AUD:USD exchange rate, which increases the weighted average royalty rate through the ratchet structure. Adaro Energy have announced a target to increase saleable production by a further 6.5% in 2020.

#### **LIORC**

LIORC represents the Group's second largest source of income and has exceeded expectations since we first began acquiring the position in Q2 2018. LIORC is a TSX listed single asset pass through vehicle, whose main income is that from a 7% gross revenue royalty earned from the Labrador Iron Ore mine operated by Rio Tinto. Given its single asset status and closed investment mandate, the position is considered akin to a part ownership of the royalty.

The Group acquired a 4.28% stake in LIORC during H2 2018 at an average on-market price of C\$24.06 per share. The total dividend paid on this stake during the year was C\$4.00 per share, representing a cash yield of 16.6%. This yield reflected the benefit of a one-off distribution of retained cash in Q1 2019 along with iron ore pellet premia remaining well supported as restrictions on Brazilian supply remained in force during 2019. The cash retained in the business in 2018 occurred as management contemplated seeking shareholder approval to increase its investment mandate rather than to continue as a pure pass through vehicle. This strategy was abandoned as it appeared shareholder support would not be forthcoming and so excess cash was then distributed to shareholders.

The Group took advantage of favourable on-market prices during the second half of 2019 and increased its stake by a further 2.03%. Including the £5.7m (~US\$7.5m) added in the first quarter of 2020 through dividend reinvestment the Group now holds a 7% stake in the business at a cost of £64.4m (~US\$82m).

#### **Narrabri**

Volume recovery at Narrabri led to a 16.2% increase in revenue in the year. Volumes improved as the operator continues to implement solutions related to moving the longwall infrastructure through a localised fault area within the deposit, a geotechnical issue which has hampered production in the previous two years.

Whitehaven reported a 20% increase in total saleable production in the period to 5.7Mt, although actual sales were higher at 6.2Mt, a 48% increase on sales volumes in 2018. Similar to Kestrel, some of this benefit was reduced by lower average prices received in the period due to a combination of Chinese import restrictions and a period of lower quality coal being extracted at the outer edge of longwall panel 08 prior to changeout.

#### **Maracás Menchen**

Revenue from Maracás was impacted by the noticeable decline in the vanadium price which began to occur in Q3 2018 and persisted throughout 2019. The price of vanadium reduced from a high of ~US\$34/lbs to current levels of US\$5-6/lbs mainly due to China rowing back on the timetable it is requiring steel manufacturers to increase rebar standards for use in domestic construction.

When first announced, this change in rebar standard resulted in a rush for strengthening alloys such as vanadium and pushed prices up significantly. The relaxation of certain CSR policies, in some way designed to stimulate heavy industry in the wake of ongoing weak Chinese economic performance as a result of trade disputes with the US, led to excess stock of vanadium and therefore a slowdown in demand for the metal.

Despite a 4% increase in sales volumes in the year, the impact of the pronounced decline in pricing resulted in a 53% reduction in revenue from the royalty in 2019.

#### **EVBC**

Although not included in royalty revenue, underlying revenue from EVBC increased by 10% in the period despite slightly lower production due to abnormally high levels of rainfall in November and December. The slight decline in volumes was compensated for by a higher gold price in the period, which has increased further above US\$1,600oz thus far in 2020 due to higher demand for safe haven assets.

Orvana are continuing to prioritise efficiency at the plant by targeting higher grades. They are, however, in the meantime continuing to explore options for mine life extension in the surrounding licence area. Having achieved 3.8x payback on the original investment, any mine life extension at this stage is largely a bonus.

#### **McClellan Lake**

Interest earned on the financing arrangement was in line with the previous year. It is the interest portion which is included in the income statement. Income from the financing arrangement should be relatively consistent at C\$0.5-0.6m per month as there is no exposure to price fluctuations with the loan being repaid from a toll revenue from throughput from the Cigar Lake uranium mine in Canada.

#### **Four Mile**

Revenue in the year continued to be impacted by the ongoing legal dispute in relation to the level of deductions permissible under the royalty agreement. The Group is continuing to progress its dispute with Quasar over the allowable deductions, having filed a statement of claim in the Supreme Court of Western Australia. The initial discovery process was completed in early 2020, and the case was transferred to the commercial and managed case list in February 2020 with further directions expected to be given by the judge appointed to the case in July 2020.

### **OPERATING EXPENSES**

Excluding the impact of share-based payments, operating expenses were £6.0m in the year, a 28% increase compared to £4.7m in 2018. The main reason for the increase is due to planned investment in additional resources to align with the Group's growth ambition.

The majority of the increase is in relation to staff costs, which increased by £0.7m. This is due to additional headcount in our investment team, as we continue to invest in searching for and appraising new deals. The bonus levels in 2019 were slightly higher due to the Group's record performance and the £62.6m (~US\$75m) of acquisitions undertaken.

The Group also incurred an additional £0.3m in aborted deal costs in 2019 as we actively sought to originate larger deals. There were also additional PR & IR costs as we continue to market the Company in North America.

Given the record revenue being generated by the Group, we are continuing to allocate additional resources to growth initiatives, although in most instances we look to recover costs associated with our diligence processes, from our counter parties.

**FINANCIAL REVIEW**

continued

**Finance costs**

Finance costs increased by £0.3m in the year, largely due to the increased average level of borrowings resulting from the LIORC acquisition in H2 2018 and the Mantos acquisition in H2 2019.

**Income tax**

In line with the increased revenue generated in 2019, the Group's tax cost increased by 48% in the year, although this is not purely on a like for like basis as H1 2018 benefitted from the utilisation of the remaining Australian tax losses. As such, only 50% of the revenue in 2018 was subject to income tax whereas all of the income in 2019 was taxable.

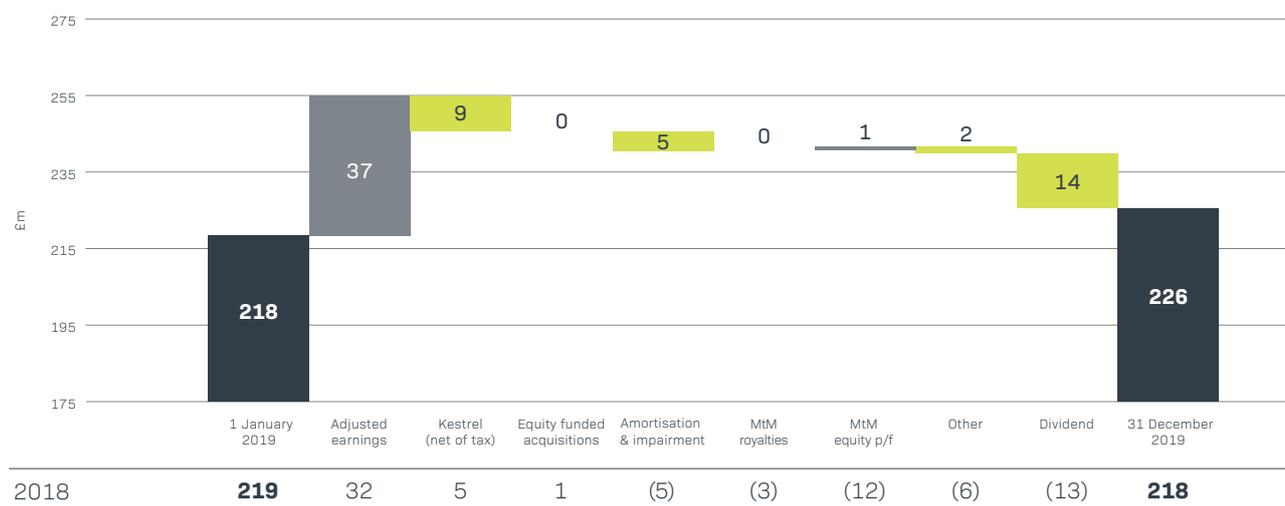
**Dividends**

Having taken into account the record year of portfolio contribution, including key metrics such as adjusted earnings per share and free cash flow per share, the Board has recommended increasing the total dividend for the year to 9p, a 12.5% increase on the 8p per share paid in respect of 2018. The Group has paid quarterly instalments of 1.625p per share in the first three quarters, so the final dividend will be 4.125p.

With adjusted earnings per share of 20.41p, the dividend is 2.3 times covered, a similar coverage ratio to that in 2018 achieving a sensible balance of increased returns to shareholders at the same time as reinvesting in growth.

**BALANCE SHEET**

Net assets increased from £218m at the beginning of 2019 to £226m at 31 December 2019. The increase in net assets, which is largely due to the preservation of the Kestrel valuation despite record levels of income in 2019, resulted in the closing net assets per share increasing by 4p per share to 124p per share (31 December 2018: 120p).

**Movement in net assets £m**

Despite earning £37m of income from Kestrel in 2019, the fair value of the royalty at the end of 2019 only decreased by £13.3m. This is due to a combination of the accelerated volumes being produced from the mine (the operator achieved a 42% increase in saleable coal production in 2019 and is targeting a further 6.5% in 2020) which was not considered at the end of 2018. The accelerated volumes, although shortening the mine life, increase the NPV. Secondly, the underlying AUD:USD exchange rate assumption, which forecasts a weaker Australian dollar in the short-term, serves to increase the weighted average royalty rate.

The Group's investment in LIORC produced a running yield of 16% during the year, which had a favourable impact on net assets as there is no depletion associated with this income being it is determined by the closing share price at the period end. As the asset was acquired through an on market equity purchase in the pass through vehicle, the value of the asset is subject to share price volatility following the recent equity sell off associated with the COVID-19 pandemic as investors turned towards safe assets and currencies. Along with our own share price decline, we have seen the share price of LIORC reduce also. The balance sheet carrying value was based on a year-end price of C\$24.62, but following the recent sell off the stock has traded significantly lower.

The Group does not hold this asset for trading or capital appreciation. It is considered to be a royalty asset and its value in use is based on our expectation of royalty income based on our view that the quality of the iron ore being produced will continue to command a premium going forward based on its greater energy efficiency properties in the production of steel, enabling mills to reduce their carbon footprint. It is possible that based on the current share price and our view on longer-term iron ore that we could selectively add to our position at these levels.

The £62.6m (~US\$75m) of acquisitions has had no impact on net asset value as these were financed from cash and borrowings.

The Group ended 2019 with £102m of royalty intangible assets, after amortisation of £3.8m and an impairment charge of £1.4m as detailed on [page 49](#). As the Group's royalty intangible assets are carried on the balance sheet at either the lower of amortised cost or value, any inherent increase in carrying value is not recognised, only impairments. Consequently, the reported net asset position of the Company at the end of 2019 does not reflect the true NAV of the business which, given the constraint on recognising losses and not surpluses, means that this number understates the true value of the business.

**CASH AND BORROWINGS**

The Group generated free cash flow, before acquisitions, dividends and borrowings, of £47.8m during 2019. With opening net debt of £3.1m, this left £44.7m available for the Group to allocate.

**2019 cash flow sources and usage £m**



After dividends of £14.4m in the year, the Group drew down a further £31.4m to finance income producing acquisitions of £62.5m in 2019 leaving net debt of £28.8m at the end of 2019. This represents a capital allocation ratio of 4.3:1 in favour of growth during the year, very much in line with the growth strategy which management is pursuing.

Even with net debt of £28.8m at the end of 2019 the Group operates at leverage of under 0.7x, comfortably below its covenant level of 2x.

Given that the previous borrowing facility was negotiated before the Kestrel operator targeted 40% volume increases, the Group decided to amend its borrowing facility to increase commitments by US\$30m and extend the term by twelve months to better reflect its current debt capacity as a result of a higher Kestrel run rate. As such, the Group's borrowing facility now stands at US\$90m with a US\$30m accordion.

With net debt of £28.8m and projections for further organic volume growth to come from the portfolio and the acquisitions made in 2019 in the year ahead, we expect to have immediate access to ~US\$75m to finance growth opportunities, and would expect this number to increase as we generate free cash flow in the months ahead.

However, the outbreak of COVID-19 and subsequent lock down and restrictions on movement of people have heightened the possibility of mining operations being placed on a period of care and maintenance as we have seen with the recent four week shut down announced at Cigar Lake and the two week shutdown at EVBC. We have stress tested our financial models to analyse the impact of receiving no revenue from our portfolio for a period of up to twelve months. Although this is a severe and extreme scenario and viewed as unlikely to happen due to our geographic diversity, the results show that only in a nine and twelve month period would our covenants be breached, and this would only be for a brief period of time. As we would continue to have cash on hand and no material financial commitments or debt redemptions, we consider it reasonable to expect that the banks would be flexible in these circumstances. Our longer-term prospects remain unchanged as any operational disruption would result in the deferral rather than the loss of revenue.

**CURRENCY**

The Group's results were impacted by both volatility in commodity prices and currencies during the year. The Group does not hedge its commodity prices, as this exposure is what most stakeholders seek through their investment in Anglo Pacific and there is no ready market for hedging coal or iron ore like there is for gold or oil.

The Group does, however, hedge a portion of its currency exposure and mainly does so by selling forward Australian dollars and purchasing sterling. The Group benefitted from the underlying AUD:USD rate during the period, as the Australian dollar remained under pressure in the face of a weaker domestic economy not helped by restrictions on Australian imports into China. With the underlying coal commodities being priced in USD but royalty paid in AUD equivalent, we benefited from a higher level of Australian dollars, particularly at Kestrel where the royalty ratchet varies depending on the Australian dollar price achieved.

We have sold forward ~A\$33m in 2020 at a weighted average contract rate of 1.86 to the pound. The current rate is closer to 2.00.

Against this, the Group is also exposed to translation currency by reporting in pounds, which is the currency in which its dividend and majority of costs are incurred. To this extent, the pound appreciated in value against the weaker Australian dollar in the period, although we did put in place an effective hedging programme during the period which produced a net benefit of £0.4m in 2019.

Several macro-economic events impacted on currency during 2019, noticeably the protracted Brexit process and downward pressure on the US economy which resulted in bond rates falling over the course of the year. Although the latter did not result in a US recession, the US dollar was held back by lower inflation numbers despite record employment levels, a trend mirrored in the UK economy.

The outlook for currency in 2020 remains mixed. It could be expected that the Australian dollar will weaken further, particularly as its economy is intrinsically linked to China which was heavily impacted by COVID-19 in Q1 2020 and was already showing increased signs of slowing down due to the ongoing US trade dispute and Chinese restrictions on Australian coal imports. The weaker Australian dollar has a favourable impact on our revenue from Kestrel as the AUD:USD rate determines the weighted average royalty rate.

Elsewhere, Central Banks and governments have responded quickly to the economic disruption being caused by COVID-19, by cutting headline interest rates to their historic recent lows and providing unprecedented financial support to markets and those businesses and employees are significantly impacted. The magnitude of the financial support, which in some instances has been projected to be between 10-15% of some economies' GDP, and the increase in government borrowing to support it looks likely to result in lower interest rates for the foreseeable future.

We will continue to keep a close eye on currency as we progress through 2020 but, commodity prices remain the primary price risk which ultimately impacts on profitability and cash flow.

**K. FLYNN**

Chief Financial Officer & Company Secretary

6 April 2020

## CORPORATE GOVERNANCE REPORT

### OUR APPROACH TOWARDS CORPORATE GOVERNANCE

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

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

### THE 2018 UK CORPORATE GOVERNANCE CODE

Although the Company is not subject to the UK Corporate Governance Code ('the Code') on account of its standard listing on the London Stock Exchange, the Company has voluntarily agreed to adhere to the requirements of the Code.

A revised version of the Code was published in 2018, and came into effect for our financial year beginning on 1 January 2019 and accordingly, Anglo Pacific has reported against the requirements of the Code in this Annual Report.

A copy of the Code can be found at [frc.org.uk](http://frc.org.uk). For the year ended 31 December 2019, and as at the date of this report, we are pleased to confirm that we applied all of the principles and complied with all of the provisions of the Code, save provision 36 and provision 37 as described in the Directors' Remuneration Report on [page 80](#).

The Code specifically requires companies to report on how it complies with five main areas of governance: Board leadership and company purpose; division of responsibilities; composition, succession and evaluation; audit, risk and internal control; and remuneration.

### 1. BOARD AND COMMITTEE STRUCTURE

#### Role of the Board

The Company's governance is structured to deliver an effective and entrepreneurial Board which:

- is effective in providing challenge, advice and support to management
- drives informed, collaborative and accountable decision making
- creates long-term sustainable value for our shareholders, having regard to our other stakeholders

The Board is collectively responsible for approving the Group's purpose, 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 Company's purpose, values and strategy and alignment with culture

Through the Anglo Pacific Group Code of Conduct, the Board sets the Company's purpose, values, and standards for the Group's employees, contractors, consultants and agents. The Board is committed to acting in accordance with these values, championing, and embedding these in the organisation. The Board assesses and monitors the ongoing alignment of the Company's culture with its purpose, values and standards. The Company has an open culture where employees are encouraged to provide their views on strategic direction and ways in which communication can be improved. This is overseen by Ms. Dennett, as the designated non-executive director responsible for workforce engagement, as described below in 'stakeholder engagement' and on [page 16](#).

#### Company performance and risk management

The Board oversees the Company's performance and reviews each potential investment at several stages prior to transacting. It aims to make informed, quality decisions in a timely manner, to achieve the Company's objectives, in alignment with our purpose, values and strategy.

The role of the Board in establishing and monitoring the internal control environment is set out in more detail on [pages 59 and 66](#). The way in which the Company assesses and manages risk is set out in the Principal Risks and Uncertainties section on [pages 22 to 28](#).

The formal schedule of matters reserved for the Board's decision, available on our website, covers areas including: setting the Group's purpose and strategic vision; monitoring performance of the delivery of the approved strategy; approving major investments, acquisitions and divestments; the oversight of risk and the setting of the Group's risk appetite; and reviewing the Group's governance framework.

#### Stakeholder engagement

The Group is the only major natural resources royalty company listed on the London Stock Exchange and recognises the importance of developing a fuller understanding of its business model and risks amongst investors, through effective two-way communication with fund managers, institutional investors and analysts. This is particularly important in ensuring that the Company's values and objectives are aligned our current and prospective stakeholders, as further explained in our section 172 (1) statement, set out on [page 16 to 17](#).

Management undertake regular meetings with shareholders following results or investment announcements. The Chairman and Senior Independent Director also offer to meet with stakeholders on a regular basis. In addition, the committee chairs also engage with their relevant stakeholders and details of this engagement are provided in each of the committee reports.

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2019 AGM and the active engagement of investors to further the investors' understanding of the current business activity of the Group.

The Company has three joint brokers, RBC Capital Markets, Berenberg and Peel Hunt, and the Board remains satisfied that the UK, Europe and North America, which are the jurisdictions likely to make up most of our shareholder base, are well covered by brokers with significant local expertise.

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

The Company's AGM is a particular highlight of the year for the Board, and we are always very pleased with the turn out and enjoy spending time with our individual shareholders and listening to their feedback, suggestions and concerns. The recent turmoil in the market caused by COVID-19 has led to rapid declines in the equity markets and we have received a number of communications from shareholders in relation to their concerns and have responded to each one. We look forward to furthering this dialogue at our forthcoming AGM.

The Company's small number of employees are centrally located at the Company's Head Office, which aids regular direct engagement with the whole Board. To further enhance the Board's interaction with the Company's employees, Ms. Dennett was appointed as the designated Non-Executive Director responsible for workforce engagement in 2018. The terms of reference for the designated Non-Executive Director are available on the Group's website:

[www.anglo-pacific-group.com/governance](http://www.anglo-pacific-group.com/governance). As part of this role, Ms. Dennett met with all employees of the Group during the year in order to collaboratively agree the remit of the role and how this was to work. She followed this up with one on one meetings with each employee. Further feedback from the employees indicated a high level of professional development was gained through participation at the Board's two main strategy sessions during the year. As a result, the Board will continue to encourage employee attendance at these sessions.

#### **Our workforce policies and practices**

All of the Company's workforce related policies are approved by the Board. The Board is ultimately responsible for our whistleblowing process, with day to day oversight by the Audit Committee and every member of the workforce has access to 'safe call', an independent third-party provider enabling all employees to raise any matters of concern anonymously. There were no instances of whistleblowing over the past year.

#### **Conflicts of interest**

In accordance with the Companies Act 2006 and the Articles of Association, conflicts of interest must be authorised by the Board and this ensures that the influence of third parties does not compromise the independent judgement of the Board. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Group. The Company Secretary and Head of Legal maintain a conflicts register, which is a record of actual and potential conflicts, together with any Board authorisation of the conflict. The authorisations are for an indefinite period but are reviewed annually by the Board, which also considers the effectiveness of the process of authorising Directors' conflicts of interest. The Board retains the power to vary or terminate these authorisations at any time.

The main potential conflict which the Board addressed during the year was in relation to the Mantos Blancos acquisition, where the Board considered if the transaction could constitute a transaction with a related party, due to the CEO's indirect part ownership of the operator and his involvement as a non-executive director of the operating company. Although the Company's advisors concluded that the transaction was not a related party transaction, the Board decided that it would nevertheless conduct the transaction as if it were and the CEO recused himself from decision making accordingly. In this instance, the Chairman oversaw the execution of the transaction.

## **2. DIVISIONS OF RESPONSIBILITY**

The Chairman, Mr. Meier, leads the Board and is responsible for its overall effectiveness. He was independent on the date of his appointment. He recognises the importance of creating a boardroom culture which encourages openness and debate and facilitates constructive relations between Executive and Non-Executive Directors.

The Chairman is responsible for: the management of the Board and its Committees; Director performance; induction; training and development; succession planning; engagement with external stakeholders, and attendance by the Board at shareholder meetings. The Chairman is supported by the Senior Independent Director, the Chief Executive Officer and the Company Secretary.

The day-to-day management of the Group is delegated to the Chief Executive Officer ('CEO'), save for certain matters reserved for consideration by the Board. The Chairman and CEO have distinct roles which have been defined in writing and agreed by the Board. The CEO is supported by the Chief Financial Officer & Company Secretary, the Head of Investments and Head of Development who meet as an Executive Committee. The Executive Committee remains an informal Board Committee because it is not comprised of a majority of Executive Directors.

Other responsibilities are devolved to the Nomination, Remuneration, Audit and Sustainability Committees; their members are all Non-Executive Directors, save for the Sustainability Committee where the CEO is a member, 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.

The Senior Independent Director, Mr. Rutherford, is responsible for acting as a sounding board for the Chairman and engages with shareholders to develop a balanced understanding of their interests and concerns. On an annual basis, the Senior Independent Director leads the other Non-Executive Directors in the appraisal of the Chairman's performance. The Senior Independent Director is not required to seek meetings with shareholders, however is available to do so if required in order to understand shareholder concerns and take them to the Board for discussion.

#### **Time commitment**

All potential new Directors are asked to disclose their other significant commitments. The Nomination Committee then takes this into account when considering a proposed appointment to ensure that the potential new Directors can discharge their responsibilities to Anglo Pacific effectively. This means not only attending and preparing for formal Board and Committee meetings, but also making time to understand the business, and to undertake training. The time commitment is agreed with each Non-Executive Director on an individual basis. In addition, all Directors must seek approval before accepting any significant new commitment.

Where circumstances require it, all Directors are expected to commit additional time as necessary to their work on the Board. The Company Secretary and Head of Legal maintain a record of each Director's commitments. For the year ended 31 December 2019 and as at the date of publication, the Board is satisfied that none of the Directors is over-committed and that each of the Directors allocates sufficient time to his or her role in order to discharge their responsibilities effectively.

**CORPORATE GOVERNANCE REPORT**

continued

Directors' attendance at Board and Committee meetings which they were eligible to attend during 2019 was as follows:

	Full Board	Audit	Remuneration	Nomination
Total meetings held	11	3	5	3
Attendance:				
D.S. Archer <sup>1</sup>	8	2	3	1
W.M. Blyth	10	3	5	2
R.G. Dacomb <sup>2</sup>	2	1	2	1
V.A. Dennett	11	3	5	3
N.P.H. Meier	11	-	-	3
J.E. Rutherford <sup>3</sup>	2	1	2	1
R.H. Stan	11	3	5	3
J.A. Treger	11	-	-	-

<sup>1</sup> D.S. Archer resigned from the Board on 1 November 2019.

<sup>2</sup> R.G. Dacomb was appointed to the Board on 1 November 2019.

<sup>3</sup> J.E. Rutherford was appointed to the Board on 1 November 2019.

**3. COMPOSITION, SUCCESSION AND EVALUATION****Appointments to the Board**

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

The Nomination Committee ensures a formal, rigorous and transparent procedure for the appointment of new Directors. It is also responsible for Board and senior management succession planning, regularly assessing the balance of skills, experience, knowledge, diversity and capacity required to oversee the delivery of Anglo Pacific's strategy.

The remit of the Nomination Committee includes reviewing proposals for appointments to the Executive Committee, and monitoring executive succession planning, including ensuring that both of these are based on merit and objective criteria and within this context seeks to promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. All Non-Executive Directors are members of the Nomination Committee. The committee is chaired by the Chairman, apart from when the committee is dealing with the appointment of his or her successor. The Nomination Committee report on [page 62](#) sets out the board's approach to succession planning and how this supports the development of a diverse pipeline, at all levels. All directors are subject to annual re-election at the AGM.

There were several Board changes announced over the past 12 months, largely as a result of both skills gap analysis and succession planning initiatives. In relation to the Non-Executive appointments, the Group conducted a thorough search in conjunction with an external specialist search firm. This process lasted a number of months, led to numerous candidates being interviewed and ultimately the appointment of Mr. Rutherford and Mr. Dacomb to the Board in November 2019.

Mr. Rutherford's appointment bolsters the Board's capital markets expertise and breadth of all-round knowledge of the mining industry. Mr. Dacomb brings specialist and recent audit knowledge along with an up to date understanding of corporate governance and risk practices which is an important element of our Committee succession planning.

At the same time as we announced their appointment, Mr. Archer notified the Board of his intention to step down in order to focus on his other business commitments, notably as CEO of Savannah Resources plc. Mr. Rutherford was appointed Senior Independent Director ('SID') following Mr. Archer's resignation.

Recently, Mr. Blyth informed the Board of his decision not to seek re-election at the 2020 AGM. Mr. Blyth had previously served as Chairman and both he and Mr. Archer played an enormous part in shaping Anglo Pacific as the Company it is today. We will miss their contributions, but we feel that we have found two very capable replacements in Mr. Dacomb and Mr. Rutherford and they have already made noticeable contributions to discussions around strategy and sustainability.

Finally, Mr. Flynn, the Group's Chief Financial Officer since January 2012, was appointed to the Board as an Executive Director in January 2020. His appointment is in recognition of his significant contribution to the Group over the past number of years and to bolster the number of Executive Directors on the Board which hitherto was just the CEO.

Details of external search consultancies used for board appointments can be found in the Nomination Committee report on [page 62](#).

**Skills, experience and knowledge of the Board and its Committees**

The Group's succession planning, aims to bring a diverse and complementary range of skills, knowledge and experience to the Board, so that the Board is equipped to navigate current and future challenges, and maximise value from current and future opportunities. Achieving the right blend of skills, experience, knowledge and diversity to support effective decision-making is a continuing process and forms part of the annual Board Effectiveness review, which also attempts to identify any skills gaps, and is described below. The Board has in place a formal induction process for new Directors on joining the Board, which is tailored to the needs of the individual. In the current year this was supplemented with Mr. Dacomb and Mr. Rutherford attending the Board's strategy day.

The Chairman regularly reviews the Directors' training needs and, where appropriate, the Group provides the resources to meet the Directors' requirements. At least biannually, external subject matter experts are engaged to update and advise the Board on governance and secretarial changes.

A large area of focus in the current year was in relation to s172 considerations around stakeholder support and on the emerging risks in relation to ESG. The Board received a presentation from a specialist law firm in relation to s172 and other changes to the Corporate Governance Code at its Board meeting in May 2019. The Group appointed consultants in order to direct and refine its strategy around ESG during the year, and the Board received regular updates on the progress being made in relation to this which ultimately culminated in the recent strategy refinement announcement.

### Board evaluation

A Board and Committee effectiveness evaluation is carried out each year. The evaluation considers (but is not limited to): the balance of Board members' skills and experience; independence; diversity; the running of the Board; and Directors' knowledge of the Company. Every third year, the Board evaluation is externally facilitated. The next externally facilitated Board evaluation will be carried out in 2020. The terms of reference for this review and the outcomes will be detailed in the 2020 Annual Report and Accounts.

In the interim years, each of the Directors and the Company Secretary discussed their views with the Chairman in one-to-one meetings. Overall, the review for 2019 concluded that the Board and its Committees were performing well, with no significant issues identified. Although no specific skills gaps were identified, there were certain areas where it was felt current skills surrounding capital markets and governance could be enhanced and this was a particular area of focus in the search process for the new Non-Executive Directors in 2019, resulting in the appointment of Mr. Dacomb and Mr. Rutherford.

## 4. AUDIT, RISK AND INTERNAL CONTROL

### Internal and external audit

The Audit Committee monitors the independence and effectiveness of the external auditor, and makes an annual assessment of whether an internal audit function is required. The Audit Committee is responsible for reviewing key judgements within the Group's financial statements and narrative reporting, with the aim of maintaining the integrity of the Group's financial reporting.

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

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility and appropriate delegation of authority.
- There are established procedures for planning and approving investments and information systems for monitoring the Group's financial performance against budgets and forecasts.
- The Chief Financial Officer is required to undertake an annual assessment process, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls.
- The Board is responsible for reviewing the risk assessment and risk management processes for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives reports about significant risks and associated control and monitoring procedures. The Group's internal controls and procedures documentation are regular agenda items for the Committee. The Committee also receives regular reports from the external auditor.

- The Audit Committee reports regularly to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives regular reports or updates from its other Committees and directly from management in addition to carefully considering the Group's risk register at regular intervals.
- The system accords with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

There are no significant issues disclosed in the report and financial statements for the year ended 31 December 2019 and up to the date of approval of the report and financial statements that have required the Board to deal with any material internal control issues.

The Directors confirm that the Board has reviewed the effectiveness of the system of internal control during the period and concluded that the controls and procedures are adequate. The Board will continue to review the adequacy of the Company's internal controls on an ongoing basis and will test the controls and procedures again during 2020.

For further detail, please refer to the Audit Committee report on [pages 63 to 66](#).

### Fair, balanced and understandable assessment

The Board is responsible for the presentation of a fair, balanced and understandable assessment of the Company's position and prospects, not only in the Annual Report. The Company has a thorough process in place for the preparation of the interim and Annual Reports, together with quarterly trading updates and other market announcements, to ensure that this is the case.

### Risk management and internal control framework

The Board is ultimately responsible for aligning the risk appetite of the Company with its long-term strategic objectives, taking into account the principal and emerging risks faced by the Company and the risks it is willing to take in achieving its strategic objectives and how these support the Group's longer-term viability statement. Risk and volatility have been a particular feature of the markets to date in 2020 and the Board has risk as a regular agenda item in order to respond to risk as and when significant and sudden changes materialise which may need action to be taken. The Audit Committee monitors the work that the Board does in relation to risk on a regular basis.

The Group's principal risks are discussed in detail on [pages 22 to 28](#). These are determined based on two formal reviews undertaken each year, once around the AGM and the other at the Group's strategy day in the fourth quarter. The session in November 2019 benefitted from the input from our new directors for the first time and it was pleasing that there were no significant gaps identified.

**THE BOARD**

**PATRICK MEIER**



**MIKE BLYTH**



**JULIAN TREGER**



**GRAEME DACOMB**



**KEVIN FLYNN**



**VANESSA DENNETT**



**JAMES RUTHERFORD**



**ROBERT STAN**



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

70, was appointed Non-Executive Director in April 2015 and assumed the role of Non-Executive Chairman at the conclusion of the 2017 AGM. Mr. Meier has over 30 years of experience in investment banking with specialist knowledge of the mining sector. He has an MA in Natural Sciences from Cambridge University. Mr. Meier headed up the investment banking activities for RBC Capital Markets in Europe and Asia and drove a major expansion of RBC's European presence. Prior to this role, he headed up RBC's activities in the Metals and Mining sector in Europe, Africa and Asia for many years, and continues to enjoy strong relationships within the sector. Mr. Meier also served as a Director on the Board of RBC's main operating subsidiary in Europe. In addition to his role at Anglo Pacific Mr. Meier acts as a Non-Executive Director of Firestone Diamonds plc and as a Senior Adviser to Bacchus Capital Advisers, an advisory boutique and in various other advisory roles from time to time.

*Committee Chair:* Nomination Committee

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

57, joined the Group as Chief Executive Officer and Executive Director on 21 October 2013. He has an MBA from Harvard Business School and a BA from Harvard University. He began his career working for Lord Rothschild as an in-house corporate financier, managing a portfolio of public and private equity investments before co-founding Active Value Advisors Ltd. to invest in undervalued, predominantly UK-listed companies, where he advised on more than US\$900.0m of funds over a 12-year period. He currently serves as Non-Executive Chairman of Audley Capital Advisors LLP, an investment advisory firm, which he co-founded in 2005, which specialises in managing value-orientated, special situations investment strategies through hedge fund and co-investment vehicles, with a principal focus on the natural resources sector. Mr. Treger holds external non-executive directorships with Mantos Copper S.A., EBT Digital Communications Retail Group, Broadwell Capital and Ilari Exploration OY for which he earned fees during the year. These directorships do not affect Mr. Treger's ability to perform his role as CEO of the Company, as they form part of his 10% time commitment outside Anglo Pacific.

**CHIEF FINANCIAL OFFICER****K. FLYNN**

39, joined Anglo Pacific as Chief Financial Officer in January 2012, and was appointed Executive Director in January 2020. He sits on the Executive Committee. Mr. Flynn is a Chartered Accountant with over 18 years of experience of corporate finance both in practice and in the London listed market, most recently in senior roles within FTSE 100 and FTSE 250 real estate businesses. In his time with Anglo Pacific he has originated and negotiated all of the Group's borrowing facilities and played a leading role in raising equity. Mr. Flynn is involved in all investment decisions, specifically in relation to structuring and tax. He also acts as Company Secretary and advises the Board on regulatory and governance matters.

**SENIOR INDEPENDENT DIRECTOR****J. E. RUTHERFORD**

60, was appointed Non-Executive Director in October 2019. He is also the Group's Senior Independent Director. He has over 25 years' experience in investment banking and investment management. Mr. Rutherford has extensive international experience, and contributes to the Board considerable financial insight from the perspective of the capital markets and a deep understanding of the mining industry. Mr. Rutherford was appointed a non-executive director of GT Gold Corp with effect from 11 October 2019 and deputy non-executive Chairman of Centamin plc with effect from 1 January 2020. Since November 2013, Mr. Rutherford has served as a non-executive director of Anglo American plc and until September 2018, was chairman of Dalradian Resources Inc. Between 1997 and 2013, he was a senior vice president of Capital International Investors, a division of Capital Group, and had responsibility for investments in the mining and metals industry. Prior to joining Capital Group, Mr. Rutherford was an investment analyst covering the South American mining and metals industry for HSBC James Capel in New York.

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

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

69, was appointed Non-Executive Director in March 2013 and became Non-Executive Chairman on 1 April 2014 until stepping down from this role at the conclusion of the 2017 AGM. He has a BSc from St Andrews University and is a Chartered Accountant. He was, until his retirement in 2011, a partner for 30 years in RSM (previously Baker Tilly), specialising in providing audit and related services to AIM and full list clients. During his career he held a number of senior management positions with the firm, including a period on its National Executive Committee. In addition to his directorship of Anglo Pacific, Mr. Blyth is a director of Haldane Property Company Ltd and Glasgow & Suburban Property Company Ltd. He was until September 2019 a board member of Wheatley Housing Group. Mr. Blyth also acts as trustee for a number of small charities. After seven years of service to the Anglo Pacific Board, Mr. Blyth has indicated his intention to retire at the conclusion of the 2020 AGM and will therefore not be putting himself forward for re-election.

*Committee Chair:* Audit Committee, Remuneration Committee

*Committee member:* Nomination Committee

**R. G. DACOMB**

64, was appointed Non-Executive Director in November 2019. He was a partner at Ernst and Young for 26 years where, for his last 12 years, he was a lead partner in the extractive industry, responsible for coordinating the provision of a full suite of services to multinational mining and oil and gas clients including Xstrata, Fresnillo, and BP across a broad range of countries including emerging markets. In addition to audit services, Graeme provided critical advice for his clients on corporate governance structures, risk management, acquisitions, disposals and financial systems and controls. From 2011 to 2018, Mr. Dacomb was a member of the Financial Reporting Review Panel. Mr. Dacomb was appointed a non-executive director of Ferrexpo plc with effect from 10 June 2019.

*Committee member:* Audit Committee, Remuneration Committee,

Nomination Committee

**V. A. DENNETT**

55, was appointed Non-Executive Director in November 2018. She has over 28 years' experience as an international lawyer, most recently as Senior Legal Counsel at Anglo American PLC where she specialised in acquisitions, disposals and joint ventures in multiple commodities and jurisdictions as well as leading teams of lawyers based in the mining operations in various different jurisdictions. Prior to that she was a consultant in London at international law firm Hogan Lovells (then Lovells) and a Partner in Johannesburg at Webber Wentzel, a leading South African law firm with a long history of acting for mining clients. Ms. Dennett has a Bachelor of Arts and a Bachelor of Laws from the University of Kwazulu – Natal, South Africa (then University of Natal) and a Master of Laws from the University of Witwatersrand, South Africa. She is admitted as a solicitor in England and Wales (non-practising) and as an attorney, notary and conveyancer (also non-practising) in South Africa.

*Committee member:* Audit Committee, Remuneration Committee,

Nomination Committee

**R. H. STAN**

66, was appointed Non-Executive Director in February 2014. He has a B.Comm from the University of Saskatchewan and has over 40 years' experience in mining and resource development. He held several senior positions with Fording Coal Limited, Westar Mining Ltd. and TECK Corporation before becoming a founding shareholder and director of publicly quoted Grande Cache Coal Corporation ('GCC'), an Alberta-based metallurgical coal mining company. At GCC, he served as President, CEO and Director from 2001 to 2012 and in 2012 negotiated the sale of the company to an Asian-backed strategic investor consortium (Winsway Coking Coal and Marubeni Corp) for US\$1.0bn. Mr. Stan served two terms as Chairman of the Coal Association of Canada Board of Directors, was a board member of the International Energy Agency's Coal Industry Advisory Board and represented the mining industry on the Alberta Economic Development Agency. He currently serves on the board of several private companies, including Quantex Resources Ltd, Lighthouse Resources Inc., CanWhite Sands Corp. and Spruce Bluff Resources Ltd.

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

## NOMINATION COMMITTEE

### COMMITTEE MEMBERS

N.P.H. Meier – Chairman

W.M. Blyth

D.S. Archer – resigned 31 October 2019

R.G. Dacomb – appointed 1 November 2019

V.A. Dennett

J.E. Rutherford – appointed 1 November 2019

R.H. Stan

The Chief Executive and Company Secretary also attend meetings of the Committee.

For more on biographies and Board experience details refer to **pages 60 – 61**.

### ROLE AND RESPONSIBILITIES

The Committee's objectives and responsibilities are set out in our terms of reference, which are available to view online. For more information, visit [www.anglopacificgroup.com/our-approach](http://www.anglopacificgroup.com/our-approach)

The Committee's main responsibilities are:

- Setting guidelines (with the approval of the Board) for the types of skills, experience and diversity being sought when recruiting new Directors.
- Making recommendations as to the composition of the Board and its Committees and the balance between Executive Directors and Non-Executive Directors, with the aim of cultivating a Board with the appropriate mix of skills, experience, independence and knowledge of the Company.
- 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.
- Ensuring that the succession plans for Directors and the Executive Committee are regularly reviewed for subsequent debate with the Non-Executive Directors and Chief Executive Officer.

### OUR APPROACH TO DIVERSITY

Anglo Pacific is committed to promoting behaviours that support an inclusive and diverse workplace and that reflect our values of sustainability, integrity and respect, diversity and collaboration. This commitment is set out in our Code of Conduct.

The Board aims to lead by example and recognises the benefits of having a diverse membership and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional and industry experience, background, race, gender and other distinctions between Directors. These differences will be considered in determining optimum composition of the Board and when possible should be balanced appropriately.

Anglo Pacific considers true diversity to encompass more than gender. As a result, we make our appointments to the Board and throughout the business on merit and against objective selection criteria to identify and recruit the most suitable candidate, regardless of gender. Having achieved gender equality in terms of the Group's employees, we will prioritise the objective of increasing female representation on the Board as vacancies arise.

### APPOINTMENTS TO THE BOARD

We base our appointments to the Board on merit, and on objective selection criteria, with the aim of bringing a range of skills, knowledge and experience to Anglo Pacific. This involves a formal and rigorous process to source strong candidates from diverse backgrounds and conducting appropriate background and reference checks on the shortlisted candidates. We aim to appoint people who will help us to achieve the Group's strategic objectives now and in the future.

During 2019, the Committee worked alongside independent external search firm Savannah Group Limited, which has no connection to Anglo Pacific or any of the Directors other than to assist with searches for executive and non-executive talent, resulting in the appointment of Mr. Dacomb and Mr. Rutherford. Open advertising for Board positions was not used this year. Further details of the process followed for the Board appointments during the year are included in the Corporate Governance report on **pages 56 to 59**.

### COMMITTEE FOCUS IN 2019

The Committee met three times during 2019. Discussions at the meetings covered the responsibilities outlined above, with a particular focus on Non-Executive Director succession planning and Committee membership.

The following matters were considered during 2019:

- The composition, structure and size of the Board and its Committees.
- Recommending that the Board support the election or re-election of each of the Directors standing at the 2019 AGM. The length of tenure of Non-Executive Directors was taken into account when considering supporting their re-election, to ensure they remain independent and recognising the need to progressively refresh the Board.
- Recommending to the Board the appointment of Mr. Dacomb and Mr. Rutherford as independent Non-Executive Directors in light of Mr. Archer stepping down from the Board.
- Recommending to the Board the appointment of the Group's Chief Financial Officer, Mr. Flynn as an Executive Director.
- The time commitment expected from each of the Non-Executive Directors to meet the expectations of their role.
- Board Committee membership changes for recommending to the Board in light of Mr. Archer stepping down from the Board and the appointment of Mr. Dacomb and Mr. Rutherford as independent Non-Executive Directors.
- Recommending to the Board the appointment of Ms. Dennett as the Group's designated Non-Executive Director for workforce representation, together with the terms of reference for this role.
- Succession planning for the Group's Senior Independent Director, the Chairs of the Audit and Remuneration Committees and members of the Group's Executive Committee.
- The appointment of an independent external consultant to facilitate the evaluations of the Board and Committee in 2020.
- Reviewing the Committee's terms of reference.

### N.P.H. MEIER

Chairman of the Nomination Committee

6 April 2020

## AUDIT COMMITTEE

### COMMITTEE MEMBERS

W.M. Blyth\* – Chairman

D.S. Archer – resigned 31 October 2019

R.G. Dacomb\* – appointed 1 November 2019

V. Dennett

J.E. Rutherford – appointed 1 November 2019

R.H. Stan

\*Audit Committee members deemed to have recent and relevant financial experience in accordance with the UK Corporate Governance code.

The Chairman, the Chief Executive, the Chief Financial Officer & Company Secretary, The Group Financial Controller and the Group Head of Legal also participate in meetings of the committee, as required.

For more on biographies and Board experience details refer to **pages 60 and 61**.

### ROLE AND RESPONSIBILITIES

The Committee's objectives and responsibilities are set out in our terms of reference, which are available to view online. For more information, visit [www.anglo-pacificgroup.com/our-approach](http://www.anglo-pacificgroup.com/our-approach)

The Committee's main responsibilities are:

- Monitoring the integrity of the annual and interim financial statements, the accompanying reports to the shareholders and corporate governance statements.
- Making recommendations to the Board concerning the adoption of the annual and interim financial statements.
- Reviewing and challenging the consistency of, and any changes to, accounting policies, methods and standards.
- Overseeing the Group's relations with the external auditor, including the assessment of their independence and their effectiveness.
- Making recommendations to the Board on the appointment, retention and removal of the external auditor and the tendering of external audit services.
- Advising the Board on the external auditor's remuneration for both audit and any non-audit work.
- Reviewing the reports from management on the principal risks of the Group outlined on **pages 22 and 28** and monitoring the management of those risks.
- Monitoring and reviewing the adequacy and effectiveness of the Group's internal financial controls.
- Considering the need for an internal audit function and reviewing the Group's approach to assessing the effectiveness of internal controls in the absence of an internal audit function.
- Reviewing and monitoring the Group's whistle-blowing procedure and the Group's systems and controls for the prevention of bribery and money laundering.

During the year ended 31 December 2019, the Audit Committee was responsible for the review and monitoring of the Group's environmental, social and governance programme. Subsequent to the year end, the Board resolved to form the Sustainability Committee whose remit now includes the review and monitoring of the Group's environmental, social and governance programme.

The Committee has authority to investigate any matter within its remit. It has the power to use any Group resources it may reasonably require and it has direct access to the external auditor. The Committee can also obtain independent professional advice at the Group's expense where it deems necessary. The Committee chairman reports to the Board after each meeting on the main items discussed and the minutes of its meeting are circulated to the Board.

### FAIR, BALANCED AND UNDERSTANDABLE

A key requirement of the Group's interim and annual financial statements is that they be fair, balanced, understandable and provide the information necessary for shareholders to assess the Group's position, performance, business model and strategy. 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 producing the Annual Report and Accounts, including:

- The thorough process of review, evaluation and verification by senior management, who considered and drew on best practice for the creation of the Annual Report and Accounts.
- The provision of advice by external advisors to management and the Board on best practice with regard to the preparation of the Annual Report and Accounts.
- A meeting of the Audit Committee held specifically to review and consider the draft Annual Report and Accounts in advance of the final sign-off by the Board. This review included the significant accounting matters explained in the notes to the consolidated financial statements.
- Consideration by the Audit Committee of the conclusions of the external auditor on the key audit matters that contributed to their audit opinion, specifically the valuation of the Kestrel royalty, impairments and taxation.

**AUDIT COMMITTEE****COMMITTEE FOCUS IN 2019**

Throughout 2019, the Audit Committee has focused on the valuation of the Kestrel royalty and the Group's royalty financial instruments, management's assessment of indicators of impairment in relation to the Group's royalty intangible assets and taxation matters. In addition, the Committee monitored the progress of formalising the Group's Code of Conduct and the implementation of the Group's revised antibribery, corruption and money laundering policy which includes an annual certification by all employees, contractors and agents.

The Audit Committee held three meetings in 2019 and has met twice to date in 2020, covering the key topics set out in the tables below.

**Significant issues considered by the Audit Committee in relation to the Group's financial statements****Response of the Audit Committee**

Review of carrying value of the Kestrel coal royalty	<p>The Committee has reviewed the independent valuation of the Group's Kestrel coal royalty, together with management's review and challenge of the key assumptions used by the independent valuer to determine the carrying value of the coal royalty as at 31 December 2019.</p> <p>The Committee reviewed the disclosures related to the revaluation charge of £9.2m in relation to Kestrel coal royalty described in <b>note 15</b>, for the year ended 31 December 2019.</p> <p>The Committee concluded that the fair value has been calculated in accordance with the Group's accounting policy outlined in <b>note 3</b>, is appropriate as at 31 December 2019 and is adequately disclosed.</p>
Review of carrying value of royalty financial instruments	<p>The Committee reviewed and challenged management's key assumptions including production profiles, forecast commodity prices and discount rates used to determine the carrying value of those royalties held at fair value.</p> <p>The Committee reviewed the disclosures related to the revaluation gain of £2.3m in relation to royalty financial instruments, described in <b>note 16</b> for the year ended 31 December 2019.</p> <p>The Committee concluded that the fair value has been calculated in accordance with the Group's accounting policy outlined in <b>note 3</b>, is appropriate as at 31 December 2019 and is adequately disclosed.</p>
Review of carrying values of royalties held at amortised cost and resulting impairment charges	<p>The Committee reviewed and challenged management's key assumptions including production profiles, forecast commodity prices and discount rates used to estimate the recoverable amount of each royalty and compared this to the respective carrying value. The Committee reviewed the disclosures related to the Group's impairment policy outlined in <b>note 3</b> and the impairment charge of £1.3m described in <b>note 17</b> for the year ended 31 December 2019.</p> <p>The Committee concluded that the impairment charges recognised during the year ended 31 December 2019 were appropriate and have been adequately disclosed.</p>
Group tax exposures	<p>The Committee considered management's assessment of any potential or uncertain tax exposures. The Committee challenged management, and its professional advisors, on tax positions taken where there is no precedent or guidance in the public domain and concluded that the disclosures contained in <b>notes 4, 11 and 36</b> are sufficient and that no additional provision is appropriate.</p>

Other issues considered by the Audit Committee	Response of the Audit Committee
Application of the policy for calculating adjusted earnings	<p>The Committee has reviewed the Group's policy for the calculation of adjusted earnings and confirmed the consistent application of this policy year on year.</p> <p>Adjusted earnings is the profit/(loss) attributable to equity holders, plus royalties receipts from the EVBC royalty, less all valuation movements and impairments, together with amortisation charges, share-based payments, foreign exchange gains and losses, any associated deferred tax and any profit or loss on non-core asset disposals. A reconciliation of adjusted earnings to profit/(loss) attributable to equity holders is presented in <b>note 12</b>.</p>
Going concern basis of accounting in preparing the financial statements	<p>The Committee assessed the forecast levels of net debt, headroom on existing borrowing facilities and compliance with debt covenants. This analysis covered the period to 31 December 2021 and considered a range of downside sensitivities, including the impact of lower commodity prices. The Committee concluded it was appropriate to adopt the going-concern basis.</p> <p>Following the outbreak of COVID-19 subsequent to the year end, the Committee and Management agreed that further stress tests should be undertaken to understand the impact of a range of operational shutdowns in the event of COVID-19 impacting mining communities. This analysis considered portfolio wide shut downs for a period of up to twelve months. Although this is an extreme downside scenario given the Group's royalties are derived from operations in different jurisdictions, the consequence of not receiving revenue for a twelve month period would result in covenant breaches which would then require waivers from the Group's lending banks. However, as this would specifically relate to COVID-19 and should be a temporary deferral rather than loss of revenue, the Committee concluded that it would be reasonable to expect that the banks would continue to support the business in such circumstances and that the Going Concern assumption remains unchanged. The waiving of banking covenants is, however, an event outside of management control and in this extreme downside scenario, would represent a material uncertainty in the context of the Group's going concern status. The same conclusion has been made in relation to the statement on longer-term viability as discussed on <b>page 22</b> of the report.</p>
Viability Statement	<p>The Committee reviewed the time period over which the assessment is made, along with the scenarios that are analysed, the potential financial consequences and assumptions made in the preparation of the statement.</p> <p>The Committee concluded that the scenarios analysed were sufficiently severe but plausible and the time period of the Viability Statement was appropriate, given the alignment with the budgeting process.</p>
Internal audit	<p>The Committee considers on an annual basis, whether an internal audit function is required. The Committee's present view is that one is not yet justified given the small number of employees within the Group combined with the level of oversight and involvement in individual transactions by the Executive Directors.</p>
Risk management	<p>The Committee reviews and monitors the mitigation plans in place and the appropriate senior management responsibilities to address the principal risks (refer to <b>pages 22 - 28</b>) identified and ranked by the Board.</p>
Code of Conduct	<p>The Committee reviewed the progress of the formalisation of the Group's Code of Conduct to be rolled out across the Group in 2020. As part of the process surrounding the formalisation of the Code of Conduct, the Committee received updates on the revisions to and implementation of various policies including anti-bribery, corruption and money laundering, conflicts of interest, related party transactions, share dealing and whistleblowing.</p> <p>The Committee, along with all other Board members, participated in training provided to senior management and staff, including the annual certification of compliance with the Group's anti-bribery, corruption and money laundering policy.</p> <p>The Committee reviewed and approved management's anti-bribery, corruption and money laundering risk assessment, together with management's work plans associated with addressing risk areas identified.</p>
External audit	<p>The Committee reviewed and approved the planning report from the Group's external auditor, Deloitte, outlining the final audit plan and fee, in December 2019, having given due consideration to the audit approach, materiality levels and audit risks. In March 2020, the Committee reviewed the output of the external audit work that contributed to the auditor's opinion, including the challenge to the Group's assumptions on the issues noted in this report.</p> <p>The effectiveness, performance and integrity of the external audit process were evaluated through joint discussions between the Committee, Chief Financial Officer and Group Financial Controller. The evaluation of the 2019 external audit concluded that the external auditor was independent, objective and effective in the delivery of the audit. Service levels had remained largely constant in key areas compared with the previous year. The next evaluation of the quality of external audit will be performed in May 2020 with key themes incorporated into the 2020 audit planning cycle.</p>

## AUDIT COMMITTEE

### INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility and appropriate delegation of authority.
- There are established procedures for planning and approving investments and information systems for monitoring the Group's financial performance against budgets and forecasts.
- The Chief Financial Officer is required to undertake an annual assessment process to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls. The process undertaken during the year is discussed in more detail within the Principal Risks and Uncertainties section on **pages 22 to 28**. 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 auditor.
- The Audit Committee reports to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives reports from its other Committees and directly from management.
- The system accords with the Financial Reporting Council's Internal Control: Revised Guidance for Directors on the Combined Code.

There are no significant issues disclosed in the report and financial statements for the year ended 31 December 2019 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.

### ENSURING INDEPENDENCE OF THE EXTERNAL AUDITOR

Following an external audit tender in 2014, Deloitte was appointed as Anglo Pacific's statutory auditor with effect from the year ended 31 December 2014. Paul Barnett of Deloitte is the Senior Statutory Auditor and was appointed to this role with effect from the year ended 31 December 2019.

To safeguard the objectivity and independence of the external audit process, it remains the Committee's policy to review and approve all fees related to non-audit services. The policy prohibits the auditors from providing certain services such as accounting or valuation services. With the exception of the interim review, no non-audit services were provided during 2019 by the Group's external auditor. Details of the external auditor's remuneration are disclosed in **note 6b**.

### Conclusion of the Audit Committee for 2019

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

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

### Consideration given to the appointment of the external auditor

The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2021. Resolutions to authorise the Board to re-appoint and determine the remuneration of Deloitte LLP will be proposed at the AGM on 11 May 2020.

### W. M. BLYTH

Chairman of the Audit Committee

6 April 2020

## REMUNERATION COMMITTEE

### COMMITTEE MEMBERS

W.M. Blyth – Chairman

D.S. Archer – resigned 31 October 2019

R.G. Dacomb – appointed 1 November 2019

V.A. Dennett

J.E. Rutherford – appointed 1 November 2019

R.H. Stan

The Chairman, the Chief Executive, the Chief Financial Officer & Company Secretary, The Group Financial Controller and the Group Head of Legal also participate in meetings of the Committee. They were not present when matters associated with their own remuneration were considered. The Committee will normally hold private sessions at Committee meetings where no executives or other members of senior management are present.

For more on biographies and Board experience details refer to **pages 60 - 61**.

### ROLE AND RESPONSIBILITIES

The Committee's objectives and responsibilities are set out in our terms of reference, which are available to view online. For more information, visit [www.anglopacificgroup.com/our-approach](http://www.anglopacificgroup.com/our-approach)

The Committee's main responsibilities are:

- Establishing and developing the Group's general policy on executive and senior management remuneration;
- Determining specific remuneration packages for the Chairman, Executive Directors and members of the Group's Executive Committee;
- Designing the Company's share incentive schemes;
- Reviewing the remuneration of the wider workforce and associated policies; and
- Consulting shareholders and other stakeholders, when appropriate, regarding executive remuneration.

The Committee takes account of the level of pay and conditions throughout the Group when determining executive remuneration.

### COMMITTEE FOCUS IN 2019

The Remuneration Committee held five meetings in 2019 and has met twice to date in 2020, to fulfil its responsibilities as set out in the Committee's terms of reference.

The Committee's activities during 2019 and the early part of 2020 focused on:

- Designing the CEO's 2019 bonus framework and the associated performance scorecard criteria;
- Reviewing and approving the salaries and bonuses to be awarded to members of the Group's Executive Committee;
- Providing guidance to the CEO on salaries and bonuses to be awarded to the wider workforce;
- Implementing the Company's deferred share bonus plan as set out in the remuneration policy approved by shareholders at the 2019 AGM;
- Approving awards under the Company's Unapproved Share Option Plan; and
- Selecting and appointing a new advisor to the Committee with a view to designing a replacement for our current Value Creation Plan, which will mature in 2021, along with reviewing the Group's employee-wide long-term incentive plans.

## DIRECTORS' REMUNERATION REPORT

Dear Shareholder,

This report is set against a background of continued strength in the Company's performance following a third consecutive record contribution from its underlying royalty portfolio of £59.5m, together with a record year of royalty related acquisitions totalling £62.6m. The main focus for the Committee this year was in relation to the setting of bonus matrices, Director fees and salary benchmarking as well as the implementation of the Company's deferred share bonus plan, approved at last year's AGM.

Looking ahead, the Committee is taking the first steps in the design and implementation of a new long-term incentive plan to replace our existing Value Creation Plan by appointing consultants to assist with this process. The Committee has also recognised the increasing focus being placed on environmental, social and governance ('ESG') best practice as part of our portfolio investment strategy. We are therefore ensuring that ESG forms part of the scorecard criteria within the 2020 bonus matrices.

### SALARIES

The Committee has decided to increase the salary of the Chief Executive Officer ('CEO') in 2020 by 2%, in line with the Group's UK based employees. Following the appointment of the Chief Financial Officer ('CFO') to the Board as an Executive Director, the Committee undertook a benchmarking exercise and concluded that a basic salary of £250,000 was appropriate at this stage. The Committee will continue to review the market in order to ensure that the Company is paying appropriate rates that attract and retain key personnel, with any increases made by reference to individual performance, experience and responsibilities.

The Company contributes to money purchase pension arrangements on behalf of staff on a matched basis subject to an overall cap. This cap will remain static for 2020.

The fees for the Chairman and the Non-Executive Directors were re-assessed at the beginning of 2019 and will remain unchanged throughout 2020, as detailed in section M.

### ANNUAL BONUS

In terms of short-term incentives, the CEO and members of the Executive Committee, together with the wider workforce, have individually crafted bonus objectives which were agreed for the 2019 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance targets which are scored out of a total of 100 points. The criteria have continued to be refined from those of 2018 with greater focus on awards based on the achievement of the Group's corporate objectives of growth and stakeholder returns, as well as personal performance, and continued to introduce more precision to the link between the real 'stretch-performance' targets and favourable outcomes for the Company. This score is then applied to a maximum bonus calculated as a percentage of total salary as outlined on [page 76](#).

The CEO was awarded a bonus of £293,040 under the bonus criteria matrix or 74% of the total potential award. The Committee believes that the bonus is appropriate based on the Company's performance during the year and that the level of rewards is proportionate after having had regard to the Company's broad range of stakeholders.

### LONG-TERM INCENTIVE

The Value Creation Plan ('VCP') is a major plank in our overall remuneration strategy and is a long-term incentive plan which provides awards of shares (in the form of nil cost share options) at the end of five years to the CEO and to senior executives for increases in TSR at rates above 7% per annum. The VCP is designed to support the Company's growth strategy by providing incentives aligned with shareholder interests. The changes made to the VCP at the 2016 AGM extended the term of the plan such that there is still one year remaining before management's performance will be assessed against TSR. The Committee continues to believe this is an effective plan to incentivise its participants and to encourage the retention of key employees by giving them an opportunity to share in the growth of the Company over the long-term. Further details can be found in the Remuneration Policy part of this report.

### CONTEXT OF DIRECTORS' PAY WITHIN THE COMPANY

There are only 9 employees in the UK and our average number of UK employees does not meet the threshold requirement for publication of CEO pay ratio information. Given the numbers of employees in the UK the ratio produced by comparing CEO remuneration with that of our UK workforce is likely to be misleading. As such, the Committee has decided not to publish this information this year.

### LOOKING AHEAD TO 2020

The main objectives for the Remuneration Committee in 2020 will be to:

- Review and further tailor the Executive Committee's and wider workforce's bonus criteria for the 2020 financial year, in particular incorporating elements covering ESG;
- Design a long-term incentive plan for Executive Directors and senior management when the Group's existing Value Creation Plan expires in 2021;
- Review the long-term incentive plans for the wider workforce with a view to encouraging share ownership; and
- Maintain an ongoing review of and determine the most appropriate balance between, salary and bonus for the Executive Committee with reference to the Group's performance together with the salary and bonus levels of the wider workforce.

More detail is provided in the body of the Remuneration Report and the Remuneration Committee trusts you will endorse the resolution to approve this report at the forthcoming AGM.

Yours sincerely

### W. M BLYTH

Chairman of the Remuneration Committee

6 April 2020

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' and sets out the remuneration strategy that the Company has applied following its approval by shareholders at the 2019 AGM. For ease of reference, the Committee has decided to reproduce the remuneration policy in full below which has been updated to reflect how it is currently operating in several minor respects.

The report is structured in the following sections:

- A. Strategic overview and policy drivers;
- B. How the views of shareholders and employees have been taken into account;
- C. The remuneration policy for Executive Directors;
- D. Annual bonus – Choice of performance measures and approach to target-setting;
- E. 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 to 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 2019, details the remuneration paid to Directors during 2019 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2020 AGM. It is structured as follows:

- A. Single figure for total remuneration;
- B. Annual bonus for the year ended 31 December 2019;
- C. Vesting of long-term incentive awards;
- D. Directors' shareholding and share interests;
- E. Total pension entitlements;
- F. Loss of office payments;
- G. Change in the CEO's remuneration in 2019 relative to UK employees;
- H. Total shareholder return;
- I. Total remuneration for the CEO over time;
- J. Distribution statement for 2019;
- K. External directorships;
- L. 2020 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. Compliance with the 2018 UK Corporate Governance Code;
- P. Statement of shareholder voting;
- Q. External advisors.

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

## REMUNERATION POLICY REPORT

### A. Strategic overview and policy drivers

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

- Long investment horizons; often there can be an interval of between two and 10 years before a royalty comes on stream and the royalty may continue to flow for 20 years or more. As business development is now focused on royalty acquisitions, incentives are heavily weighted towards longer-term performance.
- No comparable peer group, certainly in the UK, for the purposes of benchmarking Director performance. As a result, our incentive plans have been based on absolute performance rather than performance relative to other companies. However, a relative measure in relation to the VCP was added whereby the rewards for the holders of 2016 awards (granted in 2017) will only be earned should the Company's share price performance match or exceed the performance of the FTSE 350 All Mining Index.
- A relatively high ratio between its market capitalisation (£384m at 31 December 2019) and the number of its employees (11, as at 31 December 2019, of whom one is an Executive Director). The investment team is relatively small and much of the Company's royalty know-how rests with them. The risk to the business of losing these and other key employees is correspondingly significant, and we have traditionally regarded retention as an important objective of our remuneration strategy.

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

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

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

## DIRECTORS' REMUNERATION REPORT

### C. The remuneration policy for Executive Directors

The Company's remuneration policy, as set out in the 2018 Annual Report and Accounts, received approval from shareholders at the AGM held on 13 May 2019. As the VCP expires in 2021, the Company may seek approval for a new policy at next year's AGM. For ease of reference, the Committee has decided to reproduce the remuneration policy in full in the following sections. The VCP, which was initially approved at the 2014 AGM and amended following shareholder approval at the 2016 AGM, remains in place. The Committee's specific policy for each element of remuneration is as follows and has been updated to reflect how it is currently operating in several minor respects:

Element, purpose and link to strategy	Operation	Maximum										
<p><b>SALARY</b></p> <p>To recruit, retain and reward executives of a suitable calibre for the roles and duties required</p>	<p>Salaries are set with reference to individual performance, experience and responsibilities to reflect the market rate for the individual and their role, determined with reference to remuneration levels in companies of similar size and complexity, taking into account pay levels within the Company in general.</p> <p>Salaries are reviewed annually. Increases for Executive Directors will normally be in line with those for the general workforce except where there is a change of role or responsibilities or in other exceptional circumstances.</p>	<p>There is no prescribed maximum annual increase.</p>										
<p><b>PENSION AND BENEFITS</b></p> <p>To provide market competitive benefits</p>	<p>A Company contribution to a money purchase pension scheme, or a cash allowance in lieu of pension at the request of the individual. In addition, the main benefits currently provided are: death in service, long-term illness and private medical insurance schemes which are provided to all staff.</p>	<p>Pension: 11% (2018: 11%) of salary.</p> <p>Pension contributions for any future Executive Director will be aligned with the wider workforce.</p> <p>Death in service policy: five times salary.</p> <p>The maximum value of benefit overall is not predetermined and is based upon the cost to the Company.</p>										
<p><b>ANNUAL BONUS</b></p> <p>To encourage and reward delivery of the Company's operational objectives</p>	<p>For annual bonuses in respect of FY2019 and onwards, a portion of any bonus earned has or will be deferred into awards over shares with awards normally vesting after a two-year period.</p> <p>Any new external Executive Director appointment will have at least 40% of any bonus deferred.</p> <p>For the existing Executive Directors – CEO and as of 1 January 2020, the CFO – 20% of the bonuses awarded in respect of FY2019 have been deferred. 30% of bonuses will be deferred in respect of any bonus awarded for FY2020 and 40% in respect of FY2021.</p> <p>At the discretion of the Committee, an Executive Director may also be entitled to receive the value of dividends paid between grant and vesting on vested shares. The payment may be in cash or shares and may assume dividend reinvestment.</p> <p>Bonus outturns are determined based on the achievement of a combination of corporate and personal performance targets. Both are expected to form a substantial part of the scorecard.</p> <p>Corporate performance targets are agreed by the Board at the beginning of the year.</p> <p>Personal performance targets are agreed with the Chairman and the Committee.</p> <p>The Committee uses a balanced scorecard approach to assess performance against targets at the end of the year, while retaining overall discretion in the calculation of the final bonus outturn.</p> <p>The targets are discussed more fully in section D overleaf.</p>	<p>The maximum annual bonus opportunity is 100% of salary.</p>										
<p><b>LONG-TERM INCENTIVES</b></p> <p>To encourage and reward delivery of the Company's strategic objectives and provide alignment with shareholders through the use of shares and incentivise retention of key personnel</p>	<p>The LTIP takes the form of a Value Creation Plan (VCP) with a performance period to 16 June 2021.</p> <p>Awards that were granted in 2014 were amended in 2016 with a performance period of seven years to 16 June 2021 and are subject to the following performance condition:</p> <ul style="list-style-type: none"> <li>Minimum growth in TSR of 7% per annum, with growth measured over the seven-year period</li> </ul> <p>2016 awards (granted in 2017) have a performance period to 16 June 2021 and are subject to two TSR performance conditions:</p> <ul style="list-style-type: none"> <li>Minimum growth in TSR of 7% per annum, with growth measured from a premium to the market capitalisation based on the net asset value per share as at 31 December 2015.</li> <li>A relative measure of TSR which requires outperformance of a comparator group</li> </ul> <p>For participants with 2014 and 2016 awards, the 2016 awards will accrue at a lower level once the 2014 awards reach the threshold growth of 7% per annum.</p> <p>The detailed design is discussed in section E overleaf.</p>	<p>The maximum number of shares that can be awarded under the option grants equates to 7.5% of the Company's issued share capital as at the end of the measurement period.</p> <p>In 2014, the Committee allocated the pool as follows:</p> <table> <tr> <td>CEO:</td> <td>56.0%</td> </tr> <tr> <td>Non-Board senior managers:</td> <td>6.9%</td> </tr> </table> <p>In 2016, the Committee allocated the pool as follows (and granted to participants in 2017):</p> <table> <tr> <td>CEO:</td> <td>20.0%</td> </tr> <tr> <td>Non-Board senior managers:</td> <td>4.0%</td> </tr> <tr> <td>Unallocated reserve:</td> <td>13.1%</td> </tr> </table>	CEO:	56.0%	Non-Board senior managers:	6.9%	CEO:	20.0%	Non-Board senior managers:	4.0%	Unallocated reserve:	13.1%
CEO:	56.0%											
Non-Board senior managers:	6.9%											
CEO:	20.0%											
Non-Board senior managers:	4.0%											
Unallocated reserve:	13.1%											

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

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

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

The corporate objectives are agreed by the Board at the beginning of each year, together with an assessment of the potential for outperformance and the risk of shortfall. This covers such areas as business performance, finance, relationships, reputation and, for 2020, ESG. This constitutes the criteria for triggering a bonus and for assessing the levels of challenge and outperformance that would warrant higher levels of bonus. The CEO's personal objectives for the year are agreed at the beginning of the year by the Chairman of the Board in conjunction with the Committee. The personal objectives focus on the required contribution of the CEO 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'.

Following the internal appointment of the Chief Financial Officer to the Board as an Executive Director on 1 January 2020, his personal objectives for the year will also be agreed at the beginning of the year with the Chairman of the Board in conjunction with the Committee.

The CEO's and Chief Financial Officer's performance against corporate and personal objectives are assessed by the Chairman and the Committee at the beginning of the following year, and bonuses are awarded on the basis of the agreed criteria.

#### E. LTIP – Principal terms and conditions and reward scenarios

The LTIP takes the form of a Value Creation Plan (VCP). The key features of the VCP are as follows:

##### Key features:

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

Two sets of awards have been made under the VCP:

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

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

	2014 Awards	2016 Awards
<b>PERFORMANCE PERIOD</b>	Seven-year performance period, ending on 16 June 2021.	Performance is measured from the net asset value as at 31 December 2015 to 16 June 2021.
<b>ALLOCATION OF THE POOL*</b>	CEO: 56% Non-Board senior managers: 6.9% Total allocated: 62.9%	CEO: 20% Non-Board senior managers: 4.0% Total allocated: 24.0%
<b>OPERATION</b>	<p>Subject to threshold growth of 7% per annum, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to the cap.</p> <p>The number of options is set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the seven-year period or, if less, 50% of the growth in the Company's TSR over the seven-year period in excess of the threshold growth.</p> <p>This will mean that, if the total growth in TSR over the seven-year period is:</p> <ul style="list-style-type: none"> <li>▪ below approximately 61%, no value accrues;</li> <li>▪ between approximately 61% and 76%, the value that accrues is equal to 50% of the growth in the Company's TSR over the seven-year period in excess of the threshold growth; and</li> <li>▪ between 76% and the 300% effective cap, the value that accrues is equal to 10% of the growth in the Company's TSR over a seven-year period.</li> </ul> <p>This pool value is adjusted to reflect the percentage of the pool allocated to these awards (62.9% of the total).</p>	<p>Subject to a threshold growth of 7% per annum over £161.3m, participants become entitled to receive nil or nominal cost options over ordinary shares in the capital of the Company, subject to the cap. £161.3m was the net asset value at 31 December 2015 and a premium of approximately 61% to the market capitalisation on the same date.</p> <p>The number of options is set by reference to a share of a pool value equal to 10% of the growth in the Company's TSR over the five-year period. There is no 'catch-up' once the threshold growth is achieved.</p> <p>This means that if the total growth in TSR is:</p> <ul style="list-style-type: none"> <li>▪ below approximately 40%, no value accrues;</li> <li>▪ above approximately 40%, the value that accrues is equal to 10% of the growth in the Company's TSR over 94.9p per share over the performance period.</li> </ul> <p>This pool value is adjusted to reflect the percentage of the pool allocated to these awards (37.1% of the total, when including the unallocated reserve).</p> <p>In addition, a relative measure of TSR ensures it is at least equal to the movement in the index of the FTSE 350 Mining Index. In the event that the increase in TSR does not equal or exceed the aforementioned index, no value will accrue to the new awards.</p> <p>Pay-outs to the CEO and other participants who have 2014 awards will accrue at a lower level based on the outcome of the awards currently allocated. Once the share price reaches the threshold at which value accrues under the 2014 awards, value accrues on only half of the units under the 2017 awards held by the CEO and any non-Board members of the senior management team who have an existing award.</p>

## DIRECTORS' REMUNERATION REPORT

<b>VESTING</b>	Options to which participants become entitled at the end of the relevant performance period ending on 16 June 2021 will become exercisable as follows: <ul style="list-style-type: none"> <li>• One-third immediately;</li> <li>• One-third after 12 months;</li> <li>• One-third after 24 months</li> </ul>
<b>MAXIMUM VALUE</b>	The maximum value that can accrue for the full award pool (which includes both the 2014 and the 2017 awards) is capped at 7.5% of the Company's issued share capital as at the end of the measurement period.

\* Unallocated reserve: 13.1%

### Illustrative returns

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

	Allocation of pool	Benefit assuming total growth in TSR (from an illustrative starting market capitalisation plus capital inflows of £262.1m) over a seven-year period of:			
		50%	75%*	100%	150%**
End share price required (p)		168p	196p	224p	280p
CEO - 2014 award	56%	£0.0m	£10.6m	£13.5m	£19.2m
CEO - 2016 award	20%	£2.6m	£3.3m	£3.8m	£4.8m
<b>CEO TOTAL</b>	<b>76%</b>	<b>£2.6m</b>	<b>£13.9m</b>	<b>£17.3m</b>	<b>£24.0m</b>
Others - 2014 award	6.9%	£0.0m	£1.3m	£1.7m	£2.4m
Others - 2016 award	4%	£0.5m	£0.7m	£0.8m	£1.0m
Unallocated	13.1%	£1.7m	£2.4m	£3.1m	£4.4m
<b>OVERALL TOTAL</b>	<b>100%</b>	<b>£4.91m</b>	<b>£18.31m</b>	<b>£22.83m</b>	<b>£34.29m</b>
Shareholders		£140.10m	£190.13m	£241.48m	£342.86m

\*Approximately 75% growth in TSR over the seven-year period results in a total pool equal to 9.3% of the growth. This reflects a pool equal to 10% for the original awards and a pool for the new awards which reflects the reduction in the value that accrues for participants with original awards once the threshold growth of 7% per annum is met.

\*\*At the effective cap of total growth in TSR of 300% over the period (which would require the share price to be at 448p), the benefit to shareholders would be £647.10m and total participant awards would be £58.50m, of which the CEO would receive £36.20m under the 2014 award and £7.88m under the 2016 award.

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

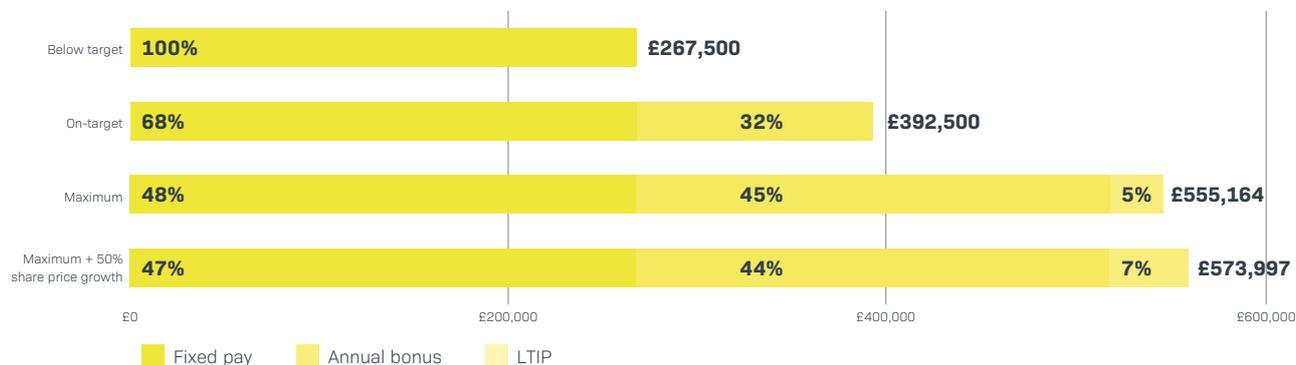
### F. Reward scenarios

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

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

#### Chief Executive Officer



**Chief Financial Officer****Assumptions:**

- Below target = fixed pay only (salary + benefits + pension);
- On-target = fixed pay, 50% vesting of the annual bonus and 0% of the VCP awards (i.e. the value that accrues for threshold performance);
- Maximum (2014 and 2016 VCP awards included on an annualised basis) = fixed pay and 100% vesting of the annual bonus and annualised 2014 and 2016 VCP awards, granted in 2017. The annualised value reflects a seven-year performance period of the 2014 award and five-year performance period of the 2016 award;
- Maximum plus 50% share price growth = fixed pay and 100% vesting of the annual bonus and annualised 2014 and 2016 VCP awards, granted in 2017 with 50% share price growth applied to the awards.
- Salary levels (on which other elements of the package are calculated) are based on those which apply from 1 January 2019. Salary for the CEO is 90% of his full time equivalent salary; and
- The fair value of the VCP has been calculated using a stochastic model as at the date of grant (or in the case of the 2014 awards, the date of modification). The model projects the share price of Anglo Pacific using the historical volatility of the Company (whilst past behaviour is not always a good indicator of movements in the future, it is difficult to determine a more accurate method). For each simulation the resulting share price and thus pay-out is determined. The fair value is the average of 100,000 possible simulations.

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

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

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments, including grant price (within the limits set out in the policy table above);
- determining the entitlement of participants to receive dividends or dividend equivalents;
- determining the extent, and where applicable the timing of vesting based on the assessment of performance;
- adjusting basic salaries for changes in time commitment (within the full-time equivalent levels set out in this policy);

- making the appropriate adjustments required in certain circumstances (e.g. change of control, variation of share capital including rights issues and corporate restructuring events, and special dividends);
- determining 'good leaver' status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan from year-to-year.

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

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

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

The remuneration framework of non-Board employees was reviewed during 2019 and will continue to be reviewed going forward. The Committee notes the current difference between the pension contribution of the CEO at 11% and for all other staff, including the CFO who was appointed an Executive Director on 1 January 2020, at 7%. It has agreed to align pension contributions of future Executive Directors with the wider workforce. There are currently three main differences to the remuneration framework:

- the Committee will continue to reserve access to the VCP to the most senior executives who have the greatest potential to influence the Company's long-term performance albeit, given the short timetable to the end of the performance period, further awards are unlikely; and
- the Executive Directors will receive any annual bonus partly in cash and partly in the form of deferred shares as described on **page 70** of the remuneration policy; but
- in order to encourage employees without access (or with less access) to the VCP to build up a shareholding in the Company, consideration will be given to either including a share component in any annual bonuses awarded to non-Board employees and continuing to offer them options pursuant to the CSOP or the USOP (or any replacement thereof), or a combination of the two.

## DIRECTORS' REMUNERATION REPORT

### I. Approach to appointment of new Executive Directors

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

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

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

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

For external Executive Director appointments, the bonus deferral level will be set in line with the terms of the policy (currently 40% of any bonus earned). For internal Executive Director appointments prior to 2021, the bonus deferral level will typically be transitioned to full level, as described in the policy table above.

### J. Service contracts and payments for loss of office

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

The current Executive Directors' service contracts are for an indefinite term and contain a notice period of six months, which is in line with the Company's continuing policy that service contracts should not have a notice period of more than one year.

The service contracts contain provision for early termination. A Director's service contract may be terminated without notice and without any further payment or compensation, except for sums accrued up to the date of termination, on the occurrence of certain events such as gross misconduct. If the employing company terminates the employment of an Executive Director in other circumstances, compensation is limited to salary due for any unexpired notice period and any amount assessed by the Committee as representing the value of other contractual benefits (including pension) which would have been received during the period. Payments in lieu of notice are not pensionable. The service contracts of Mr. Treger and Mr. Flynn 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. The service contracts of the Executive Directors 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 the total payment to the equivalent of 12 months' basic salary.
Remuneration entitlements	A pro-rata bonus may also become payable for the period of active service along with vesting for outstanding share awards (in certain circumstances – see below). In all cases performance targets would apply.
Change of control	There are no enhanced terms in relation to a change of control.

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

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

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

### K. Non-Executive Directors

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

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.

The Committee's specific policy is as follows:

Element, purpose and link to strategy	Operation	Maximum
<b>BOARD FEES</b> Attract, retain and fairly reward high calibre individuals	<p>Fees are currently paid in cash. Non-Executive Directors are not eligible to participate in the Company's annual performance related incentive schemes, share option schemes or pension scheme.</p> <p>The Chairman is paid a single fee for all his responsibilities. The Non-Executive Directors are paid a basic fee. Additional fees are paid to Chairmen and members of the main Board Committees and to the SID to reflect their extra responsibilities. The Chairman and the Non-Executive Directors are entitled to reimbursement of reasonable expenses. They may also receive limited travel or accommodation-related benefits in connection with their role as a Director.</p> <p>Fees are reviewed by the Board taking into account individual responsibilities, factors such as Committee Chairmanships, time commitment, other pay increases being made to employees in the Company, and fees payable for the equivalent role in comparable companies.</p> <p>Normally fees are reviewed every two years and fee increases are generally effective from 1 January, in the year of review.</p> <p>The Board may adjust the fees for an individual Non-Executive Director during the intervening period if there is a significant change in their responsibilities and/or time commitments.</p>	<p>Current fee levels are set out in the Annual Report on Remuneration.</p> <p>Overall fee limit will be within the £600,000 limit set out in the Company's Articles of Association.</p>

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

Non-Executive	Date of appointment	Notice period	Non-Executive	Date of appointment	Notice period
N.P.H. Meier	30 April 2015	One month	V.A. Dennett	1 November 2018	One month
W.M. Blyth	20 March 2013	One month	J.E. Rutherford	1 November 2019	One month
R.G. Dacomb	1 November 2019	One month	R.H. Stan	19 February 2014	One month

#### L. Legacy arrangements

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

#### ANNUAL REMUNERATION REPORT FOR 2019

This part of the report details the remuneration paid to Directors during 2019 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2020 AGM. The information in sections A to G and I to M has been audited; the remaining sections are unaudited.

#### A. Single figure for total remuneration

		Salary/fees £'000	Benefits £'000	Total bonus £'000	Pension £'000	Other £'000	Total remuneration £'000
<b>EXECUTIVE DIRECTORS</b>							
J.A. Treger <sup>1</sup>	2019	396	5	293	43	-	737
	2018	378	4	274	40	-	696
<b>NON-EXECUTIVE DIRECTORS</b>							
N.P.H. Meier	2019	125	-	-	-	-	125
	2018	115	-	-	-	-	115
D.S. Archer <sup>2</sup>	2019	53	-	-	-	-	53
	2018	56	-	-	-	-	56
W.M. Blyth	2019	62	-	-	-	-	62
	2018	55	-	-	-	-	55
R.G. Dacomb <sup>3</sup>	2019	8	-	-	-	-	8
	2018	-	-	-	-	-	-
V.A. Dennett <sup>4</sup>	2019	48	-	-	-	-	48
	2018	8	-	-	-	-	8
R.C. Rhodes <sup>5</sup>	2019	-	-	-	-	-	-
	2018	18	-	-	-	-	18
J.E. Rutherford <sup>6</sup>	2019	8	-	-	-	-	8
	2018	-	-	-	-	-	-
R.H. Stan	2019	48	-	-	-	-	48
	2018	46	-	-	-	-	46

<sup>1</sup> J.A. Treger agreed to receive 90% of his contractual salary for both 2018 and 2019 as outlined in section K below.

<sup>2</sup> D.S. Archer resigned from the Board on 31 October 2019.

<sup>3</sup> R.G. Dacomb was appointed to the Board on 1 November 2019.

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

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

<sup>6</sup> J.E. Rutherford was appointed to the Board on 1 November 2019.

## DIRECTORS' REMUNERATION REPORT

### B. Annual bonus for the year ending 31 December 2019

A set of individually crafted corporate and personal bonus criteria were agreed with the CEO for the 2019 financial year which took into account the evolving corporate and financial priorities of the Group.

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

- That the Company had not suffered an exceptional negative event in the bonus year or in the lead up to the determination of the quantum of the bonus; and
- The Remuneration Committee may look at overriding some or all of the bonus criteria should the CEO's efforts in the 2019 financial year result in a major transformational outcome that demonstrably benefits shareholders, is reflected in a material share price increase and would not otherwise be adequately captured in the bonus matrix.

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

The bonus matrix for the CEO for 2019 is detailed below.

#### 2019 CEO scorecard

Criteria	Maximum award (%)	Actual outcome (%)
<b>CORPORATE PERFORMANCE CRITERIA</b>		
<b>A. GROWTH</b>	<b>50</b>	<b>34</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Acquisition (actually completed and announced) of new value adding producing and/or near producing royalties.</li> <li>• Significant value adding M&amp;A deal to grow the size of the Company</li> <li>• Achieve meaningful re-rating</li> </ul>		
<b>B. FINANCIAL PERFORMANCE</b>	<b>20</b>	<b>15</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Meet and exceed budget for net income, AEPS and FCF</li> </ul>		
<b>C. MANAGEMENT AND CONTROL</b>	<b>15</b>	<b>15</b>
Measures for assessment included:		
<ul style="list-style-type: none"> <li>• Superior performance by whole team</li> <li>• Risk management and financial control</li> </ul>		
<b>PERSONAL PERFORMANCE CRITERIA</b>		
<b>D. PROFESSIONALISM AND HOLISTIC CONTRIBUTION</b>	<b>15</b>	<b>10</b>
<ul style="list-style-type: none"> <li>• Leadership and direction</li> <li>• Team development and succession planning</li> <li>• Setting culture</li> <li>• Personal contribution</li> </ul>		
<b>TOTAL</b>	<b>100</b>	<b>74</b>

*Growth:* 2019 was a record year of acquisition for the Group, deploying £62.6m in capital to acquire the £42.3m producing Mantos Blancos copper royalty and £20.3m in additional investment in Labrador Iron Ore Royalty Corporation. The growth bonus in relation to these transactions was 24%. An element of the growth bonus was in respect of the Group's share price performance over the 12 months, increasing from 142p/share at 31 December 2018 to 192p/share at 31 December 2019, which earned a score of 10%. Total overall score of 34% out of a possible 50%.

*Financial performance:* Despite the Group generating record adjusted earnings of £36.8m which was 1.1x the budgeted amount of £32.8m, the outperform against budget was slightly lower than the 1.3x achieved in 2018. Adjusted earnings per share of 20.41p were 1.1x the budgeted amount of 18.18p per share. The Group's free cash flow increased from £40.2m in 2018 to £47.7m in 2019 and was 1.3x the budgeted amount of £35.9m. Total overall score of 15% out of a possible 20%.

*Management and control:* Management of the Group's exposure to exchange rate risk has remained a key focus throughout 2019 to ensure that the Group is optimally positioned around Brexit and the trade wars. The CEO has led in continuing to ensure that we adopt the highest standards of due diligence in exploring investment opportunities while, at the same time, increasingly offsetting due diligence costs to minimise lost deal costs. In addition, the CEO has continued to focus on the realisation of the Group's non-core equity portfolio. Total overall score of 15% out of a possible 15%.

*Professionalism and holistic contribution:* Under the guidance of the CEO, the Group has further defined and refined its approach to ESG issues, resulting in increased engagement with our existing operators and a more comprehensive assessment of the ESG profile of potential counterparties. Supporting the Group's approach to ESG issues, the CEO led a wholesale review of the Group's underlying policies and procedures which led to the engagement of staff at all levels to ensure revisions to the existing policies and procedures were fit for purpose. This process, championed by the CEO, led to the development of the Group's values and ultimately our Code of Conduct. The development and retention of the Group's talent continues to be a priority of the CEO, with a number of staff members reaching ten years of continuous service with the Group throughout 2019. In addition the recruitment of a new Head of Legal and an Investment Analyst resulted in the Group achieving an equal gender split. Superior hurdles were met in relation to personal contribution, resulting in an overall score of 10% out of a possible 15%.

*Professionalism:* Under the guidance of the CEO, staff at all levels have continued to develop throughout 2019, with a number of internal promotions resulting in better support for and the expansion of the existing management team. The addition to the Group's small management team has diversified the skill set available and better placed it to develop and evaluate the pipeline of new prospects. The CEO's personal contribution was evidenced by his championing the review of the Group's approach to ESG issues. In particular he instigated a comprehensive ESG risk assessment of the operators of the Group's producing assets. In addition, he added the ESG risk assessment as a key component to management's due diligence in evaluating business opportunities. Superior hurdles were met in relation to professionalism, resulting in an overall score of 13.0% out of a possible 15%.

#### Bonus outturn

The overall bonus score was agreed at 74% under the bonus scoring matrix for a total award of £293,040 (74% x £440,000 x 90%). The overall aggregate bonus of £293,040 falls within the 100% bonus limit set out in the policy table. Of this bonus, 20% (£58,608) has been deferred under the Deferred Share Bonus Plan with the balance of £234,432 being paid in cash.

The CEO's direct senior reports, none of whom were Executive Directors during 2019, have individually crafted bonus objectives which were agreed for the 2019 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 bonus calculated as a percentage of total salary, up to 100%.

Bonus criteria will be further tailored for the 2020 year to ensure that these closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

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

No awards vested in 2019 (2018: nil).

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

There were no awards granted to Executive Directors under the JSOP, the CSOP or USOP in 2019.

The CEO's allocation of units under the VCP out of the pool to Executive Directors has remained constant at 76,000 units or 76% of the total number of units (2018: 76,000 units). As at the date of this report there are a total of 86,880 units issued out of a total pool of 100,000 units, including the awards for non-Board senior managers (2018: 86,880 units).

#### Outstanding share awards

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

#### D. Directors' shareholding and share interests

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

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

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

	Beneficially owned at 31 March 2020	Beneficially owned at 31 December 2019	Not subject to performance conditions		Subject to performance conditions	
			LTIP	Deferred bonus shares	LTIP	Deferred bonus shares
<b>EXECUTIVE DIRECTORS</b>						
J.A. Treger	5,513,296	5,478,296	-	-	-	-
K. Flynn	39,066	36,336	-	-	-	-
<b>NON-EXECUTIVE DIRECTORS</b>						
N.P.H. Meier	248,437	242,127	-	-	-	-
W.M. Blyth	143,850	143,850	-	-	-	-
R.G. Dacomb	35,000	25,000	-	-	-	-
V.A. Dennett	4,800	4,800	-	-	-	-
J.E. Rutherford	25,000	25,000	-	-	-	-
R.H. Stan	265,265	257,265	-	-	-	-

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

#### E. Total pension entitlements

The Company makes contributions to employees' pensions and has designated the National Employment Savings Trust (NEST) as its stakeholder pension provider. The Committee is prepared to pay additional basic salary (or fees) in lieu of part or all of a Director's pension contribution.

#### F. Loss of office payments

There were no loss of office payments made to Directors in 2019 (2018: nil).

## DIRECTORS' REMUNERATION REPORT

### G. Change in the CEO's remuneration in 2019 relative to UK employees

CEO £'000	2019	2018	% change
– salary (full time equivalent basis)	440	420	5%
– benefits	43	40	8%
– bonus	293	274	7%
Average per employee £'000			
– salary	114	108	6%
– benefits	9	7	29%
– bonus	65	43	51%

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.

There are only 10 employees in the UK and our average number of UK employees does not meet the threshold requirement for publication of CEO pay ratio information. Given the numbers of employees in the UK the ratio produced by comparing CEO remuneration with that of our UK workforce is likely to be misleading. As such, the committee has decided not to publish this information this year.

### H. Total shareholder return

#### FTSE 350 Mining Index vs. Anglo Pacific Group 2010-2019



The performance of the Company's ordinary shares compared with the FTSE 350 Mining Index for the five-year period ended on 31 December 2019 is shown in the graph above. Both have been re-based at the start of the period in order to provide a graphical measure of comparative performance.

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

The middle market price of an ordinary share on 31 December 2019 was 192.00p. During the year the share price ranged from a low of 137.50p to a high of 228.00p.

### I. Total remuneration for the CEO over time

	2010	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018	2019
	B.M. Wides		J. Theobald <sup>1</sup>					J.A. Treger <sup>2</sup>				
Total remuneration (£'000)	155	69	253	209	193 <sup>3</sup>	39	432	374	563	655	696	737
Bonus outturn (%)	N/A <sup>4</sup>	N/A <sup>4</sup>	37%	–	–	–	64%	–	47%	71%	72%	74%
Bonus (£'000)	76	38	84	–	–	–	160	–	167	257	274	293
LTIP vesting (%)	–	–	–	–	–	–	–	–	–	–	–	–

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

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

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

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

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

**J. Distribution statement for 2019**

(£m)	2019	2018	% (decrease)/ increase
Employee benefit expense <sup>1</sup>	4.40	3.87	13.7%
Dividends	14.44	12.89	12.0%
Acquisition of royalty related assets <sup>2</sup>	62.57	38.41	62.9%
Income taxes paid <sup>3</sup>	7.85	4.82	62.9%

<sup>1</sup> Employee benefit expense for the financial year as per **note 7a** to the financial statements.

<sup>2</sup> Acquisition of royalty related assets during the financial year is the sum of the cash flows for the purchase of royalty and exploration intangibles and the purchase of royalty financial instruments per the Group's statement of cash flows.

<sup>3</sup> Income taxes paid are as per the Group's statement of cash flows.

**K. External directorships**

Mr. Treger holds external non-executive directorships with Mantos Copper S.A., EBT Digital Communications Retail Group, Broadwell Capital and Ilari Exploration OY for which he earned fees during the year. These directorships do not affect Mr. Treger's ability to perform his role as CEO of the Company, as these directorships form part of his 10%-time commitment aside from Anglo Pacific (see 'The Board' section of the Governance Report). As a result, Mr. Treger is paid 90% of his full-time equivalent salary of £440,000.

**L. 2020 salary review**

The Executive Directors' full time equivalent ('FTE') salaries were reviewed in January 2020 as outlined in the Chairman's letter to shareholders, and the current salary (on a FTE basis) is as follows:

**Current salaries for the Executive Directors**

Executive	FTE salary as at 1 January 2020	FTE Salary as at 1 January 2019	Increase
J.A. Treger	448,800	440,000	2.0%
K. Flynn <sup>1</sup>	250,000	-	-

<sup>1</sup> K. Flynn was appointed an Executive Director on 1 January 2020.

The 2.0% increase in the CEO's salary was the same as the increase in the salaries of the wider workforce.

**M. Fees for the Chairman and Non-Executive Directors**

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

	2020	2019	% Increase
Chairman	125,000	125,000	-
Committee member	48,000	48,000	-
Base fee	42,000	42,000	-
<b>INCREMENT</b>			
Senior Independent Director	10,000	10,000	-
Senior Independent Director (if also chairing a committee)	7,000	7,000	-
Committee Chairmanship	7,000	7,000	-
Committee Membership	6,000	6,000	-

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

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

The annual bonus scorecard approach will continue in 2020. The scorecard will set challenging targets for triggering bonus, and for rewarding outperformance on a sliding scale. The scorecard will be a combination of corporate objectives and personal objectives. Corporate objectives for 2020 will cover areas such as business performance, funding and finance, relationships and reputation and, for the first time, ESG. Due to the commercially sensitive nature of the Group's corporate objectives, further details of the 2020 scorecard will be provided in the 2020 Directors' Remuneration Report.

No long-term incentive awards are due to be made in 2020. Details of the awards made in 2014 and 2017 under the VCP can be found in the notes of the policy table on **page 70**.

## DIRECTORS' REMUNERATION REPORT

### O. Compliance with the 2018 UK Corporate Governance Code

As described in the Corporate Governance Report on [page 56 to 59](#), while the Company is not subject to the UK Corporate Governance Code on account of its standard listing on the London Stock Exchange, the Company has voluntarily agreed to adhere to the requirements of the Code.

The Company's remuneration policy approved at the 2019 AGM, complies with provisions 32 to 40 of the Code relating to remuneration with the exception of provision 36 and provision 37.

#### Provision 36

The Company's remuneration policy complies in all respects with provision 36 of the Code, except that the Company does not have a formal policy for post-employment shareholding requirements for both unvested and vested share awards. Throughout 2019 and indeed since Mr. Treger's appointment as an Executive Director no share awards have vested. The Value Creation Plan does not vest until 2021 and then awards may only be exercised in three tranches until 2024, whether Mr Treger is employed or not. In light of this phasing of the exercise until 2024, a formal post-employment shareholding policy is not considered necessary at this time. This will be considered as part of the review of the remuneration policy that is taking place during the year.

#### Provision 37

The Company's remuneration policy complies in all respects with provision 37 of the Code, except that there are currently no provisions within the policy that would enable the Company to recover the cash element of any bonus payments. As the award of bonuses is at the full discretion of the Remuneration Committee and because the newly implemented deferred share bonus plan includes provisions for recovery, an amendment to the remuneration policy at this stage is not considered necessary. This will be considered as part of the review of the remuneration policy that is taking place during the year.

The Committee intends to keep compliance with the Code under review in a way that is proportionate to the size and complexity of the Company.

### P. Statement of shareholder voting

At last year's AGM held on 13 May 2019, the resolutions relating to the Directors' remuneration policy and Directors' remuneration report were approved by shareholders on a show of hands. Details of the valid proxy votes received for each resolution are detailed below:

Resolution	Total votes cast	Votes for	Votes against	Votes withheld <sup>(a)</sup>
Approval of Directors' remuneration report	93,298,271	93,273,541	24,730	69,096
		99.97%	0.03%	
Approval of the Directors' remuneration policy	92,341,747	85,237,760	7,103,987	1,025,620
		92.31%	7.69%	

<sup>(a)</sup> A vote 'withheld' is not a vote in law, and is not counted in the calculation of the proportion of votes for and against the resolution.

### Q. External advisors

The Remuneration Committee has access to the advice of independent remuneration consultants when required. During 2019, the Remuneration Committee received advice from the Executive Compensation practice of Aon plc. Aon was first appointed by the Remuneration Committee on 20 January 2014. Aon is a signatory to the Remuneration Consultants' Code of Conduct and has no other connection with the Company or any of the Directors. The Remuneration Committee is satisfied that the advice that it receives from Aon is objective and independent. Total fees paid to Aon in respect of its services were £25,412 (2018: £37,656).

#### Approval

This report was approved by the Board on 6 April 2020 and signed on its behalf by

#### W. M. Blyth

Chairman of the Remuneration Committee

## DIRECTORS' REPORT

The Directors present their report and audited consolidated financial statements for the year ended 31 December 2019.

### PRINCIPAL ACTIVITIES

The Group's principal royalty activities are set out in the Strategic Report on [pages 3 and 51](#).

### GOING CONCERN

The financial position of the Group and its cash flows are set out on [pages 92 and 95](#). The Directors have considered the principal risks of the Group which are set out on [pages 22 to 28](#), and considered key sensitivities which could impact on the level of available borrowings. As at 31 December 2019 the Group had cash and cash equivalents of £7.6m as set out in note 23 and borrowings under its revolving credit facility of £36.4m (US\$48.0m) as set out in note 25. Subsequent to year end, the Group amended its existing revolving credit facility, increasing the committed facility to US\$90.0m (£68.3m) and extending the term by twelve months to September 2022. Following this amendment and extension, subject to continued covenant compliance, the Group has access to a further £31.9m (US\$42.0m) through its enlarged facility.

Absent the extraordinary circumstances brought about by the COVID-19 pandemic, we would be satisfied that the Group's forecasts and projections, taking into account reasonable possible changes in trading performance and other uncertainties, together with the Group's cash position and access to the undrawn revolving credit facility show that the Group would be able to operate within its current facilities for at least 12 months from the date of approval of the financial statements. Even assuming a 20% downturn in commodity prices, sales volumes and foreign exchange, the Group would still operate comfortably within its banking covenant limits with no debt redemption or amortisation commitments.

However, given the recent COVID-19 pandemic, which has seen widespread humanitarian and economic disruption across the globe, the possibility of operational disruption has heightened and we have already seen some instances of mines being placed on care and maintenance, including the Cigar Lake uranium mine in Canada from which the Group receives income through a toll financing arrangement and the EVBC gold mine in Spain.

COVID-19 will cause widespread economic disruption but its impact will hopefully be temporary. Although the Group has reasonable geographical diversity within its royalty portfolio, we have materially increased our stress testing to assess the impact of up to a twelve-month operational shutdown across the portfolio, which we believe is an extreme downside scenario. In this circumstance, the Group would breach certain borrowing covenants and would require either waivers from its lending banks or to liquidate certain assets to repay borrowings.

It is the expectation of management, however, that in this downside scenario the banks will waive the covenants for a short period due to the nature of any covenant breaches being solely as a result of COVID-19 imposed restrictions and being of a temporary nature and upon resumption of mining activities management would expect the Group to become compliant and begin to repay borrowings. For Anglo Pacific, with a low and flexible cost base, COVID-19 should result in the deferral rather than the loss of revenue and should not impact on the Group's longer-term prospects once business returns to normal. For this reason, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the waiver of covenants in the event of a breach under this downside case is not wholly within management's control, this represents a material uncertainty which could cast a significant doubt upon the Group's and the Company's continued ability to operate as a going concern, such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

### RESULTS AND DIVIDENDS

The consolidated income statement is set out on [page 90](#) of the financial statements.

The Group reported a profit after tax of £29.0m (2018: £28.8m). Total dividends for 2019 will amount to 9.00p per share (2018: 8.00p per share), combining the recommended final dividend of 4.125p per share for the year ended 31 December 2019 with the interim dividends of 1.625p per share paid on 15 August 2019, 14 November 2019 and 13 February 2020. The final dividend for the year ended 31 December 2019, is subject to shareholder approval at the 2020 AGM. In light of the disruption caused by COVID-19, the Board will announce the revised record and payment dates for the final dividend once the timing of the 2020 AGM has been confirmed.

### OUTLOOK

The outlook for and likely future developments of the Group are described within the Chairman's Statement on [pages 8 and 9](#), together with the Chief Executive Officer's Statement on [pages 10 to 13](#), and the Group's Strategic Report on [pages 3 to 51](#).

### DIRECTORS

The names of the Directors in office on the date of approval of these financial statements, together with their biographical details and other information, are shown on [pages 60 to 61](#).

All Directors will stand for election or re-election at the 2020 AGM, with the exception of W.M. Blyth who announced his intention to retire from the Board following the 2020 AGM.

A table of Directors' attendance at Board and Committee meetings during 2019 is on [page 57](#).

### DIRECTORS' DISCLOSURES

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. At the next AGM, all of the Company's Directors, with the exception of W.M. Blyth who has announced his intention to retire, will be offering themselves for election or re-election.

The Directors may exercise all the powers of the Company subject to applicable legislation and regulation and the Articles of Association of the Company. The Company's Articles of Association may be amended by special resolution of the shareholders. At the 2019 AGM, held on 13 May 2019, the Directors were given the power to issue new shares up to an aggregate nominal amount of £1,209,803. This power will expire at the earlier of the conclusion of the 2020 AGM or 30 June 2020. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 18,147,039. This power will expire at the earlier of the conclusion of the 2020 AGM or 30 June 2020.

At the AGM held on 13 May 2019, 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 2020 AGM or 30 June 2020.

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

### CAPITAL STRUCTURE

The structure of the Company's ordinary share capital at 20 March 2020 was as follows:

	Issued no.	Nominal value per share	Total	% of total capital
Ordinary shares	181,470,392	0.02	3,629,408	100%

**DIRECTORS' REPORT**

continued

**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 71 to 73](#) and in [note 29](#) to the financial statements.

**Treasury**

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

**Warrants**

On 18 January 2017, the Company resolved to create 294,695 warrants, to be issued pursuant to a warrant instrument dated 10 February 2017, with Investec Bank PLC as part of the refinancing of the Group's revolving credit facility (refer to [note 25](#)). These warrants entitle the warrant holders to subscribe in cash for ordinary shares at the subscription price of £1.58 per ordinary share (subject to any adjustment events in accordance with the warrant instrument). In accordance with the original warrant instrument dated 10 February 2017, the rights to subscribe for ordinary shares conferred by the warrants could only be exercised within three years from the date of grant. On 10 February 2020, the Company resolved to extend the exercise period to 10 August 2020, due to the holder being restricted from exercising the warrants during the past 12 months, as result of being in possession of inside information.

**Allotment of ordinary shares**

On 16 May 2018, the Company issued 37,954 new Ordinary Shares at a price of 92.21p per share amounting to an aggregate nominal value of £759 and aggregate consideration of £34,998 following the exercise of options awarded to employees under the Company Share Option Plan ('CSOP'). Further details are set out in [notes 29 and 30](#) to the financial statements.

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

On 11 June 2018, the Company issued 478,951 new Ordinary Shares at a price of 156.6p per share amounting to an aggregate nominal value of £9,579 and aggregate consideration of £750,037. This issue price was fixed on 4 June 2018 and represented the 30-day VWAP. These shares were the total consideration for the

acquisition of the Canariaco copper royalty, further details of which are set out in [notes 18 and 29](#) to the financial statements.

There were no allotments of ordinary shares during the year ended 31 December 2019. As a result, the Company has not issued any new Ordinary Shares other than as part of a pre-emptive offer in the 12 months or three years preceding the date of this Annual Report and Accounts.

**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 31 March 2020.

	Ordinary Shares of 2p each	Representing
Schroder Investment Management	19,526,412	10.76%
Aberforth Partners	16,131,444	8.89%
Canaccord Genuity Wealth Management	13,622,144	7.51%
AXA Investment Manager	12,281,615	6.77%
Ransome's Dock Limited	8,591,120	4.73%
BlackRock Investment Management	7,748,786	4.27%
Mr J.A. Treger	5,513,296	3.04%

See [page 77](#) for a list of Directors' interests in shares.

**INTERNAL CONTROLS**

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

**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 27](#) and a statement on Going Concern is provided in [note 3.1.1](#).

**AUDITORS**

Deloitte LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 a resolution to appoint auditors will be proposed at the 2020 AGM.

**DESIGNATED FOREIGN ISSUER STATUS**

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

By Order of the Board

**K. FLYNN**

Company Secretary  
6 April 2020

**REGISTERED OFFICE**

1 Savile Row  
London  
W1S 3JR

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and parent Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU'). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

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

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

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

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

### DIRECTORS' STATEMENT PURSUANT TO THE DISCLOSURE AND TRANSPARENCY RULES

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

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

By Order of the Board

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

6 April 2020

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

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### 1. OPINION

##### In our opinion:

- the financial statements of Anglo Pacific Group plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related **notes 1 to 37**.

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.

#### 2. BASIS FOR OPINION

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

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

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

#### 3. MATERIAL UNCERTAINTY RELATING TO GOING CONCERN

We draw attention to **note 3.1.1** in the financial statements, which indicates that due to the recent Covid 19 pandemic there is a possibility of operational disruption across the Group's portfolio which in certain downside scenarios could cause a breach of borrowing covenants.

In response to this, we:

- Obtained an understanding of the relevant controls over the going concern assessment process;
- Evaluated the directors' plans for future actions in relation to the going concern assessment;
- Reviewed the cash flow forecasts produced by management and challenged the underlying data and key assumptions by assessing their consistency with valuation models and budgets where applicable;
- Reviewed management's sensitivity analysis, in particular, a downside scenario with no revenue streams being expected during the next 12 months;
- Considered financing facilities including nature of facilities, repayment terms and covenants compliance;
- Assessed the group's expected covenants compliance under different scenarios, in particular, the downside scenario of no revenues being received over the next 12 months, and management's actions in case of potential breach; and
- Considered the appropriateness of management's disclosures in the financial statements.

As stated in **note 3.1.1**, these events or conditions, along with the other matters as set forth in **note 3.1.1** to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's and the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

#### 4. SUMMARY OF OUR AUDIT APPROACH

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"> <li>Valuation of the Kestrel royalties;</li> <li>Impairment assessment of the royalty intangibles portfolio;</li> <li>Uncertain tax position; and</li> <li>Going concern (see material uncertainty relating to going concern section).</li> </ul>
<b>Materiality</b>	The materiality that we used for the group financial statements was £4.1m which was determined on the basis of considering a number of different measures including net assets, total assets, and adjusted profit before tax.
<b>Scoping</b>	Consistent with how the Group is managed we consider the Group to be one component. Consequently all assets, liabilities, income and expenses are subject to a full scope audit.
<b>Significant changes in our approach</b>	There were no changes to our audit approach when compared to 2018 apart from the fact that due to COVID-19 pandemic, which has severely impacted the global economy, we considered going concern as a key audit matter.

## 5. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on **pages 22-28** that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on **pages 22-28** that they have carried out a robust assessment of the principal and emerging risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on **page 22** as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We also report whether the directors' statement relating to going concern and the prospects of the group that would be required by Listing Rule 9.8.6R(3) if the group had a premium listing is materially inconsistent with our knowledge obtained in the audit.

**Viability means the ability of the group to continue over the time horizon considered appropriate by the directors.**

Aside from the impact of the matters disclosed in the material uncertainty relating to going concern section, we confirm that we have nothing material to add or draw attention to in respect of these matters.

## 6. KEY AUDIT MATTERS

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

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty relating to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### 6.1. Valuation of the Kestrel royalty

<b>Key audit matter description</b>	<p>Royalty arrangements held at fair value have a value of £104.6m as at 31 December 2019 (2018: £117.6m). The Kestrel royalty comprises £96.5m (2018: £109.8m) of the total and management engaged an independent valuation specialist to perform an independent valuation of this royalty asset. The valuation of the Kestrel royalty is subjective and contains significant levels of judgement in relation to the discount rate used, the forecast commodity prices and the expected production profile.</p> <p>Following the acquisition of the Kestrel mine by a new operator in 2018 with announced plans to accelerate production and subsequent increase in production demonstrated during 2019, management has considered the extent to which increases in the forecast production are appropriate.</p> <p>Due to the high level of judgements involved, we have determined that there was a potential for fraud through possible manipulation of this balance.</p> <p>The price and discount rate assumptions are set out in <b>note 15</b> to the financial statements along with the related sensitivity analysis. The Group discloses this risk as a critical accounting judgement in <b>note 4</b> to the financial statements.</p> <p>Refer to the Audit Committee report where this matter is considered by the Audit Committee as a significant issue, 'Review of carrying value of the Kestrel coal royalty' on <b>page 64</b>.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls over the Kestrel royalty valuation process.</p> <p>We obtained the valuation model used by management's independent specialist to determine the fair value of the Kestrel royalty. We challenged the assumptions adopted by management's independent specialist by comparison to recent third party forecast commodity price data, reference to third party documentation and the relevant reserves and resources reports. We challenged the achievability of the increase in annual production announced by the operator and incorporated by the independent specialists in its valuation model. To challenge the discount rate we calculated an independent discount rate and compared this to the rate adopted by management.</p> <p>We evaluated the independence, objectivity and competence of management's independent specialist. We challenged the valuation assumptions adopted in line with the above methodology by directly reviewing their reporting and speaking directly with the specialist. In doing so we assessed the extent to which management may have influenced the key assumptions in the valuation model to address the risk of any possible management bias.</p>
<b>Key observations</b>	<p>We concur that the fair value of the Kestrel royalty is within an acceptable range.</p>

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

### 6.2. Impairment assessment of the royalty intangibles portfolio

<b>Key audit matter description</b>	<p>Royalty arrangements held as intangibles have a gross carrying amount of £148.1m at 31 December 2019 (2018: £113.3m) and a net carrying amount of £102.2m (2018: £71.2m). The assessment of whether impairment/impairment reversal indicators exist and estimating the recoverable amount of royalty arrangements accounted for as intangible assets where necessary requires management to adopt key judgements in relation to the discount rates used, the forecast commodity prices, the expected production profiles and where relevant the probability of production commencing.</p> <p>Impairment indicators were identified for Four Mile and Ring of Fire with carrying amounts of £1.0m (2017: £1.2m) and £2.3m (2018: £3.6m) respectively.</p> <p>Following the completion of valuation models for these two assets, an impairment charge of £1.3m was recognised at Ring of Fire (see <b>note 17</b> to the financial statements). The Group discloses this risk as a critical accounting judgement in <b>note 4</b> to the financial statements.</p> <p>Refer to the Audit Committee report where this matter is considered by the Audit Committee as part of the significant issue, 'Review of carrying values of royalties held at amortised cost and resulting impairment charges' on <b>page 64</b>.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls over the process of the royalty intangibles portfolio impairment assessment.</p> <p>We challenged management's assessment as to whether indicators of impairment or impairment reversal exist for specific royalty arrangements through evaluation of changes in production and pricing forecasts and a review of publicly available information. Where such indicators were identified, we obtained copies of the valuation models and challenged the assumptions adopted by management by comparison to third party forecast commodity price data, reference to third party documentation and the relevant reserves and resources reports.</p> <p>We prepared independent discount rates and compared those to the rates adopted by management.</p> <p>We reviewed and challenged management's assessment of whether projects still in the development phase would reach commercial production through an independent assessment based on third party data available from asset operators.</p> <p>We evaluated whether it was appropriate to reverse previous impairments where there were indicators of impairment reversal for royalty assets.</p>
<b>Key observations</b>	<p>We concur with management's impairment assessment. In respect of the intangible assets where indicators of impairment were identified, we found that the assumptions used were within a reasonable range and had been determined and applied on a consistent basis across the Group.</p>

### 6.3. Uncertain tax position

<b>Key audit matter description</b>	<p>The preparation and filing of tax returns requires certain judgements and interpretations to be made, in some circumstances where there is little guidance or precedent.</p> <p>In 2017 the Group undertook a restructuring of certain loss making entities. The Group obtained advice from professional advisors in respect of these transactions. The tax treatment in relation to the restructure is uncertain given the lack of precedence and guidance from the tax authorities. In the event this aspect were successfully challenged by the tax authorities, possibly through litigation, this would result in a reduction in the deferred tax asset of £3.3m (2018: £3.3m) and the recognition of current tax liability of £3.6m (2018:£3.6m) as at 31 December 2019, with a £6.9m (2018:£6.9m) corresponding income statement tax charge for 2019.</p> <p>The Group has increased its tax provisions by £0.3m to £2.0m during the year in relation to a separate uncertain tax position. This represents management's best estimate as to a settlement value should the judgement be successfully challenged.</p> <p>Management disclosed these matters as uncertain tax positions in <b>note 11</b> to the financial statements. The Group discloses this risk as a critical accounting judgement in <b>note 4</b> to the financial statements.</p> <p>Refer to the Audit Committee report where these matters are considered by the Audit Committee as part of the significant issue, 'Group tax exposures' on <b>page 64</b>.</p>
<b>How the scope of our audit responded to the key audit matter</b>	<p>We obtained an understanding of the relevant controls over uncertain tax position valuation process.</p> <p>We reviewed the papers prepared by management's independent tax expert in respect of the two uncertain tax positions.</p> <p>With the involvement of our tax specialist we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• reviewed management's tax advice and accounting papers;</li> <li>• evaluated the potential for the Group's historical treatments to be challenged;</li> <li>• reviewed the tax legislation, case law and relevant precedents to determine if the tax treatment was reasonable;</li> <li>• recalculated the potential exposures;</li> <li>• reviewed management's communication with relevant taxation authorities; and</li> <li>• challenged management's assessment of the probable loss to be provided for and the possible exposures disclosed.</li> </ul> <p>We held a meeting with management to discuss our concern that there is no clear precedence or guidance on these matters and, as such, these result in uncertain tax positions.</p>
<b>Key observations</b>	<p>We concur with management's provisions and disclosure.</p>

## 7. OUR APPLICATION OF MATERIALITY

### 7.1. Materiality

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

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

	GROUP FINANCIAL STATEMENTS	PARENT COMPANY FINANCIAL STATEMENTS
<b>Materiality</b>	£4.1m (2018: £4.4m)	£3.3m (2018: £2.7m)
<b>Basis for determining materiality</b>	Materiality has been determined on the basis of considering a number of different measures including net assets, total assets, and adjusted profit before tax (2018: 2% of net assets)	2% of net assets (2018: 2%)
<b>Rationale for the benchmark applied</b>	<p>The long-term value for shareholders is in the asset base as the company generates its wealth through royalties acquired. Although royalties are often bought in the development phase of an asset's life and a portion of the company's value is not reflected in the income statement, following the acquisition of a royalty in the operating Mantos Blancos mine and an additional investment into the dividend generating LIORC during 2019, a significant part of the group balance is now revenue generating.</p> <p>Therefore materiality, representing approximately 2% of net assets, 1.5% of total assets and 7.5% of adjusted profit before tax, was considered the most reasonable as it allowed us to take into account the value of the company by considering both its revenue generating assets and the other assets that have not yet commenced production as at 31 December 2019.</p>	<p>Net assets was considered a more stable base than profits due to the effect of unrealised fair value gains/losses in each financial year.</p> <p>The long-term value for shareholders is also in the asset base as the company generates its wealth through royalties acquired. Considering that these are often bought in the development phase of an asset's life a significant portion of the company's value at this moment is not reflected in the income statement.</p>

### 7.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered our risk assessment, including our assessment of the group's overall control environment and our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

### 7.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £205,000 (2018: £220,000), 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.

## 8. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

Consistent with how the Group is managed we consider the Group to be one component. Consequently all assets, liabilities, income and expenses are subject to full scope audit. Audit work to respond to the risks of material misstatement was performed directly by the engagement team.

## 9. OTHER INFORMATION

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

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

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

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

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

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement that would be required if the company had a premium listing relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

### 10. RESPONSIBILITIES OF DIRECTORS

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

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

#### 12.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the engagement team and involving relevant internal specialists, including tax specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation of Kestrel royalty. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislations.

#### 12.2. Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;

- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
  - reading minutes of meetings of those charged with governance and reviewing correspondence with Her Majesty's Revenue and Customs (HMRC) and Australian Taxation Office (ATO); and
  - in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### 13. OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 14. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

#### 14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

#### 14.2. Directors' remuneration

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

We have nothing to report in respect of these matters.

## 15. OTHER MATTERS

### 15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by shareholders at the AGM on 11 June 2014 to audit the financial statements for the year ending 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2014 to 31 December 2019.

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

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

## 16. USE OF OUR REPORT

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

### PAUL BARNETT FCA (SENIOR STATUTORY AUDITOR)

For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom

6 April 2020

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
Royalty related revenue	5	55,728	46,104
Amortisation of royalties	17	(3,777)	(2,974)
Operating expenses	6a	(7,132)	(6,032)
<b>OPERATING PROFIT BEFORE IMPAIRMENTS, REVALUATIONS AND GAINS ON DISPOSALS</b>		<b>44,819</b>	<b>37,098</b>
Impairment of royalty intangible assets	17	(1,367)	(2,234)
Revaluation of royalty financial instruments	16	2,478	(871)
Revaluation of coal royalties (Kestrel)	15	(9,215)	10,061
Finance income	8	34	82
Finance costs	9	(1,337)	(1,042)
Net foreign exchange gains/(losses)		2,703	(593)
Other net income/(losses)	10	(480)	2,043
<b>PROFIT BEFORE TAX</b>		<b>37,635</b>	<b>44,544</b>
Current income tax charge	11	(12,414)	(8,378)
Deferred income tax credit/(charge)	11, 26	3,774	(7,373)
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>28,995</b>	<b>28,793</b>
<b>TOTAL AND CONTINUING EARNINGS PER SHARE</b>			
Basic earnings per share	12	16.06p	15.97p
Diluted earnings per share	12	15.97p	15.94p

The notes on **pages 96 to 131** are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2019

	Notes	2019 £'000	2018 £'000
<b>PROFIT ATTRIBUTABLE TO EQUITY HOLDERS</b>		<b>28,995</b>	<b>28,793</b>
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT OR LOSS</b>			
Changes in the fair value of equity investments held at fair value through other comprehensive income			
Revaluation of royalty financial instruments	16	(123)	290
Revaluation of mining and exploration interests	18	923	(12,147)
Deferred taxes relating to items that will not be reclassified to profit or loss		(22)	-
		<b>778</b>	<b>(11,857)</b>
<b>ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT OR LOSS</b>			
Deferred tax relating to items that have been or may be reclassified		-	(147)
Net exchange loss on translation of foreign operations		(8,703)	(6,669)
		<b>(8,703)</b>	<b>(6,816)</b>
<b>OTHER COMPREHENSIVE (LOSS)/PROFIT FOR THE YEAR, NET OF TAX</b>		<b>(7,925)</b>	<b>(18,673)</b>
<b>TOTAL COMPREHENSIVE PROFIT FOR THE YEAR</b>		<b>21,070</b>	<b>10,120</b>

The notes on [pages 96 to 131](#) are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET**

as at 31 December 2019

	Notes	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	14	955	22	955	22
Coal royalties (Kestrel)	15	96,419	109,778	-	-
Royalty financial instruments	16	65,801	46,205	3,760	3,929
Royalty and exploration intangible assets	17	102,201	71,194	2,349	2,349
Mining and exploration interests	18	3,642	2,848	3,395	2,559
Deferred costs	19	682	926	458	584
Investments in subsidiaries	20	-	-	155,896	99,439
Trade and other receivables	21	17,919	19,335	60,299	56,532
Deferred tax	26	3,185	3,261	-	-
		290,804	253,569	227,112	165,414
<b>CURRENT ASSETS</b>					
Trade and other receivables	21	9,546	10,267	1,030	764
Derivative financial instruments	22	-	188	-	-
Cash and cash equivalents	23	7,597	5,223	1,420	1,024
		17,143	15,678	2,450	1,788
<b>TOTAL ASSETS</b>		<b>307,947</b>	<b>269,247</b>	<b>229,562</b>	<b>167,202</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	25	36,401	8,300	36,401	8,300
Trade and other payables	27	1,659	575	1,659	575
Deferred tax	26	30,172	35,156	639	668
		68,232	44,031	38,699	9,543
<b>CURRENT LIABILITIES</b>					
Income tax liabilities		9,821	4,085	411	111
Derivative financial instruments	22	480	-	-	-
Trade and other payables	27	3,700	3,023	25,937	20,736
		14,001	7,108	26,348	20,847
<b>TOTAL LIABILITIES</b>		<b>82,223</b>	<b>51,139</b>	<b>65,047</b>	<b>30,390</b>
<b>NET ASSETS</b>		<b>225,714</b>	<b>218,108</b>	<b>164,515</b>	<b>136,812</b>
<b>CAPITAL AND RESERVES ATTRIBUTABLE TO SHAREHOLDERS</b>					
Share capital	28	3,629	3,629	3,629	3,629
Share premium	28	62,779	62,779	62,779	62,779
Other reserves		40,352	47,285	35,422	33,576
Retained earnings		118,954	104,415	62,685	36,828
<b>TOTAL EQUITY</b>		<b>225,714</b>	<b>218,108</b>	<b>164,515</b>	<b>136,812</b>

The notes on [pages 96 to 131](#) are an integral part of these consolidated financial statements.

The Company has elected to take the exemption under section 408 of the Companies Act 2006 (United Kingdom) not to present the parent Company profit and loss account. The profit for the parent Company for the year was £40,254,000 (2018: £22,791,000).

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on [pages 90 to 131](#) were approved by the Board and authorised for issue on 06 April 2020 and are signed on its behalf by:

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2019

Notes	Other reserves										
	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Investment revaluation reserve £'000	Share-based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2018	3,618	61,966	29,134	143	11,727	3,032	22,685	632	(2,601)	88,601	218,937
Adjustment for transition to new accounting standards	-	-	-	-	477	-	-	-	-	(527)	(50)
Restated opening balance	3,618	61,966	29,134	143	12,204	3,032	22,685	632	(2,601)	88,074	218,887
Profit for the year	-	-	-	-	-	-	-	-	-	28,793	28,793
Other comprehensive income:											
Changes in fair value of equity investments held at fair value through other comprehensive income											
Valuation movement taken to equity	-	-	-	-	(11,857)	-	(65)	-	-	-	(11,922)
Deferred tax	26	-	-	-	(147)	-	155	-	-	-	8
Foreign currency translation	-	-	-	-	-	-	(6,759)	-	-	-	(6,759)
<b>TOTAL COMPREHENSIVE PROFIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,004)</b>	<b>-</b>	<b>(6,669)</b>	<b>-</b>	<b>-</b>	<b>28,793</b>	<b>10,120</b>
Transferred to retained earnings on disposal	-	-	-	-	(398)	-	-	-	-	398	-
Dividends	13	-	-	-	-	-	-	-	-	(12,889)	(12,889)
Issue of ordinary shares	28	11	813	-	-	-	-	-	-	-	824
Value of employee services	29	-	-	-	-	1,127	-	-	-	39	1,166
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY</b>	<b>11</b>	<b>813</b>	<b>-</b>	<b>-</b>	<b>(398)</b>	<b>1,127</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(12,452)</b>	<b>(10,899)</b>
<b>BALANCE AT 31 DECEMBER 2018</b>	<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>(198)</b>	<b>4,159</b>	<b>16,016</b>	<b>632</b>	<b>(2,601)</b>	<b>104,415</b>	<b>218,108</b>
Balance at 1 January 2019	3,629	62,779	29,134	143	(198)	4,159	16,016	632	(2,601)	104,415	218,108
Profit for the year	-	-	-	-	-	-	-	-	-	28,995	28,995
Other comprehensive income:											
Changes in fair value of equity investments held at fair value through other comprehensive income											
Valuation movement taken to equity	-	-	-	-	800	-	-	-	-	-	800
Deferred tax	26	-	-	-	(22)	-	-	-	-	-	(22)
Foreign currency translation	-	-	-	-	-	-	(8,703)	-	-	-	(8,703)
<b>TOTAL COMPREHENSIVE PROFIT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>778</b>	<b>-</b>	<b>(8,703)</b>	<b>-</b>	<b>-</b>	<b>28,995</b>	<b>21,070</b>
Transferred to retained earnings on disposal	-	-	-	-	12	-	-	-	-	(12)	-
Dividends	13	-	-	-	-	-	-	-	-	(14,444)	(14,444)
Value of employee services	29	-	-	-	-	980	-	-	-	-	980
<b>TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>980</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(14,456)</b>	<b>(13,464)</b>
<b>BALANCE AT 31 DECEMBER 2019</b>	<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>592</b>	<b>5,139</b>	<b>7,313</b>	<b>632</b>	<b>(2,601)</b>	<b>118,954</b>	<b>225,714</b>

The notes on pages 96 to 131 are an integral part of these consolidated financial statements.

**COMPANY STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2019

	Notes	Other reserves									Total equity £'000
		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	
Balance At 1 January 2018		3,618	61,966	29,134	143	9,472	3,032	82	632	27,045	135,124
Adjustment for transition to new accounting standards		-	-	-	-	477	-	-	-	(527)	(50)
Restated opening balance		3,618	61,966	29,134	143	9,949	3,032	82	632	26,518	135,074
<b>Changes in equity for 2018</b>											
Changes in fair value of equity investments held at fair value through other comprehensive income											
Valuation movement taken to equity		-	-	-	-	(10,154)	-	-	-	-	(10,154)
Net income recognised direct into equity		-	-	-	-	(10,154)	-	-	-	-	(10,154)
Profit for the period		-	-	-	-	-	-	-	-	22,791	22,791
Total recognised income and expenses		-	-	-	-	(10,154)	-	-	-	22,791	12,637
Transferred to retained earnings on disposal		-	-	-	-	(369)	-	-	-	369	-
Dividends	13	-	-	-	-	-	-	-	-	(12,889)	(12,889)
Issue of ordinary shares	28	11	813	-	-	-	-	-	-	-	824
Value of employee services	29	-	-	-	-	-	1,127	-	-	39	1,166
<b>BALANCE AT 31 DECEMBER 2018</b>		<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>(574)</b>	<b>4,159</b>	<b>82</b>	<b>632</b>	<b>36,828</b>	<b>136,812</b>
Balance at 1 January 2019		3,629	62,779	29,134	143	(574)	4,159	82	632	36,828	136,812
<b>Changes in equity for 2019</b>											
Changes in fair value of equity investments held at fair value through other comprehensive income											
Valuation movement taken to equity		-	-	-	-	913	-	-	-	-	913
Net income recognised direct into equity		-	-	-	-	913	-	-	-	-	913
Profit for the period		-	-	-	-	-	-	-	-	40,254	40,254
Total recognised income and expenses		-	-	-	-	913	-	-	-	40,254	41,167
Transferred to retained earnings on disposal		-	-	-	-	(47)	-	-	-	47	-
Dividends	13	-	-	-	-	-	-	-	-	(14,444)	(14,444)
Value of employee services	29	-	-	-	-	-	980	-	-	-	980
<b>BALANCE AT 31 DECEMBER 2019</b>		<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>143</b>	<b>292</b>	<b>5,139</b>	<b>82</b>	<b>632</b>	<b>62,685</b>	<b>164,515</b>

The notes on [pages 96 to 131](#) are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS AND COMPANY STATEMENT OF CASH FLOWS**

for the year ended 31 December 2019

	Notes	Group		Company	
		2019 £'000	2018 £'000	2019 £'000	2018 £'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit before tax		37,635	44,544	41,062	23,261
<i>Adjustments for:</i>					
Finance income	8	(34)	(82)	(234)	(216)
Finance costs	9	1,337	1,042	1,012	524
Net foreign exchange (gains)/losses		(2,703)	593	(3,550)	612
Other losses/(income)	10	480	(2,043)	165	(1,657)
Impairment of royalty and exploration intangible assets	17	1,367	2,234	-	-
Revaluation of royalty financial instruments	16	(2,478)	871	(1,997)	(1,925)
Royalties due or received from royalty financial instruments	16	2,166	1,975	2,166	1,975
Revaluation of coal royalties (Kestrel)	15	9,215	(10,061)	-	-
Depreciation of property, plant and equipment	14	224	26	224	26
Amortisation of royalty intangible assets	17	3,777	2,974	-	-
Amortisation of deferred acquisition costs		13	202	13	202
Impairment of investment in subsidiaries	20	-	-	-	5,325
Forgiveness of loan to subsidiary undertaking		-	-	244	284
Intercompany dividends		-	-	(38,998)	(27,794)
Share-based payment	7a	1,114	1,323	1,114	1,323
		52,113	43,598	1,221	1,940
Decrease/(Increase) in trade and other receivables		2,106	(1,554)	(266)	(337)
Increase/(Decrease) in trade and other payables		718	(650)	681	(534)
Cash generated from operations		54,937	41,394	1,636	1,069
Income taxes paid	11	(7,851)	(4,482)	(536)	(369)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>47,086</b>	<b>36,912</b>	<b>1,100</b>	<b>700</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds on disposal of mining and exploration interests	18	321	612	117	562
Proceeds on return of capital from mining and exploration interests	18	-	827	-	-
Purchase of property, plant and equipment	14	(9)	(4)	(9)	(4)
Purchase of royalty and exploration intangibles	17	(42,284)	-	-	-
Proceeds from royalty financial instruments	16	-	1,720	-	1,720
Purchases of royalty financial instruments	16	(20,287)	(38,408)	-	-
Repayments under commodity related financing agreements	21	1,577	1,276	1,577	1,276
Prepaid acquisition costs		-	(34)	-	(34)
Finance income	8	34	82	234	216
Investment in subsidiaries	20	-	-	(56,457)	(39,346)
Return of capital from subsidiaries	20	-	-	-	4,789
Intercompany dividends		-	-	31,124	27,794
Loans granted to subsidiary undertakings	27	-	-	(3,590)	(2,080)
Loan repayments from subsidiary undertakings	27	-	-	5,813	866
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(60,648)</b>	<b>(33,929)</b>	<b>(21,191)</b>	<b>(4,241)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Drawdown of revolving credit facility	24, 25	44,951	17,300	44,951	17,300
Repayment of revolving credit facility	24, 25	(14,225)	(9,000)	(14,225)	(9,000)
Loans from subsidiary undertakings		-	-	4,521	8,552
Proceeds from issue of share capital		-	75	-	75
Dividends paid	13	(14,444)	(12,889)	(14,444)	(12,889)
Lease payments		(199)	-	(199)	-
Finance costs	9	(1,074)	(1,264)	(891)	(813)
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>15,009</b>	<b>(5,778)</b>	<b>19,713</b>	<b>3,225</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,447</b>	<b>(2,795)</b>	<b>(378)</b>	<b>(316)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>5,223</b>	<b>8,099</b>	<b>1,024</b>	<b>1,349</b>
Effect of foreign exchange rates		927	(81)	774	(9)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>7,597</b>	<b>5,223</b>	<b>1,420</b>	<b>1,024</b>

The notes on pages 96 to 131 are an integral part of these consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2019

**1 GENERAL INFORMATION**

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

The Company is a public limited company, which is listed on the London Stock Exchange and Toronto Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Savile Row, London, W1S 3JR, United Kingdom (registered number: 897608).

**2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES****(a) New and amended IFRS Standards that are effective for the current year****IFRS 16 Leases**

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low-value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in **note 3**. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

As the Group's leases relate primarily to office space, it has not applied IFRS 16 using the full retrospective approach and has not restated comparative information. As the Group's lease over its office space had a break clause effective in 2019, the cumulative effect of initially applying IFRS 16 was immaterial and has not resulted in an adjustment to retained earnings.

**Impact of the new definition of a lease**

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those contracts entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019.

**Impact on lessee accounting****(i) Former operating leases**

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Group:

- Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses generally on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as office equipment and telephones), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other operating expenses' in profit or loss.

**(ii) Former finance leases**

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

**Financial impact of initial application of IFRS 16**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of £1.1m (refer to **note 14**) which reduced during the year as a result of depreciation totalling £0.2m resulting in right-of-use assets totalling £0.9m as at 31 December 2019. A corresponding lease liability totalling £0.9m is included in non-current other payables as at 31 December 2019 (refer to **note 27**) which represents the present value of the future cash flows associated with the Group's office space lease.

A reconciliation of the operating lease commitment at 31 December 2018 to the opening IFRS 16 lease liability is as follows.

Operating lease commitment at 31 December 2018:	£1.3m
Finance lease liabilities at 31 December 2018:	£nil
Effect of discounting	(£0.2m)
IFRS 16 lease liability at 1 January 2019:	£1.1m

The incremental borrowing rate used by the Group for IFRS 16 is 3.9%.

The Group continues to include depreciation within operating expenses, as such there has been no change to the income statement or the Group's cash flows.

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

The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to the following Standards which may impact the Group:

**IAS 12 Income Taxes**

The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

**IAS 23 Borrowing Costs**

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

**IFRS 3 Business Combinations**

The amendments clarify that when the Group obtains control of a business that is a joint operation, the Group applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

**IFRIC 23 Uncertainty over Income Tax Treatments**

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to:

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

The Standards listed above have not had a material impact on the financial statements of the Group.

**(b) New and revised IFRS Standards in issue but not yet effective**

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are effective from 1 January 2020:

- Amendments to IFRS 3 – definitions of a business
- Amendments to IAS 1 and IAS 8 – definition of material
- Conceptual Framework – amendments to references to the Conceptual Framework in IFRS standards

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2019

**3 SIGNIFICANT ACCOUNTING POLICIES**

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

**3.1 Basis of preparation**

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

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

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

**3.1.1 Going concern**

The financial position of the Group and its cash flows are set out on *pages 92 and 95*. The Directors have considered the principal risks of the Group which are set out on *pages 22 to 28*, and considered key sensitivities which could impact on the level of available borrowings. As at 31 December 2019 the Group had cash and cash equivalents of £7.6m as set out in *note 23* and borrowings under its revolving credit facility of £36.4m (US\$48.0m) as set out in *note 25*. Subsequent to year end, the Group amended its existing revolving credit facility, increasing the committed facility to US\$90.0m (£68.3m) and extending the term by twelve months to September 2022. Following this amendment and extension, subject to continued covenant compliance, the Group has access to a further £31.9m (US\$42.0m) through its enlarged facility.

Absent the extraordinary circumstances brought about by the COVID-19 pandemic, we would be satisfied that the Group's forecasts and projections, taking into account reasonable possible changes in trading performance and other uncertainties, together with the Group's cash position and access to the undrawn revolving credit facility show that the Group would be able to operate within its current facilities for at least 12 months from the date of approval of the financial statements. Even assuming a 20% downturn in commodity prices, sales volumes and foreign exchange, the Group would still operate comfortably within its banking covenant limits with no debt redemption or amortisation commitments.

However, given the recent COVID-19 pandemic, which has seen widespread humanitarian and economic disruption across the globe, the possibility of operational disruption has heightened and we have already seen some instances of mines being placed on care and maintenance, including the Cigar Lake uranium mine in Canada from which the Group receives income through a toll financing arrangement and the EVBC gold mine in Spain.

COVID-19 will cause widespread economic disruption but its impact will hopefully be temporary. Although the Group has reasonable geographical diversity within its royalty portfolio, we have materially increased our stress testing to assess the impact of up to a twelve-month operational shutdown across the portfolio, which we believe is an extreme downside scenario. In this circumstance, the Group would breach certain borrowing covenants and would require either waivers from its lending banks or to liquidate certain assets to repay borrowings.

It is the expectation of management, however, that in this downside scenario the banks will waive the covenants for a short period due to the nature of any covenant breaches being solely as a result of COVID-19 imposed restrictions and being of a temporary nature and upon resumption of mining activities management would expect the Group to become compliant and begin to repay borrowings. For Anglo Pacific, with a low and flexible cost base, COVID-19 should result in the deferral rather than the loss of revenue and should not impact on the Group's longer-term prospects once business returns to normal. For this reason, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis. However, as the waiver of covenant in the event of a breach under this downside case is not wholly within management's control, this represents a material uncertainty which could cast significant doubt upon the Group's and the Company's continued ability to operate as a going concern, such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

**3.2 Consolidation****Subsidiaries**

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

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

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

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

### 3.3 Foreign currencies

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

#### (c) Group companies

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

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

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

### 3.4 Property, plant and equipment

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

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

Equipment and fixtures      4 to 10 years

#### Other assets:

Producing assets              Units of production (over reserves)

Coal tenures                    Units of production (over reserves)

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

### 3.5 Coal royalties (investment property)

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

### 3.6 Intangible assets

#### (a) Royalty arrangements

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

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

#### (b) Exploration and evaluation costs

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

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

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**3.7 Impairment of property, plant and equipment and intangible assets**

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

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

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

**3.8 Financial instruments**

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

**(a) Cash and cash equivalents**

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

**(b) Loans and receivables**

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

**(c) Derivative financial instruments**

The Group will selectively enter into foreign exchange forward contracts to manage its exposure to foreign exchange risk associated with its Australian and Canadian dollar denominated royalty income, when considered necessary. Further details of derivative financial instruments are disclosed in *note 22*.

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

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

**(d) Mining and exploration interests**

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

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

A financial asset is held for trading if:

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

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

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

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9 (see *notes 16 and 18*).

**(e) Royalty financial instruments**

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

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

The royalty financial instruments at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in the 'revaluation of royalty financial instruments' line item of the income statement. Fair value is determined in the manner described in *note 16 and 34*.

The Group's investment in the equity instruments of Labrador Iron Ore Corporation is classified as a royalty financial instrument as its primary asset is a royalty income stream. On initial recognition the Group made the irrevocable election to designate this investment as FVTOCI. The dividends received from this investment are recognised in profit or loss, and are included in the 'royalty related revenue' line (*note 5*).

**(f) Financial liabilities and equity instruments**

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

**(g) Trade payables**

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

**(h) Borrowings**

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

**(i) Equity instruments**

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

**3.9 Impairment of financial assets**

The Group recognises a loss allowance for expected credit losses ('ECL') on investments in debt instruments that are measured at amortised cost or at FVTOCI and trade receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group's primary asset held at amortised cost is the interest-bearing loan to Denison Mines (*note 21*).

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

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

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

**3.10 Taxation**

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

**Current tax**

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

**Deferred tax**

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

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

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

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

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

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

**Current and deferred tax for the year**

Current and deferred tax are recognised in profit or loss, except when they relate 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.

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**3.11 Share-based payments**

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options and jointly-owned shares) of the Company.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

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

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

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

**3.12 Reserves**

Equity comprises the following:

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

**Other reserves**

- 'Merger reserve' is created when more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company.
- 'Warrant reserve' was created in June 2014 in connection with the issue of share warrants as part consideration of the Maracás royalty.
- 'Investment revaluation reserve' represents gains and losses due to the revaluation of the investments in mining and exploration interests and royalty instruments designated as fair value through other comprehensive income, 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 30 June 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 Group's various share-based payment plans (*note 28 and note 29*).
- 'Retained earnings' represents retained profits.

Of these reserves £119,756,000 are considered distributable as at 31 December 2019 (31 December 2018: £104,415,000).

**3.13 Revenue recognition**

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

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

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

**3.14 Leases**

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets (such as small items of office equipment and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is included within non-current trade and other payables (refer to **note 27**) in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are included within property, plant and equipment (refer to **note 14**) line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of property, plant and equipment and intangible assets' policy (refer to **note 3.7**).

### 3.15 Dividend distribution

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

### 3.16 Alternative Performance Measures

The financial statements include certain Alternative Performance Measures (APMs) which include adjusted earnings per share, dividend cover and free cash flow per share. These APMs are defined in the table of contents and explained in the Strategic Report on **page 29**, and are reconciled to GAAP measures in the **notes 12, 13 and 35** respectively.

## 4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### Critical accounting judgements

#### Classification of royalty arrangements: initial recognition and subsequent measurement

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

- Intangible assets in accordance with IAS 38 *Intangible Assets*;
- Financial assets in accordance with IFRS 9 *Financial Instruments*; or
- Investment properties in accordance with IAS 40 *Investment Property*.

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

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

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*Type 2 – Financial assets (royalties with additional financial protection):* In certain circumstances where the ‘vanilla’ risk is considered too high, but the Group still fundamentally believes in the quality or potential of the underlying resource, the Group will look to introduce additional protective measures. This has typically taken the form of performance milestone penalties (usually resulting in the receipt of cash or cash equivalent), minimum payment terms and interest provisions or mechanisms to convert the initial outlay into the equity instruments of the operator in the event of project deferral. Once an operation is in production, these mechanisms generally fall away such that the royalty will display identical characteristics and risk profile to the vanilla royalties; however, it is the contractual right to enforce the receipt of cash through to production which results in these royalties being accounted for as financial assets under IFRS 9.

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

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

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

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

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

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

The Group’s most significant royalty arrangement held at fair value is Kestrel, for which the key assumptions and sensitivity analysis are set out in **note 15**. The key assumptions relating to the Group’s royalty financial instruments classified as fair value through profit or loss are set out in **notes 16 and 34**.

**Impairment review of intangible assets**

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

Where indicators are identified, the starting point for the impairment review will be to measure the expected future cash flows expected from the royalty arrangement should the project continue/come into production. A pre-tax nominal discount rate of between 7.00% and 13.50% is applied to the future cash flows. The discount rate of each royalty arrangement is derived using a capital asset pricing model specific to the underlying project, making reference to the risk-free rate of return expected on an investment with the same time horizon as the expected mine life, together with the country risk associated with the location of the operation. Changes in discount rate are most sensitive to changes in the risk-free rate, country risk premiums and the expected mine life.

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

#### Uncertain tax provisions

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

Tax matters with uncertain outcomes arise in the normal course of business and occur due to changes in tax law, changes in interpretation of tax law, periodic challenges and disagreements with tax authorities. Tax obligations assessed as having probable future economic outflows capable of reliable measurement are provided for at 31 December 2018 and 31 December 2019 (refer to [note 11](#)).

Matters with a possible economic outflow and/or presently incapable of being measured reliably are contingent liabilities and disclosed in [note 36](#).

## 5 ROYALTY RELATED REVENUE

	2019 £'000	2018 £'000
<b>GROUP</b>		
Royalty income	45,064	42,067
Interest from royalty related financial assets	1,926	2,088
Dividends from royalty financial instruments	8,738	1,949
	55,728	46,104

## 6A EXPENSE BY NATURE

	2019 £'000	2018 £'000
<b>GROUP</b>		
Employee benefit expense ( <a href="#">note 7a</a> )	4,399	3,866
Professional fees	1,477	1,173
Listing fees	93	97
Depreciation of right-of-use assets	199	-
Other expenses	964	896
	7,132	6,032

## 6B AUDITOR'S REMUNERATION

	2019 £'000	2018 £'000
<b>GROUP</b>		
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	171	147
<b>FEES PAYABLE TO THE COMPANY'S AUDITOR AND ITS ASSOCIATES FOR OTHER SERVICES:</b>		
- The audit of Company's subsidiaries	18	26
<b>TOTAL AUDIT FEES</b>	189	173
- Other assurance services pursuant to legislation	59	56
- Other services	5	7
<b>TOTAL NON-AUDIT FEES</b>	64	63

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity are safeguarded are set out in the Audit Committee Report on [page 66](#). No services were provided pursuant to contingent fee arrangements.

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**7A EMPLOYEE COSTS**

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Wages and salaries	2,856	2,174	2,826	2,143
Share-based awards to Directors and employees	1,114	1,323	1,114	1,323
Social security costs	317	276	314	273
Other pension costs ( <i>note 7b</i> )	112	93	112	93
	4,399	3,866	4,366	3,832

**7B 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 £112,000 (2018: £93,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2019, contributions of £14,000 (2018: £11,600) due in respect of the current reporting period had not been paid over to the schemes.

**7C AVERAGE NUMBER OF PEOPLE EMPLOYED**

	2019	2018
<b>GROUP</b>		
Number of employees	11	10
	2019	2018
<b>GROUP</b>		
Average number of people (including Executive Directors) employed:		
Executive Directors	1	1
Administration	10	9
	11	10

**Company**

The average number of administration staff employed by the Company during the year including Executive Directors was 11 (2018: 10). Directors' salaries are shown in the Directors' Remuneration Report on *pages 75 to 79*, including the highest paid Director.

**8 FINANCE INCOME**

	2019 £'000	2018 £'000
<b>GROUP</b>		
Interest on bank deposits	34	82
	34	82

**9 FINANCE COSTS**

	2019 £'000	2018 £'000
<b>GROUP</b>		
Professional fees	(263)	(574)
Revolving credit facility fees and interest	(1,074)	(468)
	(1,337)	(1,042)

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

	2019 £'000	2018 £'000
<b>GROUP</b>		
Revaluation of foreign exchange instruments	(315)	387
Gain on disposal of royalty financial instrument	-	1,720
Other losses	(165)	(64)
	(480)	2,043

**11 INCOME TAX EXPENSE**

	2019 £'000	2018 £'000
<b>ANALYSIS OF CHARGE FOR THE YEAR</b>		
United Kingdom corporation tax	142	14
Overseas tax	12,140	6,615
Adjustments in respect of prior years	132	1,749
Current tax	12,414	8,378
Deferred tax (credit)/charge in current year	(3,774)	7,373
Deferred tax	(3,774)	7,373
<b>INCOME TAX EXPENSE</b>	<b>8,640</b>	<b>15,751</b>
	<b>2019 £'000</b>	<b>2018 £'000</b>
Factors affecting tax charge for the year:		
<b>PROFIT BEFORE TAX</b>	<b>37,635</b>	<b>44,544</b>
Tax on loss calculated at United Kingdom corporation tax rate of 19.00% (2018: 19.00%)	7,151	8,463
<b>TAX EFFECTS OF:</b>		
<i>Items non-taxable/deductible for tax purposes:</i>		
Non-deductible expenses	207	1,393
Non-taxable income	(1,641)	(2,307)
<i>Temporary difference adjustments</i>		
Utilisation of losses not previously recognised	(1,459)	(826)
Current year losses not recognised	(32)	(1,873)
Adjustment in deferred tax due to change in tax rate	3	1,841
Other temporary difference adjustments	–	369
<i>Other adjustments</i>		
Withholding taxes	1,584	2,851
Effect of differences between local and United Kingdom tax rates	2,430	4,732
Prior year adjustments to current tax	201	1,108
Other adjustments	196	–
<b>INCOME TAX EXPENSE</b>	<b>8,640</b>	<b>15,751</b>

The Group's effective tax rate for the year ended 31 December 2019 of 23.2% (2018: 35.4%) is higher (2018: higher) than the applicable weighted average statutory rate of corporation tax in the United Kingdom of 19.00% (2018: 19.00%). The higher effective tax rate in 2019 compared to the headline tax rate is mainly due to the majority of the Group's revenue producing assets being held in Australian subsidiaries and as such are subject to higher corporation tax rate.

In future periods, it is expected that the Group's effective tax rate will mainly be driven by the prevailing Australian tax corporation tax rates. Refer to [note 27](#) for information regarding the Group's deferred tax assets and liabilities.

**Uncertain tax provisions**

As outlined in [note 4](#), tax matters with uncertain outcomes arise in the normal course of business and occur due to changes in tax law, changes in interpretation of tax law, periodic challenges and disagreement with tax authorities. Where such matters are assessed as having probable future economic outflows capable of reliable measurement they are provided for. During the year, the Group increased its provision for uncertain tax positions by £0.3m to £2.0m as at 31 December 2019 (2018: £1.7m). Matters with possible economic outflow and/or presently incapable of being measured reliably are contingent liabilities and are disclosed in [note 36](#).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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The Group continues to monitor developments in relation to EU State Aid investigations including the EU Commission's State Aid investigation into the UK's Controlled Foreign Company (CFC) tax regime. On 25 April 2019, the European Commission released its decision in relation to the group company finance exemption in the UK's CFC rules, finding that the exemption constitutes unlawful state aid if the exempted profits arise in connection with UK activity. The UK Government disagrees with the findings and has appealed against the decision to the European Court. Having analysed the latest decision, the Group does not currently consider that any provision is required in relation to EU State Aid.

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

**12 EARNINGS PER SHARE**

Earnings per ordinary share is calculated on the Group's profit after tax of £28,995,000 (2018: £28,793,000) and the weighted average number of shares in issue during the year of 180,544,459 (2018: 180,277,848).

	2019 £'000	2018 £'000
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		
Earnings – basic	28,995	28,793
Earnings – diluted	28,995	28,793

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

	2019	2018
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE</b>		
Basic number of shares outstanding	180,544,459	180,277,848
Dilutive effect of Employee Share Option Scheme	1,026,706	353,179
<b>DILUTED NUMBER OF SHARES OUTSTANDING</b>	181,571,165	180,631,027

	2019	2018
Earnings per share – basic	16.06 p	15.97p
Earnings per share – diluted	15.97p p	15.94p

Earnings per ordinary share excludes the issue of shares under the Group's JSOP, as the Employee Benefit Trust has waived its right to receive dividends on the 925,933 ordinary 2p shares it holds as at 31 December 2019 (31 December 2018: 925,933).

**Adjusted earnings per share**

Adjusted earnings represent the Group's underlying operating performance from core activities. Adjusted earnings is the profit attributable to equity holders plus the royalty receipts from the EVBC royalty, less all valuation movements and impairments (which are non-cash adjustment that arise primarily due to changes in commodity prices), together with amortisation charges, share-based payments, unrealised foreign exchange gains and losses, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing.

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

	Earnings £'000	Earnings per share p	Diluted earnings per share p
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>			
Earnings – basic and diluted for the year ended 31 December 2019	28,995	16.06p	15.97p
<i>Adjustment for:</i>			
Amortisation of royalty intangible assets	3,777		
Impairment of royalty and exploration intangible assets	1,367		
Receipts from royalty financial instruments	2,166		
Revaluation of royalty financial instruments	(2,478)		
Revaluation of coal royalties (Kestrel)	9,215		
Revaluation of foreign currency instruments	315		
Share-based payments and associated national insurance	1,101		
Foreign exchange (gains)/losses	(2,703)		
Tax effect of the adjustments above	(4,907)		
Adjusted earnings – basic and diluted for the year ended 31 December 2019	36,848	20.41p	20.29p

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

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

### 13 DIVIDENDS AND ADJUSTED DIVIDEND COVER

On 14 February 2019 an interim dividend of 1.625p per share was paid to shareholders in respect of the year ended 31 December 2018. On 30 May 2019 a final dividend of 3.125p per share was paid to shareholders to make a total dividend for the year ended 31 December 2018 of 8.00p per share. The first quarterly dividend of 1.625p for the year ended 31 December 2019 was paid to shareholders on 15 August 2019. On 14 November 2019 the second quarterly dividend of 1.625p was paid to shareholders. Total dividends paid during the year were £14.4m (2018: £12.9m).

On 13 February 2020 a further quarterly dividend of 1.625p per share was paid to shareholders in respect of the year ended 31 December 2019. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 4.125p per share be paid to shareholders following the 2020 AGM, to make a total dividend for the year of 9.00p per share. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

In light of the disruption caused by COVID-19, the Board will announce revised record and payment date for the proposed final dividend for 2019, once the timing of the 2020 AGM has been confirmed. The total estimated dividend to be paid is £7.4m. At the present time the Board has resolved not to offer a scrip dividend alternative.

#### Adjusted dividend cover

Adjusted dividend cover is calculated as the number of times adjusted earnings per share exceeds the dividend per share. The Group's adjusted earnings per share for the year ended 31 December 2019 is 20.41p per share (*note 12*) with dividends for the year totalling 9.00p, resulting in dividend cover of 2.3x (2018: adjusted earnings per share 18.02p, dividends totalling 8.00p, dividend cover 2.3x).

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**14 PROPERTY, PLANT AND EQUIPMENT**

Group	Other assets £'000	Right-of-use assets £'000	Equipment and fixtures £'000	Total £'000
<b>GROSS CARRYING AMOUNT</b>				
At 1 January 2019	1,356	1,148	280	2,784
Additions	-	-	9	9
At 31 December 2019	1,356	1,148	289	2,793
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 January 2019	(1,356)	-	(258)	(1,614)
Depreciation	-	(199)	(25)	(224)
At 31 December 2019	(1,356)	(199)	(283)	(1,838)
<b>CARRYING AMOUNT 31 DECEMBER 2019</b>	<b>-</b>	<b>949</b>	<b>6</b>	<b>955</b>

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

Other assets relate to the Group's Panorama and Trefi coal projects in British Columbia, Canada and the Group's talc deposit in Shetland, Scotland. Right-of-use assets relate to the Group's office premises, recognised upon the application of IFRS 16 – 'Leases' on 1 January 2019.

**Impairment**

In 2014 the Directors took a view that the Group's ability to monetise both the Trefi coal project and the Shetland talc deposit was inherently uncertain and as a result fully impaired these assets resulting in an impairment charge of £1.4m. There were no impairments during 2018 or 2019.

Company	Other assets £'000	Right-of-use assets £'000	Equipment and fixtures £'000	Total £'000
<b>GROSS CARRYING AMOUNT</b>				
At 1 January 2019	821	1,148	280	2,249
Additions	-	-	9	9
At 31 December 2019	821	1,148	289	2,258
<b>DEPRECIATION AND IMPAIRMENT</b>				
At 1 January 2019	(821)	-	(258)	(1,079)
Depreciation	-	(199)	(25)	(224)
At 31 December 2019	(821)	(199)	(283)	(1,303)
<b>CARRYING AMOUNT 31 DECEMBER 2019</b>	<b>-</b>	<b>949</b>	<b>6</b>	<b>955</b>

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

## 15 COAL ROYALTIES (KESTREL)

	Group £'000
At 1 January 2018	104,266
Foreign currency translation	(4,549)
Gain on revaluation of coal royalties	10,061
At 31 December 2018	109,778
Foreign currency translation	(4,144)
Loss on revaluation of coal royalties	(9,215)
At 31 December 2019	96,419

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 of £96.4m (A\$181.3m) (2018: £109.8m and A\$198.2m) is based on a valuation completed during December 2019 by an independent coal industry advisor, on a net present value of the pre-tax cash flow discounted at a nominal rate of 6.00% (2018: 7.50%). The key assumptions in the independent valuation relate to price, foreign exchange and discount rate.

The price assumptions used in the 2019 valuation decrease from US\$155/t in the short-term to a long-term flat nominal price of US\$138/t. If the price were to increase or decrease 10% over the life of the mine the valuation effect would be:

- a 10% reduction in the coal price would have resulted in the coal royalties being valued at A\$153.9m (£81.9m) and an £14.9m increase to the revaluation loss in the income statement, resulting in a revaluation loss of £24.1m; and
- a 10% increase in the coal price would have resulted in the coal royalties being valued at A\$208.7m (£111.0m) and an £14.9m reversal of the revaluation loss in the income statement, resulting in a revaluation gain of £5.7m.

The AUD:USD exchange rate assumptions used in the 2019 valuation assume a strengthening in the Australia dollar from a short-term rate of 0.695 to a long-term rate of 0.75 against the US dollar. If the Australian dollar were to strengthen or weaken by 10% against the US dollar over the life of the mine that valuation effect would be:

- a 10% strengthening of the Australian dollar against the US dollar would have resulted in the coal royalties being valued at A\$155.7m (£82.8m) and an £13.9m increase to the revaluation loss in the income statement, resulting in a revaluation loss of £23.1m; and
- a 10% weakening of the Australian dollar against the US dollar would have resulted in the coal royalties being valued at A\$212.6m (£113.1m) and an £17.0m reversal of the revaluation loss in the income statement, resulting in a revaluation gain of £7.8m.

The pre-tax nominal discount rate used for the asset is 6.00%. If the discount rate used were to increase or decrease by 1% the valuation effect would be:

- a 1% reduction in the nominal discount rate would have resulted in the coal royalties being valued at A\$185.5m (£98.7m) and a £2.3m reduction in the revaluation loss in the income statement to £6.9m; and
- a 1% increase in the nominal discount rate would have resulted in the coal royalties being valued at A\$177.2m (£94.3m) and a £2.2m increase in the revaluation loss in the income statement to £11.4m.

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

Were the coal royalty to be realised at the revalued amount there are £5.3m (A\$9.9m) of capital losses potentially available to offset against taxable gains. As it is not the Group's present intention to dispose of the coal royalty, these losses have not been included in the deferred tax calculation (**note 26**). Were the coal royalty to be carried at cost the carrying value would be £0.2m (2018: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

Refer to **note 34** for additional fair value disclosures relating to Kestrel.

The shares over the entity which is the beneficial owner of the Kestrel royalty have been guaranteed as security in connection with the Group's borrowing facility (**note 25**).

**16 ROYALTY FINANCIAL INSTRUMENTS**

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

	Commodity	Original cost '000	Royalty rate	Escalation	Classification	31 December 2019 Carrying value £'000	31 December 2018 Carrying value £'000
EVBC	Gold, Silver, Copper	C\$7,500	2.50%	3% gold >US\$1,100/oz	FVTPL	3,760	3,929
Dugbe 1	Gold	US\$15,000	2.00%	2.5% >US\$1,800/oz & production <50,000oz/qrt	FVTPL	679	1,226
McLean Lake	Uranium	C\$2,700	-	22.5% of tolling milling receipt on production >215Mlbs	FVTPL	2,399	1,671
Piauí	Nickel-Cobalt	US\$2,000	1.00%	-	FVTPL	1,227	1,011
Labrador Iron Ore	Iron Ore	C\$66,105	7.00%	-	FVOCI	57,736	38,368
						65,801	46,205

The Group's royalty instruments are represented by four royalty agreements, EVBC, Dugbe 1, McClean Lake, and Piauí which entitle the Group to either the repayment of principal and a net smelter return ('NSR') royalty for the life of the mine or a gross revenue royalty ('GRR') where the project commences commercial production or the repayment of principal where it does not. All four royalty agreements are classified as fair value through profit or loss ('FVTPL').

The Group's entitlements to cash by way of the repayment of the principal and the NSR royalty or the GRR have been classified as fair value through profit or loss in accordance with IFRS 9 and are carried at fair value in accordance with the Group's classification of royalty arrangements criteria set out in **note 4**.

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

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

	Group £'000	Company £'000
<b>FAIR VALUE</b>		
At 1 January 2018	10,867	3,979
Additions	38,408	-
Royalties due or received from royalty financial instruments	(1,975)	(1,975)
Revaluation of royalty financial instruments recognised in profit or loss	(871)	1,925
Revaluation of royalty financial instruments recognised in equity	290	-
Foreign currency translation	(514)	-
At 31 December 2018	46,205	3,929
Additions	20,287	-
Royalties due or received from royalty financial instruments	(2,166)	(2,166)
Revaluation of royalty financial instruments recognised in profit or loss	2,478	1,997
Revaluation of royalty financial instruments recognised in equity	(123)	-
Foreign currency translation	(880)	-
At 31 December 2019	65,801	3,760

**EVBC**

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

The Group received royalties from EVBC totalling £2.2m during the year ended 31 December 2019 (2018: £2.0m), which initially reduced the carrying value. As at 31 December 2019 the Group determined the fair value of EVBC by calculating the discounted future flows of the royalty with an 7.00% (2018: 8.75%) pre-tax nominal discount rate, resulting in a valuation of £3.8m (2018: £3.9m). The net effect of the £0.1m decrease in the fair value year on year and the royalties received is a valuation gain of £2.0m recognised in the income statement.

**Dugbe 1**

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

The net smelter return royalty over the Dugbe 1 project is classified as FVTPL as outlined in *note 4*. As at 31 December 2019 the Group assessed the likely start date of commercial production at Dugbe 1 to be 2030 (2018: 2030), and have applied a 75% (2018: 75%) probability factor to the project reaching commercial production to the discounted future flows of the royalty with an 30.00% (2018: 22.00%) pre-tax nominal discount rate, resulting in a valuation of £0.7m (2018: £1.2m). The £0.5m decrease (2018: £2.1m decrease) in carrying value has been recognised as a royalty financial instrument valuation charge to the income statement for the year.

**McClean Lake**

The Group completed a C\$43.5m (£26.6m) financing and streaming agreement with Denison Mines Inc ('Denison') in 2017. The financing agreement comprises two separate transactions: a 13-year amortising secured loan of C\$40.8m with an interest rate of 10% per annum payable to the Group and is classified as non-current other receivables (*note 21*); and a streaming agreement, which entitles the Group to receive Denison's portion of toll milling proceeds from the McClean Lake Mill after the first 215Mlbs of throughput from 1 July 2016, was acquired for C\$2.7m and is classified as FVTPL in accordance with *note 4*.

As at 31 December 2018, the Group assessed the probability of the McClean Lake Mill achieving throughput in excess of 215Mlbs at 50% (2018: 50%), and applied this to the discounted future cash flows of the stream with a 5.50% (2018: 7.50%) pre-tax nominal discount rate, resulting in a valuation of £2.4m (2018: £1.7m). The £0.7m increase (2018: £0.2m increase) in the carrying value of the stream has been recognised in the income statement for the year.

**Piauí**

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

As at 31 December 2019 the Group assessed the probability of the Piauí project reaching commercial production at 25% (2018: 25%) and applied this to the discounted future cash flows of the royalty with a 13.50% (2018: 13.50%) pre-tax nominal discount rate, resulting in a valuation of £1.2m (2018: £1.0m). The £0.2m increase in carrying value has been recognised as a royalty financial instrument valuation gain to the income statement for the year.

**Labrador Iron Ore**

During the year ended 31 December 2019, the Group made a further investment of C\$33.1m (£20.3m) in Labrador Iron Ore Corporation, increasing its shareholding to 4,040,790 shares (2018: 2,747,890 shares). As Labrador Iron Ore Corporation is a single asset company, being the 7% gross revenue royalty over IOC mine which is majority owned and operated by Rio Tinto, the Group classifies its investment in Labrador Iron Ore as a royalty financial instrument. On initial recognition the Group made the irrevocable election to designate this investment as FVTOCI.

As at 31 December 2019, the Group's investment in Labrador was valued at C\$99.5m (£57.7m) (2018: C\$66.6m (£38.4m)). The resulting dividends from the Group's investment in Labrador Iron Ore have been classified as royalty related revenue, as described in *note 3.13*.

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**17 ROYALTY AND EXPLORATION INTANGIBLE ASSETS**

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

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2019	697	112,626	113,323
Additions	-	42,284	42,284
Foreign currency translation	-	(7,478)	(7,478)
At 31 December 2019	697	147,432	148,129
<b>AMORTISATION AND IMPAIRMENT</b>			
At 1 January 2019	(697)	(41,432)	(42,129)
Amortisation charge	-	(3,777)	(3,777)
Impairment charge	-	(1,367)	(1,367)
Foreign currency translation	-	1,345	1,345
At 31 December 2019	(697)	(45,231)	(45,928)
<b>CARRYING AMOUNT 31 DECEMBER 2019</b>	-	102,201	102,201

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
<b>GROSS CARRYING AMOUNT</b>			
At 1 January 2018	697	115,069	115,766
Additions	-	2,098	2,098
Foreign currency translation	-	(4,541)	(4,541)
At 31 December 2018	697	112,626	113,323
<b>AMORTISATION AND IMPAIRMENT</b>			
At 1 January 2018	(697)	(37,648)	(38,345)
Amortisation charge	-	(2,974)	(2,974)
Impairment charge	-	(2,234)	(2,234)
Foreign currency translation	-	1,424	1,424
At 31 December 2018	(697)	(41,432)	(42,129)
<b>CARRYING AMOUNT 31 DECEMBER 2018</b>	-	71,194	71,194

Company	2019 £'000	2018 £'000
Royalty interests		
At 1 January and 31 December	2,349	2,349

**Exploration and evaluation costs**

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

**2019 Acquisition of royalty interests**

On 3 September 2019, the Group completed its acquisition of the 1.525% NSR over all copper produced at the Mantos Blancos copper mine from Mantos Copper in exchange for cash consideration of US\$50.25m (£41.7m) and capitalised transaction costs of £0.6m resulting in total additions for the year of £42.3m.

**2018 Acquisition of royalty interests**

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

Under the terms of the Maracás Menchen royalty sale agreement entered into in 2014, a further US\$3.0m of cash is payable when the project reaches certain annualised production milestones. The first of these milestones was annualised production over a quarter of 9,500t which was achieved in 2017, resulting in the Group paying the first tranche of deferred consideration of US\$1.5m (£1.1m) in the same year.

In 2018, the Group has recognised the second tranche of deferred consideration of US\$1.5m (£1.2m) due under the royalty agreement to acquire the Maracás Menchen royalty. This followed the record production achieved by Largo throughout 2018, and Group's expectation that Largo would achieve, in a quarter, an annualised rate of production of 12,000t in the next 12 to 18 months. A corresponding liability was included in trade and other payables on the balance sheet as at 31 December 2018 (refer to **note 27**). Despite not having achieved this second production milestone during 2019, the Group continues to expect it will be achieved in the next 12 to 18 months, as such it continues to recognise the liability in trade and other payables on the balance sheet as at 31 December 2019.

### Amortisation of royalty interests

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

Four of the underlying mining operations of the Group's royalty intangibles assets were in production during 2019, and were amortised on the following basis:

Royalty interest	Currency	Carrying value 31 December 2019 '000	Carrying value 31 December 2018 '000	Estimated life of mine	Remaining life of mine
Mantos Blancos	USD	49,687	–	15 years	15 years
Narrabri	AUD	68,636	72,675	22 years	17 years
Maracás Menchen	AUD	23,790	24,680	29 years	24 years
Four Mile	AUD	1,855	2,226	10 years	5 years

The amortisation charge for the period of £3.8m (31 December 2018: £3.0m) relates to the Group's producing royalties, Mantos Blancos, Narrabri, Maracás Menchen and Four Mile. Amortisation of the remaining interests will commence once they begin commercial production.

At 31 December 2019, the shares over the entities which are the beneficial owners of the Mantos Blancos and Narrabri royalties have been guaranteed as security in connection with the Group's borrowing facility (*note 25*).

### Impairments of royalty intangible assets

As described in *notes 3.6 and 3.7*, at each reporting date the Group's royalty intangible assets are reviewed for any impairment indicators. Consideration is given to the presence or occurrence of adverse operational developments at the underlying mines, together with any significant declines in commodity prices. Where impairment indicators exist, a full impairment review is carried out to determine whether the discounted future expected cash flows (calculated on a value-in-use basis) exceed cost. *Note 4* outlines the impairment methodology applied.

#### Ring of Fire royalty

Despite recent announcements by Noront Resources in relation to the development of their Ring of Fire chromite deposits, and in particular its Eagle's Nest deposit, limited information is publicly available for the Group to assess the likely timing of the development of deposits covered by the Group's royalty, including the Black Thor and Big Daddy deposits which are adjacent to the Eagle's Nest deposit.

In the absence of any publicly available information, the Group has estimated the likely start date for production from the deposits covered by the Group's royalty to be 2034 (2018: start date 2030). Applying this start date to the Group's valuation model, together with a pre-tax nominal discount rate of 10.00% and a long-term chromite price of U\$175/t resulted in a net present value of the discount future royalty cash flows of C\$3.9m, compared to the carrying value of C\$6.2m. As a result of the net present value being lower than the carrying value, the Group recognised an impairment charge of C\$2.3m (£1.4m) for the year ended 31 December 2019.

During the year ended 31 December 2018, the Group recognised an impairment charge of A\$4.0m (£2.2m) in relation to its Pilbara iron ore royalty. No further indicators of impairment or impairment reversals were identified in relation to this asset during 2019.

## 18 MINING AND EXPLORATION INTERESTS

	Group £'000	Company £'000
Fair value through other comprehensive income		
At 1 January 2018	16,431	13,273
Return of capital	(827)	–
Disposals	(612)	(562)
Revaluation adjustment	(12,147)	(10,154)
Foreign currency translation	3	2
At 31 December 2018	2,848	2,559
Additions	40	40
Disposals	(321)	(117)
Revaluation adjustment	923	913
Foreign currency translation	152	–
At 31 December 2019	3,642	3,395

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.

Mining and exploration interests are held at fair value through other comprehensive income, with the effect that the gains and losses on disposal and impairment losses are transferred directly to retained earnings.

For the year ended 31 December 2019 the Group realised £0.3m in cash (2018: £0.6m) through its disposal of a number of its mining and exploration interests from which management no longer considered royalty opportunities to exist. These disposals resulted in a loss of £12K for the year ended 31 December 2019 (2018: gain £398K) which was transferred directly to retained earnings.

In addition to the 2018 disposals outlined above, the Group received £0.8m in cash from one of its unquoted investments following a capital reduction. No further capital reductions were received during 2019.

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

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	3,362	3,339	2,443	2,386
Unquoted investments	280	56	405	173
	3,642	3,395	2,848	2,559
Number of investments	8	6	9	7

**19 DEFERRED COSTS**

Group	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
<b>CARRYING AMOUNT</b>			
At 1 January 2019	219	707	926
Additions	215	30	245
Released to income during the year	(219)	(263)	(482)
Foreign currency translation	–	(7)	(7)
<b>CARRYING AMOUNT AT 31 DECEMBER 2019</b>	215	467	682

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

Company	Deferred acquisition costs £'000	Deferred financing costs £'000	Total £'000
<b>CARRYING AMOUNT</b>			
At 1 January 2019	219	365	584
Additions	215	–	215
Released to income during the year	(219)	(122)	(341)
<b>CARRYING AMOUNT AT 31 DECEMBER 2019</b>	215	243	458

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

**Deferred acquisition costs**

As at 31 December 2019 deferred acquisition costs of £0.2m (2018: £0.2m) represent those costs associated with royalty acquisitions that the Group are actively pursuing and expect to complete in 2020.

**Deferred financing costs**

As at 1 January 2018 deferred financing costs represent the costs incurred during 2017 to enter into the US\$30.0m, three-year secured revolving credit facility with a US\$10.0m accordion that have been deferred and were to be amortised over the term of the facility.

During the year ended 31 December 2018 all costs associated with the 2017 refinancing were amortised in full following a further refinancing of the Group's revolving credit facility in September 2018. As at 31 December 2018 deferred financing costs of £0.7m represent the arrangement fees and legal costs associated with the US\$60.0m revolving credit facility with a US\$30.0m accordion financed in September 2018. This facility has been provided by a syndicate of three banks with a three-year term, together with an option to extend the facility by 12 months (refer to [note 25](#)). The deferred costs will be amortised over the term of facility.

As at 31 December 2019 deferred financing costs of £0.5m represent the unamortised costs associated with the 2018 refinancing of the Group's facility described above.

## 20 INVESTMENTS IN SUBSIDIARIES

The Group's full listing of subsidiaries is provided in **note 38**. The Company's investment in subsidiaries as 31 December 2019 and 31 December 2018 is as follows:

Company	£'000
<b>COST</b>	
At 1 January 2019	120,422
Capital injection into subsidiaries	56,457
At 31 December 2019	176,879
<b>IMPAIRMENT OF INVESTMENT IN SUBSIDIARY</b>	
At 1 January 2019	(20,983)
At 31 December 2019	(20,983)
Carrying amount 31 December 2019	155,896
	£'000
<b>COST</b>	
At 1 January 2018	85,865
Capital injection into subsidiaries	39,346
Return of capital from subsidiaries	(4,789)
At 31 December 2018	120,422
<b>IMPAIRMENT OF INVESTMENT IN SUBSIDIARY</b>	
At 1 January 2018	(15,658)
Impairment of investment in subsidiaries	(5,325)
At 31 December 2018	(20,983)
Carrying amount 31 December 2018	99,439

## 21 TRADE AND OTHER RECEIVABLES

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>CURRENT</b>				
Income tax receivable	1,784	-	398	-
Prepayments	76	76	141	127
Royalty related receivables	7,307	739	9,464	424
Other receivables	379	215	264	213
	9,546	1,030	10,267	764
<b>NON-CURRENT</b>				
Other receivables	17,919	17,919	19,335	19,335
Amounts due from subsidiaries	-	42,380	-	37,197
	17,919	60,299	19,335	56,532

### Current trade and other receivables

Trade and other receivables principally comprise amounts relating to royalties receivable from Kestrel, Mantos Blancos, Narrabri, Maracás Menchen, Four Mile and EVBC for the final quarter in each year, together with dividends declared but not yet received from Labrador Iron Ore Corporation.

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

### Non-current other receivables

In 2017, the Group completed a C\$43.5m (£26.6m) financing and streaming agreement with Denison. The streaming agreement is classified as a royalty financial instrument (**note 16**), with an initial value of C\$2.7m (£1.7m).

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

During 2019, the Group has earned £1.9m in interest revenue (2018: £2.0m) and received principal repayments of £1.6m (2018: £1.3m).

The Group assesses the carrying value of the Denison financing agreement for expected credit losses over the next 12 months by making reference to the security held by the Group and the financial position of Denison at each reporting date. As at 31 December 2019, the implied probability of default has been assessed at 0.98% (2018: 0.98%) resulting in the Group recognising expected credit losses of £0.1m (2018: £0.1m).

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

Group and Company	£'000
At 1 January 2018	21,259
Provision for expected credit losses on transition to IFRS 9	(50)
Interest	2,011
Repayments of principal and interest	(3,286)
Amortisation of deferred costs	(14)
Expected credit losses	(64)
Foreign currency translation	(521)
At 31 December 2018	19,335
Interest	1,926
Repayments of principal and interest	(3,503)
Amortisation of deferred costs	(13)
Expected credit losses	(62)
Foreign currency translation	236
At 31 December 2019	17,919

**Non-current amounts due from subsidiaries**

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

**22 DERIVATIVE FINANCIAL INSTRUMENTS**

In 2016, the Group implemented a policy whereby foreign exchange forward contracts can be entered into to manage its exposure to foreign exchange risk associated with its Australian dollar denominated royalty related income (*note 34*), with the policy being expanded to include Canadian dollar denominated royalty related income in the current year. These foreign exchange forward contracts are accounted for as financial assets or liabilities carried at fair value through profit or loss in accordance with *note 3.8(c)*. The fair value of the foreign exchange forward contracts as at 31 December is as follows:

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS</b>				
Fair value as at 31 December	(480)	–	188	–

As at 31 December 2019 the Group had outstanding forward contracts totalling A\$37.5m (2018: A\$12.7m) to receive £20.2m (2018: £7.2m) and C\$9.2m (2018: nil) to receive £5.4m (2018: nil).

**23 CASH AND CASH EQUIVALENTS**

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

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	7,410	1,327	4,240	1,024
Trading deposits with brokers	187	93	983	–
Cash and cash equivalents	7,597	1,420	5,223	1,024

**24 NET DEBT**

See *note 3.8(a)* and *note 3.8(h)* for the Group's accounting policy on cash and debt.

Net debt is a measure of the Group's financial position. The Group uses net debt to monitor the sources and uses of financial resources, the availability of capital to invest or return to shareholders, and the resilience of the balance sheet. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group and Company's net (debt)/cash and cash equivalents position after offsetting the revolving credit facility against cash and cash equivalents is as follows:

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
Revolving credit facility	(36,401)	(36,401)	(8,300)	(8,300)
Cash and cash equivalents	7,597	1,420	5,223	1,024
Net cash and cash equivalents/(debt)	(28,804)	(34,981)	(3,077)	(7,276)

**Movement in net debt**

	Cash and cash equivalents £'000	Medium and long-term borrowings £'000	Net debt £'000
At 1 January 2018	8,099	–	8,099
Cash flow	(2,795)	8,300	(11,095)
Currency movements	(81)	–	(81)
At 31 December 2018	5,223	8,300	(3,077)
Cash flow	1,447	30,726	(29,279)
Currency movements	927	(2,625)	3,552
At 31 December 2019	7,597	36,401	(28,804)

During the year ended 31 December 2019, the Group drew £44.9m (2018: £17.3m) on its revolving credit facility (refer to **note 25**) and repaid £14.2m (2018: £9.0m).

**25 BORROWINGS**

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>SECURED BORROWING AT AMORTISED COST</b>				
Revolving credit facility	36,401	36,401	8,300	8,300
	36,401	36,401	8,300	8,300
Amount due for settlement within 12 months	–	–	–	–
Amount due for settlement after 12 months	36,401	36,401	8,300	8,300

In September 2018, the Group refinanced the facility agreed in 2017 with a three-year revolving credit facility of US\$60.0m with a US\$30.0m accordion, maturing in September 2021, which was available at LIBOR plus 300bps.

Subsequent to the year end, the Group amended and extended the 2018 facility, increasing the revolving credit facility to US\$90.0m and retaining a US\$30.0m accordion. The amended and extended facility matures in September 2022 and is available at LIBOR plus 175bps.

Deferred borrowing costs detailed in **note 19** relate to the establishment fees and legal fees associated with the 2018 facility and are being amortised over its three-year term.

The Group's revolving credit facility is secured by way of a floating charge over the Group's assets and is subject to a number of financial covenants, all of which have been met during the year ended 31 December 2019.

**26 DEFERRED TAX**

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

Group	Revaluation of coal royalties £'000	Available-for sale investments		Accrual of royalty receivable £'000	Other tax losses £'000	Total £'000
		Revaluation of royalty instruments £'000	Revaluation of mining interests £'000			
At 1 January 2018	29,125	(1,472)	8	1,706	(3,344)	26,023
Charge/(credit) to profit or loss	2,232	(1,618)	–	(79)	3,502	4,037
Charge/(credit) to other comprehensive income	–	–	(8)	–	–	(8)
Exchange differences	(1,331)	92	–	(72)	(182)	(1,493)
Effect of change in tax rate:						
– income statement	2,906	430	–	–	–	3,336
– equity	–	–	–	–	–	–
At 31 December 2018	32,932	(2,568)	–	1,555	(24)	31,895
Charge/(credit) to profit or loss	(2,764)	(101)	–	(929)	20	(3,774)
Charge/(credit) to other comprehensive income	–	22	–	–	–	22
Exchange differences	(1,243)	127	–	(40)	–	(1,156)
Effect of change in tax rate:						
– income statement	–	–	–	–	–	–
– equity	–	–	–	–	–	–
At 31 December 2019	28,925	(2,520)	–	586	(4)	26,987

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

	2019 £'000	2018 £'000
Deferred tax liabilities	(30,172)	(35,156)
Deferred tax assets	3,185	3,261
	(26,987)	(31,895)

As at 31 December 2019, the Group has no unused tax losses (2018: £nil) available for offset against future profits.

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

	2019				2018			
	Tax losses – trading £'000	Tax losses – capital £'000	Other temporary differences	Total £'000	Tax losses – trading £'000	Tax losses – capital £'000	Other temporary differences	Total £'000
<b>EXPIRY DATE</b>								
Within one year	–	–	–	–	–	–	–	–
Greater than one year, less than five years	–	–	–	–	–	–	–	–
Greater than five years	–	–	–	–	–	–	–	–
No expiry date	3,857	45,309	3,084	52,250	12,499	43,058	5,991	61,548
	3,857	45,309	3,084	52,250	12,499	43,058	5,991	61,548

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

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

Company	Revaluation of royalty instruments £'000	Total £'000
At 1 January 2018	676	676
Released to income for the year	(8)	(8)
At 31 December 2018	668	668
Released to income for the year	(29)	(29)
At 31 December 2019	639	639

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

Company	2019 £'000	2018 £'000
Deferred tax liabilities	639	668
	639	668

**27 TRADE AND OTHER PAYABLES**

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>CURRENT</b>				
Other taxation and social security payables	97	94	74	72
Trade payables	102	80	34	28
Borrowings from subsidiaries	–	23,799	–	19,278
Accruals and other payables	2,363	1,964	1,737	1,358
Deferred consideration	1,138	–	1,178	–
	3,700	25,937	3,023	20,736

Deferred consideration of £1.1m as at 31 December 2019 (2018: £1.2m) relates to the second tranche of deferred consideration of US\$1.5m due under the royalty agreement to acquire the Maracás Menchen royalty. Following record production achieved in 2018, the Group expected Largo to achieve, in a quarter, an annualised rate of production of 12,000t during the 2019. Despite Largo not achieving this production milestone in 2019, the Group continues to expect it will be achieved in the next 12 months.

The average credit period taken for trade purchases is 26 days (2018: 26 days). The Directors consider that the carrying amount of trade and other payables approximates their fair value. All amounts are considered short term and none are past due.

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>NON-CURRENT</b>				
Lease liability	950	950	-	-
Other taxation and social security payables	709	709	575	575
	1,659	1,659	575	575

Non-current lease liability relates to the Group's office premises in London, which comprises annual payments of £199K and expires in 2024.

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

## 28 SHARE CAPITAL AND SHARE PREMIUM

### Issued share capital

Group and Company	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
<b>ORDINARY SHARES OF 2P EACH AT 1 JANUARY 2018</b>	<b>180,902,034</b>	<b>3,618</b>	<b>61,966</b>	<b>29,134</b>	<b>94,718</b>
Issue of share capital on exercise of employee options (a)	89,407	2	73	-	75
Issue of share capital on completion of royalty acquisition (b)	478,951	9	740	-	749
<b>ORDINARY SHARES OF 2P AT 31 DECEMBER 2018 AND 2019</b>	<b>181,470,392</b>	<b>3,629</b>	<b>62,779</b>	<b>29,134</b>	<b>95,542</b>

(a) On 16 May 2018, the Group issued 37,954 new ordinary shares of 2p each following the exercise of options awarded to employees under the Company Share Option Plan ('CSOP'). The shares were issued at the exercise price of 99.21p per share. On 10 October 2018, the Group issued 51,453 new ordinary shares of 2p each following the exercise of options awarded to employees under the CSOP. The shares were issued at the exercise price of 77p per share.

(b) On 11 June 2018, the Group issued 478,951 new ordinary shares of 2p each to Entrée Resources Limited as consideration for acquiring the Canariaco copper royalty (note 16). The shares were issued at 156.6p per share with the total consideration for the Canariaco copper royalty being £0.8m (US\$1.0m).

There was no issuance of share capital during 2019.

### 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:

	2019		2018	
	Number of shares	£'000	Number of shares	£'000
<b>OWN SHARES</b>				
Own shares held by the Anglo Pacific Group Employee Benefit Trust	925,933	(2,601)	925,933	(2,601)
<b>TOTAL</b>	<b>925,933</b>	<b>(2,601)</b>	<b>925,933</b>	<b>(2,601)</b>

As the EBT has waived its right to receive dividends, the Company's shares held by the EBT are excluded from the weighted average number of shares in issue for the purposes of calculating earnings per share in note 12.

## 29 SHARE-BASED PAYMENTS

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

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

### (a) Company Share Ownership Plan

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

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

	2019		2018	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	47,502	1.2884	133,981	0.9764
Granted during the year	-	-	21,378	1.6367
Exercised during the year	-	-	(89,407)	0.8346
Surrendered during the year	-	-	(18,450)	1.6258
Outstanding at 31 December	47,502	1.2884	47,502	1.2884

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Out of the 47,502 outstanding options (2018: 47,502), 19,974 options (2018: 19,947) were exercisable.

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

Expiry date	Exercise price in £ per share	Options	
		2019	2018
2024	1.6258	6,150	6,150
2025	0.9221	–	–
2025	0.7700	19,974	19,974
2028	1.6367	21,378	21,378
		47,502	47,502
Weighted average remaining contractual life		7.00	8.00

No awards were made under the CSOP during 2019.

The weighted average fair value of options granted during 2018 determined using a Black-Scholes valuation model was £0.82 per option granted in May 2018. The significant inputs into the model were the weighted average share price of £1.637 at the grant date, exercise price of £1.637, volatility of 40%, expected option life of three years and an annual risk-free rate of 1.16%.

**(b) Unapproved Share Option Plan**

The Group's USOP was approved by shareholders at the 2016 AGM. The plan was established to provide the Group additional scope to incentivise employees, particularly those who do not participate in the VCP, over and above the limit of the CSOP. In addition, the USOP is intended to replace the Group's JSOP.

The exercise price of the granted options is equal to the average mid-market closing price of an ordinary share for the three days before the grant. The options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date and have a contractual option term of five years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The weighted average fair value of options granted during 2019 determined using a Black-Scholes valuation model was £0.36 per option granted in September 2019. The significant inputs into the model were the share price of £1.895 at the grant date, exercise price of £1.862, volatility of 34.88%, expected dividend yield of 4.22%, expected option life of four years and an annual risk-free rate of 0.28%.

No awards were made under the USOP during 2018.

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

	2019		2018	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	2,097,593	0.8801	2,097,593	0.8801
Granted during the year	375,000	1.8735	–	–
Outstanding at 31 December	2,472,593	0.8801	2,097,593	0.8801

Out of the 2,472,593 outstanding options (2018: 2,097,593), nil options (2018: nil) were exercisable.

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

Expiry date	Exercise price in £ per share	Options	
		2019	2018
2022	–	633,334	633,334
2022	1.2607	1,464,259	1,464,259
2024	1.8617	300,000	–
2024	1.9208	75,000	–
		2,472,593	2,097,593
Weighted average remaining contractual life		2.65	3.28

**(c) Joint Share Ownership Plan**

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

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

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

No shares were awarded under the JSOP during 2018 or 2019, as a result there are no outstanding awards under this plan.

**(d) Value Creation Plan**

Following the approval at the 2014 AGM, the Group implemented a new long-term incentive arrangement for the Executive Directors and selected senior management. The VCP was designed by the Remuneration Committee to incentivise the Executive Directors and senior management to drive growth in shareholder return over a five-year measurement period. At the 2016 AGM, shareholders approved the extension of the measurement period from five to seven years.

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

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

VCP awards outstanding at 31 December 2019 and 31 December 2018 are as follows:

Expiry date	Options 2019	Options 2018
Outstanding at 1 January	86,867	86,867
Awarded in May 2017	–	–
Forfeited during the year	–	–
Outstanding at 31 December	86,867	86,867
Weighted average remaining contractual life	1.50	2.50

At the 2016 AGM, the shareholders approved an amendment to the VCP extending the performance period from five years to seven years, resulting in the weighted average remaining contractual life increasing by two years to 4.5 years.

Refer to **note 7a** for the total expense recognised in the income statement for awards under the Group's CSOP, USOP, JSOP and VCP granted to Directors and employees.

**30 SPECIAL RESERVE**

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended 30 June 2002. At 31 December 2018, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At 1 January 2019 and 31 December 2019	632	632

**31 RELATED PARTY TRANSACTIONS**

During the year, the Company entered into the following transactions with subsidiaries:

	2019 £'000	2018 £'000
Net financing of related entities	(325)	(728)
Management fee	2,658	1,907
Amounts owed by related parties at year end	42,380	37,197

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 75 to 79**.

	2019 £'000	2018 £'000
Short-term employee benefits	1,437	1,566
Post-employment benefits	58	65
Share-based payment	623	985
	2,118	2,547

**Directors' transactions**

The Group received £54,411.36 from Audley Capital Advisors LLP, a company which Mr. J.A. Treger, Chief Executive Officer, is both a director and shareholder, for the reimbursement of travel costs and the subletting of office space during the year ended 31 December 2019 (2018: £100,114.31). At 31 December 2018 there was £4,000.54 owing from Audley Capital Advisors LLP (2017: £2,411.94).

There were no amounts paid by the Group to Audley Capital Advisors LLP, a company which Mr. J.A. Treger, Chief Executive Officer, is both a director and shareholder during the year ended 31 December 2019. During the year ended 31 December 2018, the Group paid Audley Capital Advisors LLP, £14,137.45 for office expenses and subscriptions. No amounts were owing to Audley Capital Advisors LLP as at 31 December 2019 or 2018.

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**32 SEGMENT INFORMATION**

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

Australia: Kestrel, Narrabri, Four Mile, Pilbara

Americas: McLean Lake, Mantos Blancos, Maracás Menchen, LIORC, Ring of Fire, Piauí, Canariaco, Ground Hog, Flowstream

Europe: EVBC, Salamanca

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

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

The segment information for the year ended 31 December 2019 is as follows (noting that total segment operating profit corresponds to operating profit before impairments, revaluations and gains/losses on disposals which is reconciled to Profit/(Loss) before tax on the face of the consolidated income statement):

	Australia Royalties £'000	Americas Royalties £'000	Europe Royalties £'000	All other segments £'000	Total £'000
Royalty related revenue	41,295	14,432	–	–	55,728
Amortisation of royalties	(2,402)	(1,375)	–	–	(3,777)
Operating expenses	(3,088)	–	–	(4,044)	(7,132)
<b>TOTAL SEGMENT OPERATING PROFIT/(LOSS)</b>	<b>35,805</b>	<b>13,057</b>	<b>–</b>	<b>(4,044)</b>	<b>44,819</b>
<b>TOTAL SEGMENT ASSETS</b>	<b>148,847</b>	<b>137,990</b>	<b>6,848</b>	<b>14,262</b>	<b>307,947</b>
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	42,284	–	9	42,293
<b>TOTAL SEGMENT LIABILITIES</b>	<b>38,989</b>	<b>37,808</b>	<b>639</b>	<b>4,797</b>	<b>82,233</b>

The segment information for the year ended 31 December 2018 is as follows:

	Australia Royalty £'000	Americas Royalty £'000	Europe Royalty £'000	All other segments £'000	Total £'000
Royalty related revenue	36,189	9,838	–	77	46,104
Amortisation of royalties	(2,469)	(505)	–	–	(2,974)
Operating expenses	(2,380)	–	–	(3,652)	(6,032)
<b>TOTAL SEGMENT OPERATING PROFIT/(LOSS)</b>	<b>31,340</b>	<b>9,333</b>	<b>–</b>	<b>(3,575)</b>	<b>37,098</b>
<b>TOTAL SEGMENT ASSETS</b>	<b>169,051</b>	<b>82,914</b>	<b>6,702</b>	<b>10,580</b>	<b>269,247</b>
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	2,098	–	4	2,102
<b>TOTAL SEGMENT LIABILITIES</b>	<b>38,738</b>	<b>1,178</b>	<b>668</b>	<b>10,555</b>	<b>51,139</b>

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

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

The royalty related revenue in Australia of £41,295,000 (2018: £36,189,000) includes the Kestrel royalty which generated £37,014,000 (2018: £32,648,000). Individually the revenue generated by Kestrel represented greater than 10% of the Group's revenue in both 2018 and 2019.

The royalty related revenue in the Americas of £14,432,000 (2018: £9,838,000) includes the dividends received from the Group's shareholding in Labrador Iron Ore Corporation of £7,977,000 (£1,960,000). Individually the dividends received from Labrador Iron Ore Corporation represent more than 10% of the Group's revenue in 2019. In 2018 the revenue generated by Maracás Menchen of £5,877,000 represented greater than 10% of the Group's revenue.

The royalty related revenue from Narrabri of £4.0m (2018: £3.4m), together with £2.7m from Maracás Menchen (2018: £5.9m), the £1.0m from Mantos Blancos (2018: nil) and the £0.3m from Four Mile (2018: £0.1m) represent revenue recognised from contracts with customers as defined by IFRS 15.

**Impairments**

The Group recognised an impairment charge of £1.4m (C\$2.3m) in relation to the Ring of Fire royalty, which is within the 'Americas royalties' segment during the year ended 31 December 2019. During the year ended 31 December 2018, the Group recognised an impairment charge of £2.2m (A\$4.0m) in relation to the Pilbara royalty, which is within the 'Australia royalties' segment. Refer to **note 18** for further details on the Group's impairments.

### 33 FINANCIAL RISK MANAGEMENT

The Group's principal treasury objective is to provide sufficient liquidity to meet operational cash flow and dividend requirements and to allow the Group to take advantage of new growth opportunities whilst maximising shareholder value. The Group's activities expose it to a variety of financial risks including liquidity risk, credit risk, foreign exchange risk and price risk. The Group operates controlled treasury policies which are monitored by management to ensure that the needs of the Group are met while minimising potential adverse effects of unpredictability of financial markets on the Group's financial performance. The Group's financial risk management should be read in conjunction with the principal risks outlined on **pages 22 to 28** of the Strategic Report.

#### Financial instruments

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

	2019		2018	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Investment property (held at fair value)</i>				
Coal royalties (Kestrel)	96,419	-	109,778	-
<i>Fair value through other comprehensive income</i>				
Royalty financial instruments	57,736	-	38,368	-
Mining and exploration interests	3,642	3,395	2,848	2,559
<i>Fair value through profit of loss</i>				
Royalty financial instruments	8,065	3,760	7,837	3,929
Derivative financial instruments <sup>1</sup>	-	-	188	-
Cash at bank and in hand	7,597	1,420	5,223	1,024
<i>Financial assets at amortised cost</i>				
Trade and other receivables <sup>2</sup>	25,605	61,253	29,063	57,169
<i>Financial liabilities at amortised cost</i>				
Trade and other payables <sup>3</sup>	102	23,879	34	19,306
Borrowings <sup>4</sup>	36,401	36,401	8,300	8,300
Deferred consideration <sup>5</sup>	1,138	-	1,178	-
<i>Financial liabilities at fair value through profit or loss</i>				
Derivative financial instruments <sup>1</sup>	480	-	-	-

<sup>1</sup> Derivative financial instruments include the Group's foreign exchange forward contracts, as set out in **note 22**.

<sup>2</sup> Trade and other receivables include royalty receivables, other receivables and other non-current receivables only, as set out in **note 21**.

<sup>3</sup> Trade and other payables include trade payables only, as set out in **note 27**.

<sup>4</sup> Borrowings include the revolving credit facility only, as set out in **note 25**.

<sup>5</sup> Deferred consideration as set out in **note 27** relates to the Maracás Menchen royalty deferred consideration of £1.1m (US\$1.5m).

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

#### Liquidity and funding risk

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At 31 December 2019 the Group had borrowings of £36.4m (2018: £8.3m) and following the amendment to and extension of its revolving credit facility subsequent to year end, the Group continued to have access to a further £31.9m (US\$42.0m) through its secured US\$90.0m revolving credit facility.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate %	1-5 years £'000	Total £'000
<b>31 DECEMBER 2019</b>			
Interest bearing revolving credit facility	4.64	36,401	36,401
		36,401	36,401
<b>31 DECEMBER 2018</b>			
Interest bearing revolving credit facility	3.69	8,300	8,300
		8,300	8,300

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**Credit risk**

The Group's principal financial assets are bank balances, royalty financial instruments (excluding the investment in LIORC), trade and other receivables. These represent the Group's maximum exposure to credit risk in relation to financial assets and total £44.9m at 31 December 2019 (£45.1m at 31 December 2018).

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

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

The credit risk on bank deposits is mitigated by banking with household name financial institutions in reputable jurisdictions.

The Group has no significant concentration of credit risk, with exposure spread over a large number of currencies and counterparties.

The Group's credit risk on foreign exchange forward contracts is mitigated by entering into these agreements with large financial institutions. The Group limits its exposure to credit risk, together with that of the contracting financial institution, by restricting the settlement date to no more than a year from the contract date. In addition, the Group limits the quantum of the forward contracts to no more than an average 70% of forecast royalty revenue expected to be received by the date of settlement.

**Share price risk**

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

A 10% increase or decrease in the fair value of our mining and exploration interests (listed and unlisted) would increase/decrease the mining and exploration interests balance (and investment revaluation reserve in equity) by £0.4m at 31 December 2019 (£0.3m at 31 December 2018).

Similarly, had there been a 10% increase or decrease in the underlying share price of the Group's investment in LIORC, the Group's royalty financial instrument designated as FVTOCI (and the investment revaluation reserve in equity) would have increased/decreased by £5.8m as at 31 December 2019 (£3.8m at 31 December 2018).

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

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

**Other price risk**

The royalty portfolio exposes the Group to other price risk through fluctuations in commodity prices, particularly the prices of coking coal, vanadium, iron ore, gold and uranium. As the Directors obtain independent commodity price forecasts, the generation of which takes into account fluctuations in prices, limited analysis of the impact of fluctuations on the valuations of the royalties has been undertaken in **note 15 and note 16**.

**Foreign exchange risk**

The Group's transactional foreign exchange exposure arises from income, expenditure and purchase and sale of assets denominated in foreign currencies. With royalty related income from Kestrel and Narrabri accounting for over 70% of the Group's income (2018: 70%), the Group's primary foreign exchange exposure is to the Australian dollar, which these royalties are denominated in. In 2016, the Group implemented a hedging policy whereby foreign exchange forward contracts can be entered into with a maximum exposure of 70% of forecast Australian dollar denominated royalty revenue expected to be received during a period not exceeding 12 months from contract date to settlement. Refer to **note 23** for further details on the fair value of the foreign exchange forward contracts outstanding at 31 December 2018. The Group has no other hedging programme in place.

In terms of material commitment, the risk in relation to currency fluctuations is assessed by the Executive Committee at the time the commitment is made and regularly reviewed.

Financial assets and liabilities are split by currency as follows:

	2019					2018				
	GBP £'000	AUD £'000	CAD £'000	USD £'000	EUR £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	EUR £'000
Financial assets	7,797	108,180	79,847	2,749	11	6,524	123,140	61,060	2,561	19
Financial liabilities	1,730	1	3,092	32,805	13	8,329	-	5	1,178	-
Net exposure	6,067	108,179	76,755	(30,055)	(2)	(1,805)	123,140	61,055	1,383	19

**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 £563k (2018: £3k);
- A +/- 10% change in the GBP:CAD rate would increase/decrease profit after tax and equity by £157k (2018: £207k);
- A +/- 10% change in the GBP: USD rate would increase/decrease profit after tax and equity by £6k (2018: £12k).

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

### Capital management and procedures

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

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

In funding the business activities of the Group, the Directors consider both debt and equity, having regard to the Group's available debt facility and the prevailing share price at the time funding is required. Where funding is obtained through debt, the Group maintains its targeted debt capacity of 1.5-2 times free cash flow, although a higher ratio can be tolerated for shorter periods when there is a reasonable expectation of a recovery in free cash flow.

### Fair value hierarchy

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

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2019:

Group	Notes	2019			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>ASSETS</b>					
Coal royalties (Kestrel)	(a)	–	–	96,419	96,419
Royalty financial instruments	(b)	57,736	–	8,065	65,801
Mining and exploration interests – quoted	(c)	3,362	–	–	3,362
Mining and exploration interests – unquoted	(d)	–	280	–	280
<b>NET FAIR VALUE</b>		<b>61,098</b>	<b>280</b>	<b>104,485</b>	<b>165,862</b>

The following table presents the Group's assets that are measured at fair value at 31 December 2018:

Group	Notes	2018			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>ASSETS</b>					
Coal royalties (Kestrel)	(a)	–	–	109,778	109,778
Royalty financial instruments	(b)	38,368	–	7,837	46,205
Mining and exploration interests – quoted	(c)	2,443	–	–	2,443
Mining and exploration interests – unquoted	(d)	–	405	–	405
Financial derivative instruments	(e)	–	188	–	188
<b>NET FAIR VALUE</b>		<b>40,811</b>	<b>593</b>	<b>117,615</b>	<b>159,019</b>

The following table presents the Company's assets that are measured at fair value at 31 December 2019:

Company	Notes	2019			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>ASSETS</b>					
Royalty financial instruments	(a)	–	–	3,760	3,760
Mining and exploration interests – quoted	(b)	3,339	–	–	3,339
Mining and exploration interests – unquoted	(c)	–	56	–	56
<b>NET FAIR VALUE</b>		<b>3,339</b>	<b>56</b>	<b>3,760</b>	<b>7,155</b>

The following table presents the Company's assets that are measured at fair value at 31 December 2018:

Company	Notes	2018			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>ASSETS</b>					
Royalty financial instruments	(a)	–	–	3,929	3,929
Mining and exploration interests – quoted	(b)	2,386	–	–	2,386
Mining and exploration interests – unquoted	(c)	–	173	–	173
<b>NET FAIR VALUE</b>		<b>2,386</b>	<b>173</b>	<b>3,929</b>	<b>6,488</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2019

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 6.00% (2018: 7.50%) by an independent valuation consultant. Refer to **note 15** for details of the key inputs into the valuation, together with a sensitivity analysis for fluctuations in the price assumptions and discount rate. All unobservable inputs are obtained from third parties.

**(b) Royalty financial instruments**

The Group's royalty financial instruments comprise the investment in LIORC and the McLean Lake streaming agreement, together with the NSR and GRR royalties over EVBC, Dugbe 1 and Paiuí as detailed in **note 16**.

At the reporting date, the fair value of the Group's investment in LIORC has been determined by reference to the quoted bid price of the instrument. As LIORC has a quoted share price in an active market, it has been categorised as Level 1 in the fair value hierarchy.

The Group's remaining royalty financial instruments are valued based on the net present value of pre-tax cash flows discounted at a rate between 5.50% and 30.00% at reporting date. The discount rate of each royalty arrangement is derived using a capital asset pricing model specific to the underlying project, making reference to the risk-free rate of return expected on an investment with the same time horizon as the expected mine life, together with the country risk associated with the location of the operation.

For those royalty financial instruments not in production, the outcome of this net present value calculation is then risk weighted to reflect management's current assessment of the overall likelihood and timing of each project coming into production and royalty income arising. This assessment is impacted by news flow relating to the underlying operation in the period, in conjunction with management's assessment of the economic viability of the project based on commodity price projections.

The table below outlines the discount rate and risk weighting applied in the valuation of the Group's royalty financial instruments:

	Classification	31 December 2019		31 December 2018	
		Discount rate	Risk weighting	Discount rate	Risk weighting
EVBC	FVTPL	7.00%	100%	8.75%	100%
Dugbe 1	FVTPL	30.00%	75%	22.00%	75%
McLean Lake	FVTPL	5.50%	50%	7.50%	50%
Paiuí	FVTPL	13.50%	25%	13.50%	25%

The Group has reviewed the impact on the carrying value of its royalty financial instruments, and does not consider a +/- 1% change in the discount rate or a +/- 10% change in the underlying commodity prices to have a material impact.

**(c) Mining and exploration interests – quoted**

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

**(d) Mining and exploration interests – unquoted**

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

**(e) Derivative financial instruments**

The derivative financial instruments consist of the foreign exchange forward contracts entered into to hedge the Group's Australian dollar denominated royalty income. At the reporting date the foreign exchange forward contracts are valued based on the net present value of the discounted future cash flows estimated based on forward exchange rates and contract forward rates, discounted at rates that reflect the credit risk of various counterparties.

**Fair value measurements in Level 3**

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

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019.

	Royalty financial instruments £'000	Coal royalties (Kestrel) £'000	Total £'000
At 1 January 2019	7,837	109,778	117,615
Revaluation gains or losses recognised in:			
Income statement	2,478	(9,215)	(6,737)
Royalties due or received from royalty financial instruments	(2,166)	-	(2,166)
Foreign currency translation	(83)	(4,144)	(4,227)
At 31 December 2019	8,065	96,419	104,485

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018.

	Royalty financial instruments £'000	Coal royalties (Kestrel) £'000	Total £'000
At 1 January 2018	10,867	104,266	115,133
Revaluation gains or losses recognised in:			
Income statement	(871)	10,061	9,190
Royalties due or received from royalty financial instruments	(1,975)	–	(1,975)
Foreign currency translation	(184)	(4,549)	(4,733)
At 31 December 2018	7,837	109,778	117,615

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.

### 34 FREE CASH FLOW

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

Free cash flow per share is calculated by dividend net cash generated from operating activities, proceeds from the disposal of non-core assets, less finance costs divided by the weighted average number of shares in issue.

	2019 £'000	Free cash flow per share p
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		
Net cash generated from operating activities for the year ended 31 December 2019	47,086	
<i>Adjustment for:</i>		
Proceeds on disposal of mining and exploration interests	321	
Finance income	34	
Finance costs	(1,074)	
Lease payments	(199)	
Repayments under commodity related financing agreements	1,577	
Free cash flow for the year ended 31 December 2019	47,745	26.44p
	2018 £'000	Free cash flow per share p
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		
Net cash generated from operating activities for the year ended 31 December 2018	36,912	
<i>Adjustment for:</i>		
Proceeds on disposal of mining and exploration interests	612	
Proceeds on return of capital from mining and exploration interests	827	
Finance income	82	
Finance costs	(1,264)	
Proceeds from royalty financial instruments	1,720	
Repayments under commodity related financing agreements	1,276	
Free cash flow for the year ended 31 December 2018	40,165	22.28p
	2019	2018
Weighted average number of shares in issue	180,544,459	180,277,848

The weighted average number of shares in issue for the purpose of calculating the free cash flow per share is as follows:

	2019	2018
Weighted average number of shares in issue	180,544,459	180,277,848

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

for the year ended 31 December 2019

**35 PORTFOLIO CONTRIBUTION**

Portfolio contribution represents the funds received or receivable from the Group's underlying royalty related assets. A number of the Group's royalty financing arrangements result in a significant amount of cash flow being reported as principal repayments, which are not included in the income statement. In addition, following the adoption of IFRS 9, royalty receipts from those royalty financial instruments classified as FVTPL such as EVBC, are no longer recognised in the income statement. The Group considers total portfolio contribution as a means of assessing the overall performance of the Group's underlying royalty related assets.

Portfolio contribution is royalty related revenue (**note 5**) plus royalties received or receivable from royalty financial instruments carried at FVTPL (**note 16**) and principal repayment received under the Denison financing agreement (**note 21**) as follows:

Group	2019 £'000	2018 £'000
Royalty related revenue ( <b>note 5</b> )	55,728	46,104
Royalties due or received from royalty financial instruments ( <b>note 16</b> )	2,166	1,975
Repayments under commodity related financing agreements ( <b>note 21</b> )	1,577	1,276
	59,471	49,355

**36 CONTINGENT LIABILITIES**

During 2017 on advice from professional advisors, the Group undertook the capital restructuring of a number of subsidiaries with significant historical losses and impairment charges. This advice involved the interpretation of certain tax legislation for which there is no clear precedent or guidance. Absent clear guidance from relevant tax authorities there is the possibility that those tax authorities could interpret the legislation in a different way from the Group, which could result in a material reduction in the deferred tax asset and the recognition of a material current tax provision at 31 December 2017. These amounts were estimated at £3.3m and £3.6m respectively. With the utilisation of certain tax losses during the year ended 31 December 2018, the current tax provision required increased to £5.9m. There was no change in this position as at 31 December 2019.

**37 EVENTS OCCURRING AFTER YEAR END**

On 29 January 2020, the Group's existing US\$60m revolving credit facility (refer to **note 25**) was increased by US\$30m, bringing the total committed facility to US\$90m. The Group retained the US\$30m accordion, which if exercised could increase the facility to US\$120m. In addition to increasing the size of the committed facility, the Group extended the facility's term by 12 months to September 2022.

On 2 March 2020, the Group announced it had entered into a royalty financing agreement with Incoa Performance Minerals LLC to partially fund the construction of Incoa's calcium carbonate mine and associated infrastructure in the Dominican Republic as well as a processing facility located in Mobile, Alabama, in the United States of America. Under the terms of the agreement, the Group will provide funds totalling US\$20m following construction completion when the operation is in production and generating cash flow, in return for a quarterly payment of approximately 1.23% of Incoa's gross revenue. The funds are expected to be payable in 2021.

During the period 23 January 2020 to 06 February 2020, the Group acquired an additional 446,100 shares in LIORC at an average price of C\$21.94/share on the market for total consideration of C\$9.8m (£5.7m). The acquisition increased the Group's investment from 6.3% (4,040,790 shares) as at 31 December 2019 to 7.0% (4,486,890 shares) as at the date of this report.

The global outbreak of COVID-19 subsequent to year end is having a significant impact on many countries and businesses. As at the date of this report, the Group is aware of operations at the McClean Lake Mill in Canada, from which it receives toll milling payments have been placed on care and maintenance following Cameco's decision to place the Cigar Lake uranium mine, which provides the materials processed by the McClean Lake Mill, on care and maintenance. In addition, Orvana Minerals Corp, the operator of the EVBC mine in Spain from which the Group receives royalties, announced a ten day suspension of operations in response to COVID-19.

While we understand that there has not been any other significant disruption reported by the operators of the mines from which we generate our royalty income, the significant level of uncertainty regarding the duration of the pandemic and its impact on commodity prices in the year ahead prevents the Group from quantifying the potential impact on our 2020 results. The Group remains in strong financial health and the impact of the potential reduced operating cash flow generation has been considered as part of our going concern assessment discussed on **page 81**. The Board will continue to monitor our financial position carefully over the coming weeks and months as a better understanding of the impact of COVID-19 is developed.

### 38 SUBSIDIARIES

The following tables outline the Group's subsidiaries, as defined in Regulation 7 of the UK Companies Act 2006. All subsidiaries are included in the Group consolidation.

Company and country of incorporation/operation	Principal activities	Class of shares held	Proportion	Proportion
			of class held at 31 December 2019	of class held at 31 December 2018
			%	%
<b>AUSTRALIA<sup>1</sup></b>				
Alkormy Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
APG Aus No 1 Pty Ltd	Owner of iron ore royalties	Ordinary A\$1.00	100%	100%
APG Aus No 2 Pty Ltd	Owner of iron ore royalties	Ordinary A\$1.00	100%	100%
APG Aus No 3 Pty Ltd	Owner of uranium royalties	Ordinary A\$1.00	100%	100%
APG Aus No 4 Pty Ltd	Owner of iron ore royalties	Ordinary A\$1.00	100%	100%
APG Aus No 5 Pty Ltd	Owner of iron ore royalties	Ordinary A\$1.00	100%	100%
APG Aus No 6 Pty Ltd	Owner of vanadium royalties	Ordinary A\$1.00	100%	100%
APG Aus No 7 Pty Ltd	Owner of coal royalties	Ordinary A\$1.00	100%	100%
APG Aus No 8 Pty Ltd	Owner of nickel royalties	Ordinary A\$1.00	100%	100%
APG Aus No 9 Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
APG Aus No 10 Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
Argo Royalties Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
Gordon Resources Ltd	Owner of coal royalties	Ordinary A\$0.20	100%	100%
HydroCarbon Holdings Pty Ltd	Dormant	Ordinary A\$1.00	100%	100%
Indian Ocean Resources Pty Ltd	Investments	Ordinary A\$0.25	100%	100%
Indian Ocean Ventures Pty Ltd	Dormant	Ordinary A\$0.20	100%	100%
Starmont Holdings Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
Starmont Ventures Pty Ltd	Investments	Ordinary A\$1.00	100%	100%
Woodford Wells Pty Ltd	Dormant	Ordinary A\$0.25	100%	100%
<sup>1</sup> The registered office of all of the entities listed above is 6 Price Street, Subiaco, Western Australia 6008				
<b>BARBADOS<sup>2</sup></b>				
Entrée International Holdings Inc	Intermediate holding company	Ordinary U\$1.00	100%	N/A
Entrée Peru Holdings Inc	Intermediate holding company	Ordinary U\$1.00	100%	N/A
<sup>2</sup> The registered office of all of the entities listed above is Suite 208, Building No 8, Harbour Road, Bridgetown, St Michaels, Barbados				
<b>CANADA<sup>3</sup></b>				
Advance Royalty Corporation	Owner of uranium royalties	Ordinary C\$0.01	100%	100%
Albany River Royalty Corporation	Owner of chromite royalties	Ordinary C\$1.00	100%	100%
Panorama Coal Corporation	Owner of coal royalties	Ordinary C\$1.00	100%	100%
Polaris Royalty Corporation	Intermediate holding company	Ordinary C\$1.00	100%	100%
Trefi Coal Corporation	Owner of coal tenures	Ordinary C\$0.01	100%	100%
<sup>3</sup> The registered office of all of the entities listed above is 1720 Queens Avenue, West Vancouver, British Columbia, Canada V7V 2X7				
<b>ENGLAND<sup>4</sup></b>				
Anglo Pacific Cygnus Ltd	Investments	Ordinary £1.00	100%	100%
Centaurus Royalties Ltd	Investments	Ordinary £1.00	100%	100%
Southern Cross Royalties Ltd	Investments	Ordinary £1.00	100%	100%
<sup>4</sup> The registered office of all of the entities listed above is 1 Savile Row, London, England W1S 3JR				
<b>GUERNSEY<sup>5</sup></b>				
Anglo Pacific Group Employee Benefit Trust	Administering Group incentive plans		100%	100%
<sup>5</sup> The registered office of the entity listed above is, Frances House, Sir William Place, St Peter Port GY1 4HQ				
<b>IRELAND<sup>6</sup></b>				
Anglo Pacific Finance Ltd	Treasury	Ordinary £1.00	100%	100%
<sup>6</sup> The registered office of the entity listed above is Atlantic Avenue, Westpark Business Campus, Shannon, Co Clare				
<b>PERU<sup>7</sup></b>				
Exploraciones Apolo Resources SAC	Owner of copper royalties	Ordinary S/1.00	100%	N/A
<sup>7</sup> The registered office of the entity listed above is Av. Ricardo Angulo No 776, Office 301, District of San Isidro, Lima, Peru				
<b>SCOTLAND<sup>8</sup></b>				
Shetland Talc Ltd	Mineral exploration	Ordinary £1.00	100%	100%
<sup>8</sup> The registered office of the entity listed above is Grant Thornton, 95 Bothwell Street, Glasgow, Scotland G2 7JZ				

**SHAREHOLDER STATISTICS****(a) Size of Holding (as at 31 March 2020)**

Category	Number of shareholders	%	Number of shares	%
<b>UK AND CANADA</b>				
1 – 1,000	555	34.32%	280,774	0.15%
1,001 – 5,000	567	35.62%	1,358,936	0.75%
5,001 – 10,000	144	8.90%	1,072,132	0.59%
10,001 – and over	342	21.15%	178,758,550	98.51%
	1,617	100%	181,470,392	100%

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 31 March 2020 was 72.92%.

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Please contact the respective registrar if you have any queries about your shareholding.

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## FORWARD-LOOKING STATEMENTS

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

Certain statements in this Annual Report, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Group's expectations and views of future events.

Forward-looking statements (which include the phrase 'forward-looking information' within the meaning of Canadian securities legislation) are provided for the purposes of assisting readers in understanding the Group's financial position and results of operations as at and for the periods ended on certain dates, and of presenting information about management's current expectations and plans relating to the future. Readers are cautioned that such forward-looking statements may not be appropriate other than for purposes outlined in this Annual Report. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, cash flow, requirement for and terms of additional financing, performance, prospects, opportunities, priorities, targets, goals, objectives, strategies, growth and outlook of the Group including the outlook for the markets and economies in which the Group operates, costs and timing of acquiring new royalties and making new investments, mineral reserve and resources estimates, estimates of future production, production costs and revenue, future demand for and prices of precious and base metals and other commodities, for the current fiscal year and subsequent periods.

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

of such underlying properties; the accuracy of the information provided to the Group by the owners and operators of such underlying properties; no material adverse change in the price of the commodities produced from the properties underlying the Group's portfolio of royalties, streams and investments; no material adverse change in foreign exchange exposure; no adverse development in respect of any significant property in which the Group holds a royalty or other interest, including but not limited to unusual or unexpected geological formations and natural disasters; successful completion of new development projects; planned expansions or additional projects being within the timelines anticipated and at anticipated production levels; and maintenance of mining title.

Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which could cause actual results to differ materially from those anticipated, estimated or intended in the forward-looking statements. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. No statement in this communication is intended to be, nor should it be construed as, a profit forecast or a profit estimate.

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate; that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

A variety of material factors, many of which are beyond the Group's control, affect the operations, performance and results of the Group, its businesses and investments, and could cause actual results to differ materially from those suggested by any forward-looking information. Such risks and uncertainties include, but are not limited to current global financial conditions, royalty, stream and investment portfolio and associated risk, adverse development risk, financial viability and operational effectiveness of owners and operators of the relevant properties underlying the Group's portfolio of royalties, streams and investments; royalties, streams and investments subject to other rights, and contractual terms not being honoured, together with those risks identified in the 'Principal Risks and Uncertainties' section herein. If any such risks actually occur, they could materially adversely affect the Group's business, financial condition or results of operations. Readers are cautioned that the list of factors noted in the section herein entitled 'Risk' is not exhaustive of the factors that may affect the Group's forward-looking statements. Readers are also cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements.

This Annual Report also contains forward-looking information contained and derived from publicly available information regarding properties and mining operations owned by third parties. This Annual Report contains information and statements relating to the Kestrel mine that are based on certain estimates and forecasts that have been provided to the Group by Kestrel Coal Pty Ltd ('KCPL'), the accuracy of which KCPL does not warrant and on which readers may not rely.

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

### US Employment Retirement Income Security Act

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



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