ANGLO PACIFIC

The benefits of diversification

2015

Annual Report & Accounts

ANGLO PACIFIC GROUP PLC

Contents

Performance measures

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

Third party information

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

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

Cautionary statement on forward-looking statements and related information

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

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

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

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

US Employment Retirement Income Security Act

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

Our aim

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

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

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

Mining royalties explained

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

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

Types of royalties

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

GRR : Gross Revenue royalty

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

GRR examples in royalty portfolio on page 05

NSR : Net Smelter Return royalty

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

NSR examples in royalty portfolio on page 05

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

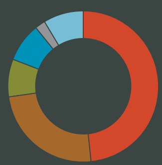
A metal stream is an agreement that provides, in exchange for an upfront payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the stream.

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.

Anglo Pacific at a glance

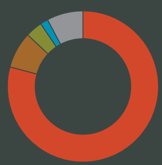
- Listing: London Stock Exchange (primary) and Toronto Stock Exchange (secondary)
- 149% increase in royalty income in the year
- 34.5% reduction in overheads in the year
- 11 principal royalty assets across five continents
- Over 82% of royalties by value, across five commodities, in production
- Considerable production upside potential within the portfolio, most noticeably with Narrabri and Salamanca
- Net assets at December 31, 2015 of £162.0m

DIVERSIFIED PORTFOLIO OF ROYALTIES



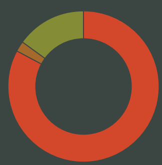
COMMODITY EXPOSURE 31/12/2015

Coking coal	*48.4%*
Thermal coal	*24.5%*
Iron ore	*8.2%*
Gold	*8.2%*
Uranium	*2.3%*
Other	*8.5%*



GEOGRAPHIC EXPOSURE 31/12/2015

Australia	*79.3%*
Brazil	*7.7%*
Spain	*3.6%*
Canada	*1.8%*
Other	*7.5%*

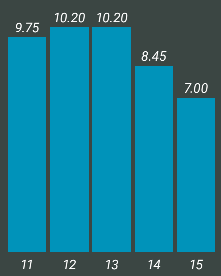


STAGE OF PRODUCTION 31/12/2015

Producing	*82.8%*
Development	*2.4%*
Early stage	*14.8%*

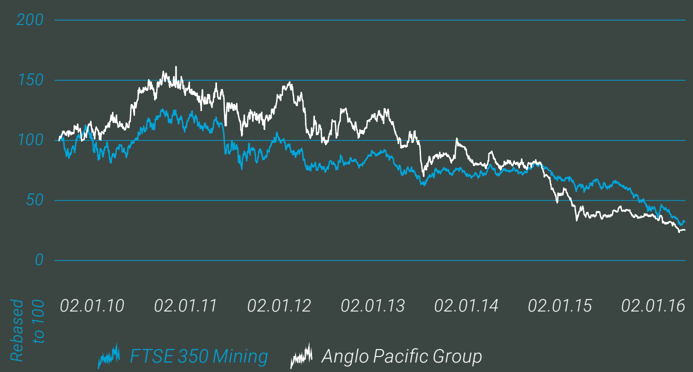
SHAREHOLDER RETURNS

AFFORDABLE AND MAINTAINABLE DIVIDENDS



Dividend per share (p)

FTSE 350 MINING INDEX VS ANGLO PACIFIC GROUP 2010 – 2015



GROUP OVERVIEW

Our royalty portfolio

OUR AIM

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

6 PRODUCING ROYALTIES

Over 82% of the royalty portfolio by value are in production and 93% of the portfolio are located in well established mining jurisdictions.

OUR PRINCIPAL ROYALTIES

PRODUCING ROYALTIES

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

DEVELOPMENT ROYALTIES

Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
6 Salamanca	Uranium	Berkeley Energia	Spain	1% NSR	Royalty intangible
7 Groundhog	Anthracite	Atrum Coal	Canada	1% GRR or US$1.00/t	Royalty intangible
8 Amapá & Tucano	Iron ore	Zamin Ferrous / Beadell Resources	Brazil	1% GRR [3]	Royalty intangible

EARLY-STAGE ROYALTIES

Royalty	Commodity	Operator	Location	Royalty rate and type	Balance sheet classification
9 Pilbara	Iron ore	BHP Billiton	Australia	1.5% GRR	Royalty intangible
10 Ring of Fire	Chromite	Cliffs Natural Resources	Canada	1% NSR	Royalty intangible
11 Dugbe 1	Gold	Hummingbird Resources	Liberia	2 – 2.5% NSR [4]	Loan [5]

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

Chairman's statement

2015 has seen the beginnings of a turnaround in the fortunes of Anglo Pacific. Our royalty income has doubled from £3.5m to £8.7m as our Narrabri acquisition contributes for the first time and mining at Kestrel begins to return to our royalty lands. This, coupled with a significant reduction in our operating expenses following a stringent review of our cost base, has led to a return to profitability at operating level with an operating profit of £2.1m (2014: operating loss £2.8m).

Such growth could have been stronger but for the impact of continuing falls in commodity prices, which directly affected our royalty income and led to certain non-cash impairments and revaluation adjustments totalling £32.5m (2014: £43.4m), leading to an overall loss before tax of £30.5m (2014: loss £42.4m). This resulted in a basic and diluted loss per share of 14.06p (2014: 42.09p). Due to the large number of valuation and non-cash items included in the Income Statement, we also present an adjusted earnings measure as outlined in note 11 to the accounts. This measure more closely reflects the performance within management's control. Adjusted earnings per share were 2.47p (2014: loss of 1.97p).

Dividends

Our review of our dividend policy twelve months ago, in conjunction with the Narrabri acquisition, was underpinned by financial projections based on consensus forward prices at the time. The subsequent volatility in commodity prices coupled with a significant reduction in the forward consensus pricing outlook, both of which are above and beyond what we had anticipated, have more than offset the benefits of a significant reduction in costs along with production outperformance at Narrabri. We stressed last year that a dividend policy had to be both affordable and appropriate and in the current circumstances believe an amended policy is necessary. Consequently, as advised in our trading update statement of January 28, 2016, we are recommending a final dividend for the year ended December 31, 2015, of 3p per share. Longer term, however, we retain our target of paying dividends of at least 65% of adjusted earnings (as defined in note 11) with a medium term minimum annual dividend of 6p per share.

Royalty portfolio

In reviewing our current royalty portfolio, it is particularly encouraging to note that, despite the ongoing turmoil in the mining sector in general and commodity prices in particular, all of the Group's royalties that were in production in 2014 remain in production and continue to generate royalty income. We are, all the more determined to ensure that any new royalty or streaming acquisition meets our exacting investment requirements, as described in our strategy on *pages 10 to 11*. This approach has resulted in no major acquisitions being made following Narrabri and many of the opportunities presented to us during the year being discarded. However, we are confident that more attractive opportunities will arise during 2016 and beyond as the cost of capital in the sector continues to increase and the Group continues to progress a number of potential opportunities.

Details of our current portfolio are shown on *pages 04 to 05*. It is worth highlighting the particular performance of our Narrabri royalty. When the royalty was purchased permitted production levels were 8Mtpa, and Whitehaven Coal, the operator, has now obtained permission to increase this to 11Mtpa and is ramping up production towards this higher level.

Lower commodity prices did however reduce the carrying value of certain of the Group's royalty assets in the period, although impairment charges of £4.4m were considerably lower than the £25.3m recognised in 2014. The largest adjustment was to the carrying value of Kestrel, which showed a valuation deficit of £27.2m as a result of revisions to long term coking coal prices, although there was a tax shield associated with this deficit of £8.2m.

ROYALTY INCOME MORE THAN DOUBLED IN 2015

We have seen our royalty income more than double in the year as Narrabri contributes for the first time

ATTRACTIVE OPPORTUNITIES

The cost of capital in the industry continues to increase, which should present attractive opportunities

Board

2015 has seen further changes to the Board. As advised last year, Anthony Yadgaroff retired from the Board on December 31, 2015 after almost 13 years' service. I should like to thank him again for his hard work, diligence and sage advice during that period.

In anticipation of Anthony's retirement, we appointed Patrick Meier to the Board on April 30, 2015. Patrick has over thirty years of experience in investment banking, most recently with RBC Capital Markets, with specialist knowledge of the mining sector. He has already had a significant impact on the workings of the Board.

Our Strategic Report

Our 2015 Strategic Report, from *pages 08 to 35*, was reviewed and approved by the Board on March 22, 2016.

Outlook

2016 onwards should be a period of sustained organic growth for Anglo Pacific as production at Kestrel moves increasingly into our royalty lands while that at Narrabri continues to ramp up towards the increased permitted levels. In addition, the continuing challenges facing the mining sector are bringing and will continue to bring further opportunities for the Group. We believe that our ability to be innovative and imaginative in our approach to these opportunities will bear fruit in the year ahead.

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

W.M. Blyth
Chairman

March 22, 2016

Chief Executive Officer's statement

I am pleased to report that, following completion of the Narrabri royalty acquisition in early 2015, the Group has experienced strong growth in royalty income during 2015 which it expects to continue during 2016. We believe the Group's strategy is now beginning to bear fruit.

Challenging environment

The mining sector continues to face difficult times which we have not been immune to over the previous year. However, Anglo Pacific remains well placed to acquire attractive new royalties. We have a good platform of five producing royalties with Kestrel, Narrabri, Maracás Menchen and EVBC providing improved royalty flows in 2015, together with Four Mile producing maiden royalty receipts in February 2016. Our royalty income grew strongly last year and we expect further significant growth during 2016 and beyond. We have a strong balance sheet with little debt and we continue to carefully monitor costs and make reductions wherever possible. We believe these challenging times for the mining sector will provide opportunities for the Company to identify attractive new royalties which will enhance the lifespan and diversity of our existing portfolio.

The Narrabri mine continues to perform well, with production for the year ending December 31, 2015 reaching 8.3Mt, well in excess of the original design capacity of 6Mtpa. We are encouraged that Whitehaven Coal has recently received approval to increase production to 11Mtpa from 8Mtpa, which should lead to increased royalty income from the mine despite reduced commodity prices. In addition, the potential to expand operations into Narrabri South provides further upside to this royalty. Additionally, during the past year production at Kestrel has increasingly moved into our royalty area and updated tonnage sales forecasts from Rio Tinto, which we receive as part of our information rights, confirm previous guidance that 60-65% of Kestrel coal production will be within the Group's royalty area during 2016. This should lead us to report a further increase in royalty income in 2016.

Despite these positive aspects, we have not been immune to the declines which have beset commodity prices over the past year. Though our income grew, this growth would have been even more impressive had the price of thermal and coking coal not declined by between 15% and 25%. In addition, the indiscriminate selling which has affected commodity stocks has also impacted our share price, to an extent that we trade well below our net asset value per share, at a very high dividend yield. Ordinarily, such a yield would suggest to the market a further dividend cut. However, we have now made the cuts we believe are necessary to protect our balance sheet at this time, subject to ongoing market conditions being relatively stable.

Dividend levels

Provided prevailing market conditions are maintained and with further growth in royalty income expected throughout this year, we believe an annual dividend level of 6p per share going forward should be close to being covered during 2016 and covered in 2017. We hope that the market will recognise the 6p level as a base from which we will grow. It remains a continuing policy of the Company to pay a substantial proportion of royalties to shareholders as dividends, and our long-term target dividend continues to be 65% of adjusted earnings (as defined in note 11 to the financial statements).

Positioned to take advantage of opportunities

We recognise the attractive opportunities present in the market at this time and are determined not to let these prospects pass without obtaining some high quality, attractive royalties. However, the cost of equity remains too high at our current share price to access accretive deals funded entirely by equity. In contrast, our cost of debt remains significantly lower, which will enable the Group to complete smaller acquisitions as they arise.

We are very mindful of the risks of debt in a highly cyclical industry; however, at times like this, nearer the bottom of the commodity price cycle than at the top, sensible use of debt is appropriate. Accordingly, we expect to utilise our borrowing facilities in the first instance to finance acquisitions and where the opportunities are larger, we anticipate syndicating these investments with third parties in return for royalty and fee related income, or a mixture of both. We have been progressing such discussions for many months and a number of supportive institutional investors have expressed interest in funding larger deals.

We are now seeing investment opportunities with well positioned counterparties which have not been as freely available in recent years. The cost of capital in the mining space has risen, suggesting that counterparties may be more willing to engage with us at the returns we require, rather than pursuing the traditional equity and debt options. 2015 has seen several measures being announced by mining operators to strengthen their balance sheets. Streaming, in particular, has been a popular source of finance as conventional capital markets remain subdued. We believe that this trend is likely to continue in the short term to enable refinancing and in the longer term to facilitate growth. Alternative financing has the added benefit of reducing onerous compliance testing and reporting, which is attractive when attempting to reduce gearing levels and maintaining credit ratings.

Upside exposure

Though we have had significant write-downs over recent years, we wish to highlight the important upside contained in the portfolio that is not reflected in its reported carrying value, as an increasing portion of our assets are not held at fair value. A key criteria we look for when acquiring royalties is the upside potential. This can take the form of accelerated production, as is occurring at Narrabri, or an increase in reserves and resources, as has occurred at Salamanca. Both of these events have the potential to increase the value of the underlying royalty.

Outlook

Coal

A continuing concern for Anglo Pacific over the past year has been the negative sentiment associated with coal. Despite some perceptions in the UK, we believe that many countries, particularly in south-east Asia, will continue to rely on coal to fuel their growth. It is far more realistic to push for cleaner, high quality, less-polluting coals than adopting a broadly held negative attitude towards all coal. I am pleased to report that this is precisely the area we had targeted for royalty exposure. Narrabri produces some of the cleanest and lowest polluting coal with low ash content which attracts a premium compared to the benchmark, precisely for these virtues. That said, we remain keen to reduce our overall coal exposure, unless we can generate very high returns, and we have identified uranium as an alternative commodity to coal on the energy side. We already have two uranium royalties within our portfolio and see this as a preferred commodity under our investment criteria.

Costs

Cost reductions have been a major focus in this new era for the mining sector and we recognise this new reality. Our central costs have always been relatively low as the business operates from a small single office with 11 employees. We are pleased that we have been able to reduce the Company's year-on-year costs, excluding provisions for non-cash share based payments, by 34.5% from £4.9m in 2014 to £3.2m in 2015. On an inflation adjusted basis, we believe our costs are roughly unchanged over five years. Anglo Pacific operates on a very conservative basis and we continue to have the capacity to run a much larger portfolio with the current infrastructure.

Currency

As a result of our main sources of royalty income being received in Australian dollars which require translation to pounds, the continued weakening of the Australian dollar against the pound over the past two years, has had an unfavourable impact on the Group's reported income. 2016 has seen a weakening of the pound, which if sustained should benefit the Group's results in 2016.

Growth

Following payment of the interim dividend in February 2016, the Group currently has over £4.0m in cash and headroom under our revolving credit facility subject to continued covenant compliance and our facility terms (as per note 23). Although we do not expect a rapid turnaround in the sector in the foreseeable future, we are beginning to see opportunities due to protracted periods of subdued capital markets in the mining sector. Despite the considerable capital outflows recently seen from the sector, we are actively seeking to deploy capital in a countercyclical fashion to take advantage of the current favourable market conditions.

J.A. Treger

Chief Executive Officer

March 22, 2016

Our strategy

During 2015, the Group continued to progress towards achieving its strategy through the completion of the Narrabri royalty acquisition and identification of a number of royalty and streaming opportunities to pursue in 2016 that fit our stringent investment criteria.

AIM

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

STRATEGY

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

CRITERIA

Achieving strategy through acquisitions which satisfy these criteria

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

GOAL

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

THE GROUP'S INVESTMENT CRITERIA EXPLAINED...

ESTABLISHED NATURAL RESOURCES JURISDICTIONS

The Group continues to review potential business opportunities globally and in order to manage its risk profile, intends to focus predominantly on mines in established, relatively low-risk mining jurisdictions, primarily those in North America, South America, Europe and Australia. As at December 31, 2015, 92.5% of the Group's existing assets were based in such jurisdictions.

LONG-LIFE ASSETS

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

HIGH-QUALITY AND LOW-COST ASSETS

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

NEAR-TERM PRODUCING ASSETS

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

PRODUCTION AND EXPLORATION UPSIDE POTENTIAL

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

STRONG OPERATIONAL MANAGEMENT TEAMS

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

DIVERSIFICATION OF ROYALTY PORTFOLIO

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

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

Market overview

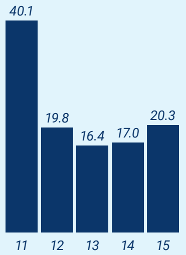
The Directors believe that protracted periods of subdued capital markets financing activity, against the backdrop of a low commodity price environment, have led to materially increased demand for alternative sources of financing, including royalty and stream financing.

2015 proved to be a challenging period for the global metals and mining industry as commodity prices continued to decline and, as a result, accessing capital via the conventional channels of equity and debt remained difficult for the industry as a whole.

Global mining equity issuance during 2015, was around US$20.0bn, representing just 40% of 2010 issuance levels. Equity financing has become an increasingly scarce and dilutive option. The 48.6% decline of the FTSE 350 Mining Index in 2015 highlights the impact that the low commodity price environment has had not only on the smaller cap mining companies, but also on the largest global mining operators. Many of these companies have recently announced balance sheet strengthening initiatives in an effort to reduce gearing levels and protect credit ratings.

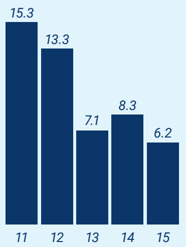
Metals and mining debt financing transactions have also proved challenging in recent years, and have become increasingly characterised by companies undertaking balance sheet strengthening measures. Most of the debt issuances in 2015 were to refinance or restructure existing debt, resulting in few new sources of finance. Notably, the Bloomberg World Mining Index net debt to EBITDA ratio rose from 1.8x on December 31, 2014, to 4.1x one year later. The Company believes this significant rise serves to underline the necessity of debt reduction measures as cash flow becomes increasingly constrained across the industry. This is demonstrated by investment grade metals and mining debt issuance of approximately US$18.5bn in 2015, which is roughly half of the five-year high of US$35.3bn raised in 2012.

Mining equity issuances (US$ billions)



Source: Dealogic

Mining high yield bond issuances (US$ billions)



Source: Dealogic

2015 was a record year for streaming transactions, with the trend continuing in the first quarter of 2016

Announcement date	*Buyer*	*Vendor*	*Asset*	*Upfront proceeds (US$ million)*
February 26, 2016	Franco Nevada	Glencore	Antapaccay	$500
November 3, 2015	Silver Wheaton	Glencore	Antamina	$900m
October 7, 2015	Franco Nevada	Teck Resources	Antamina	$610m
August 5, 2015	Royal Gold	Barrick Gold	Pueblo Viejo	$610m
July 9, 2015	Royal Gold	Teck Resources	Carmen de Andacollo	$525m
March 2, 2015	Silver Wheaton	Vale	Salobo	$900m

Financing provided by the royalty and streaming industry has grown considerably in recent years.
In 2015, the role of royalties and streams as an alternative financing source has gained prominence against the backdrop of reduced access to capital from more traditional sources such as the public equity, public debt and bank lending markets. During 2015, more than double the number of royalty and streaming transactions were announced relative to 2014, with the total transaction value increasing by more than 300% from approximately US$1.2bn to approximately US$4.8bn. Notably, six transactions with upfront proceeds greater than US$500.0m were announced during the past twelve months, highlighted in the table above, primarily as a result of major mining companies monetising precious metals by-product streams from core operations.

Almost all of the royalty and streaming transactions announced recently were related to precious metals, highlighting the industry's continued focus on disproportionately channelling investments into this segment. With a number of companies currently rumoured to be running streaming processes, the major streaming companies may struggle to meet all of the demand in the market. This has the potential to increase the range of opportunities available to Anglo Pacific as companies in need of financing may have to look outside the traditional precious metals segment in order to attract a greater set of buyers.

The most recent of these transactions was the US$500.0m gold and silver stream with Glencore announced by Franco Nevada, which some commentators believe resulted in an internal rate of return close to 10%, almost double the average return that streaming companies have been obtaining. This transaction and those completed in 2015 demonstrate, in our view, the increasing cost of capital in the mining sector in general and perhaps also indicate a scarcity of capital in the precious metals streaming space.

With the major streaming companies likely to remain focused on competing for the larger precious metals royalties and streams, Anglo Pacific should be in a good position to compete for non-precious royalties and streams, potentially generating higher yields than have traditionally been seen on precious royalties.

Our business model

Creating value for our shareholders

GENERATING LONG-TERM CASH RETURNS

CREATING VALUE FOR OUR SHAREHOLDERS

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

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

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

Lower volatility through commodity and geographic diversification

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

Exposure to increases in mineral reserves and production

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

Exposure to commodity price upside

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

Creating value for our counterparties

SECONDARY ROYALTIES

PRIMARY ROYALTIES

CREATING VALUE FOR OUR COUNTERPARTIES

ANGLO PACIFIC + PARTNERS = VALUE CREATION

We serve as a partner to the mine operator

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

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

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

Flexible financing structures to suit the mine operator, often structured as non-debt instruments, therefore do 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 miner's exposure to upside in the prices of their core commodities.

Source of liquidity for holders of existing royalties

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

INCREASED ROYALTY PRODUCTION

Despite the difficulties faced by the wider mining industry, all of our income generating royalties remain in production.

Business review

Producing royalties

Kestrel, Coking coal, Australia

What we own

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

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

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

Performance

The Group received royalty income of £3.6m from Kestrel during 2015, compared to £1.7m in 2014. The significant increase in royalty income in 2015 was due to increased Kestrel production within the Group's private royalty land.

In accordance with Anglo Pacific's Kestrel information rights, the Group estimates that 60-65% of mining at Kestrel will be within our royalty lands during 2016 (H1 2016: 30-35% and H2 2016: 85-90%), increasing to over 90% during 2017.

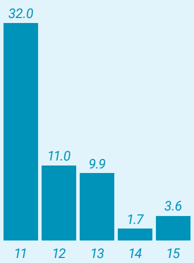
Valuation

The Kestrel royalty was independently valued at A$167.6m (£82.6m) and accounts for 42% of the Group's total assets as at December 31, 2015 (2014: A$223.0m; £117.1m; 59%). The value of the land is calculated by reference to the discounted expected royalty income from mining activity, using a discount rate of 7%.

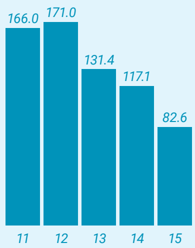
The independent valuation has been undertaken by a Competent Person in accordance with the Valmin Code (AusIMM, 2005), which provides guidelines for the preparation of independent expert valuation reports. The Group monitors the accuracy of this valuation by comparing the actual cash received to that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

The fall in fair value is largely due to the decline in coking coal prices, partially offset by a weakening of the Australian dollar.

Coal royalty income
£m



Coal royalty valuation
£m



Producing royalties
continued

Narrabri, Thermal Coal, Australia

What we own

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

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

Performance

Under the terms of the royalty sale agreement, the Group was entitled to all royalties from January 1, 2015, and as a result the Group received royalty income of £3.2m during 2015 from Narrabri. During the calendar year 2015, Narrabri set an annual production record of 8.3Mt run of mine ('ROM').

On December 10, 2015, Whitehaven announced that the New South Wales Government's Department of Planning and Environment had granted Whitehaven approval to increase annual production from 8Mtpa to 11Mtpa, and to install a 400 metre wide longwall face at the Narrabri mine. The 400 metre wide longwall face is expected to initially increase ROM coal production by an estimated 750Ktpa. The first 400 metre wide longwall panel is expected to come into production in the first half of calendar year 2017.

On February 5, 2016, Whitehaven announced it intends to extend the Narrabri North longwall panels in the Narrabri South area, and that work to integrate Narrabri South into existing operations at Narrabri North had commenced. This has the potential to significantly increase Narrabri North's mine life beyond current Whitehaven estimates of 25 years. Drilling to convert Narrabri South resources to reserves is scheduled to occur during Whitehaven's fiscal year ending June 30, 2017.

Valuation

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

Maracás Menchen, Vanadium, Brazil

What we own

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

Performance

The Group received its maiden royalty receipts from Maracás Menchen in Q1 2015, following the commencement of vanadium pentoxide ('V_2O_5') production on August 2, 2014. Largo continued to ramp up production at the Maracás Menchen mine towards nameplate production capacity of 9,634t of V_2O_5 per annum throughout 2015, resulting in royalty income of £0.6m for the Group, from production of 5,840t of V_2O_5 for the year ended December 31, 2015.

Largo announced that it had achieved commercial production on October 1, 2015, and also achieved new daily production records in Q3 2015 of 27t and 29t of V_2O_5, representing 102% and 110% of nameplate capacity respectively. Despite these records, Largo announced that it is undertaking several critical optimisation projects on the plant aimed at addressing ongoing variances in daily production rates, such that production capacity is achieved more consistently.

Largo has issued guidance for 2016 production levels of between 9,195t and 10,195t of V_2O_5. Under the terms of the royalty sale agreement, the Group is required to pay a further US$1.5m once production reaches an annualised rate over a quarter of 9,500t. Given the production guidance issued by Largo, the Directors consider it probable that this production milestone will be achieved, possibly in the next 18 to 24 months, and as such the Group has recognised both an asset and corresponding liability for this additional payment, as set out in note 25 to the financial statements. A further payment of US$1.5m would be payable if production reaches an annualised rate over a quarter of 12,000t, however, based on the current guidance the Directors do not consider this probable and as such no liability has been recognised.

Valuation

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

Producing royalties
continued

El Valle-Boinás/Carlés ('EVBC'), Gold, Copper and Silver, Spain

What we own

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

Performance

The Group received royalty income of £1.2m from EVBC during the past year. This compares to £1.7m received in 2014.

On December 18, 2015, Orvana announced EVBC production for the 12 month period ending September 30, 2015 of 53,733oz of gold (2014: 62,957oz), 166,744oz of silver (2014: 156,977oz) and 6.1Mlbs of copper (2014: 5.6Mlbs). Orvana also announced EVBC production guidance for the 12 month period ending September 30, 2016, of 43,000oz to 48,000oz of gold, 120,000oz to 130,000oz of silver, and 4.5Mlbs to 5.0Mlbs of copper.

During 2015, production at the El Valle mine was impacted by a number of challenges including dewatering, power and maintenance issues together with a transition from contractor mining to owner/operator mining. However, from August 2015 onwards, the production level at El Valle reached previously achieved production and development rates. Orvana continues to focus on productivity improvements, infrastructure upgrades and costs reductions at the mine and expects to implement solutions to some of the on-going challenges the mines faces during its fiscal year 2016 (ending September 30).

At the end of February 2015, the Carlés mine was placed on care and maintenance. Orvana has stated its intention to leave the Carlés mine on care and maintenance while it reviews alternative mining methods, or until the price of gold becomes more sustainable for the mine.

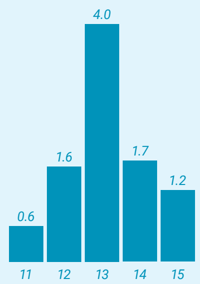
On February 3, 2016, Orvana announced its FY2016 first quarter production results for EVBC. The mine produced 13,893oz of gold (Q1 FY2015:15,276oz), 1.2Mlbs of copper (Q1 FY2015: 1.85Mlbs) and 43,431oz of silver (Q1 FY2015: 43,946oz).

On February 3, 2016, Orvana announced a new Mineral Resource at the Villar Zone of the El Valle mine, and at the nearby La Brueva Zone, in-line with Orvana's previously announced plans to increase the EVBC Reserves and Resource estimates.

Valuation

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

EVBC royalty income
£m



Four Mile, Uranium, Australia

What we own

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

Performance

The Four Mile uranium mine was previously a joint venture between Quasar (75%) and ASX-listed Alliance Resources Limited ('Alliance'). On September 18, 2015, Alliance announced the completion of the sale of its 25% interest in the joint venture to Quasar.

Production commenced at Four Mile in 2014 with the intention to produce 2.8Mlbs of uranium ore concentrates in 2015. All production in 2014 and 2015 was stockpiled. As a result, the Group did not receive any royalty income from Four Mile in 2015.

In February 2016, the Group received maiden royalty receipts of £0.1m from Four Mile, following the commencement of sales by Quasar.

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.

Development royalties

Salamanca, Uranium, Spain

What we own

The Group has a 1% life of mine NSR royalty on the Salamanca uranium project located in Spain and operated by ASX-listed Berkeley 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

On July 20, 2015, Berkeley announced that the Nuclear Safety Council had issued a favourable report for the grant of the Initial Authorisation of the proposed process plant to be built at Retortillo, as a radioactive facility, the first in a three-step process required to authorise the plant for operation. On October 21, 2015, Berkeley announced the receipt of all the European Union, National, Regional and Provincial level approvals required for the initial infrastructure development of the Salamanca project. These represent major milestones in advancing the project towards first production, with the Environmental Licence and the Mining Licence already granted at the Retortillo deposit.

On October 7, 2015, Berkeley announced that following an infill drill programme at Zona 7, the mineral resource estimate for Zona 7 was updated for an increase in resource grade, an increase in resource pounds and the upgrade of almost 90% of the Inferred Resource to the Indicated category.

On November 4, 2015, Berkeley announced an updated pre-feasibility study ('PFS') on the Salamanca project that now includes the updated Zona 7 deposit. Its inclusion in the updated PFS has increased the mine life from 11 to 18 years and reduced operating costs from US$24.60 to US$15.60 per pound of uranium produced during steady state operations, which should make it amongst the lowest cost producers in the world, once developed.

During 2016, Berkeley expects to conduct additional exploration drilling at Salamanca to test a number of drill targets located within 10km of the approved processing facility and where historical drilling has intersected high grades of uranium without being fully advanced.

Valuation

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

Groundhog, Anthracite, Canada

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 licenses in 2014 to the project's operator, ASX-listed, Atrum Coal NL ('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.

Performance

In 2014, Atrum announced the results of a Supplementary PFS for a 5.4Mtpa ROM underground mine. Based on inputs on pricing from Wood Mackenzie, the project generated a post-tax NPV10 (nominal) of approximately A$1.7b, on a capex of US$596m and FOB production cost including royalties of US$86/t.

Exploration activities in 2015 focussed on consolidating knowledge of the two key economic targets, Discovery B seam and the lower, Duke E seam. Atrum is currently finalising a new PFS study which includes underground mines in these target horizons, and low cost highwall options.

Atrum announced on February 26, 2015, that it had signed non-binding memorandums of understanding for offtake with Japanese counterparties for anthracite produced from the Groundhog North Mining Complex. In March 2015, Atrum signed a binding equipment finance agreement with China Coal Technology & Engineering Group Corp ('CCTEG') for the supply and finance of anthracite mining equipment to facilitate development at the Groundhog North project. Stage one of the equipment finance package is valued at US$100m and includes the supply of mining equipment required to complete the initial small scale mine and subsequent mine wall development for the full scale mine.

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.

Amapá & Tucano, Iron Ore, Brazil

What we own

Amapá

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

Tucano

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

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

Performance

Operations at Amapá remained suspended throughout 2015, with Zamin attempting to restructure its finances to fund the rebuilding of the Santana port. In light of the continued suspension of operations at Amapá, together with further declines in iron ore prices, the Directors have recognised a further impairment charge of £2.8m during the year, reducing the carrying value of the Amapá royalty to £1.8m as at December 31, 2015.

Valuation

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

Early-stage royalties
Ring of Fire, Chromite, Canada

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

Performance
On April 28, 2015, Noront completed its acquisition of the claims on the Black Thor, Black Label and Big Daddy chromite deposits from Cliffs Resources Limited ('Cliffs'). These claims are adjacent to Noront's Eagle's Nest nickel-copper-platinum group element and Blackbird chromite deposit.

Noront intends to complete a strategic plan and preliminary economic assessment for the development of the newly acquired chromite deposits during 2016. Whilst Noront's acquisition of these deposits is considered very favourable by the Group, the timeline to production remains unclear and chromite prices remain under pressure. As a result, the Directors have recognised a further impairment charge of £1.6m during the year, reducing the carrying value of the Group's Ring of Fire royalty to £3.1m as at December 31, 2015.

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

Pilbara, Iron ore, Australia

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

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

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

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

Dugbe 1, Gold, Liberia

What we own

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

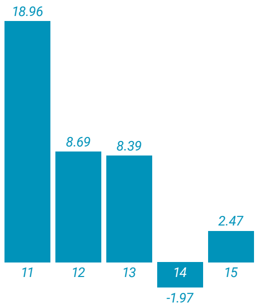
Performance

On July 10, 2015, Hummingbird announced that it had has signed a 25 year mineral development agreement ('MDA') with the Government of Liberia for the Dugbe Shear Zone which contains the Dugbe project. Hummingbird is currently in the process of optimising an ongoing definitive feasibility study on the project in order to unlock further value of this large-scale development opportunity.

Valuation

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

Key performance indicators



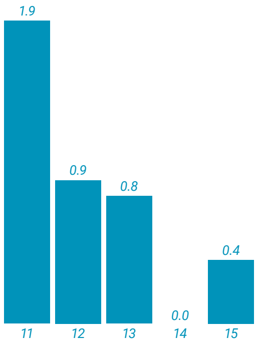
2.47p

ADJUSTED EARNINGS PER SHARE

(p)

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

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



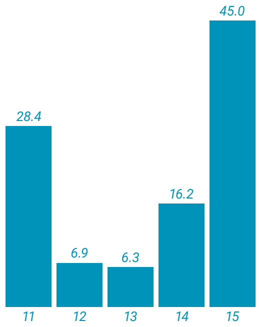
0.4x

DIVIDEND COVER

(x)

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.

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



£45.0m

ROYALTY ASSETS ACQUIRED

(£m)

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

Financial review

2015 saw Anglo Pacific make considerable progress in growing its royalty income, which should mean that 2014 will, in hindsight, have been the lowest point for the Group's income both historically and looking forward. Equally as encouraging was the significant reduction in overheads reported in the year, resulting in a £6.2m increase in adjusted earnings in the year to £4.0m (2014: loss £2.2m). The results for the year would have been even stronger but for the continued declines in commodity prices experienced in 2015, leading to further revaluation losses and impairment charges, as described below. The Group is proposing to revise its annual dividend level from the previous 8p per share to 6p per share. It is envisaged that this level will be maintained in the immediate future, subject to commodity prices remaining at their current level.

Income statement

Royalty income	**2015 £'000**	2014 £'000
Kestrel	3,614	1,657
Amapá	–	174
El Valle	1,246	1,650
Like-for-like royalty income	**4,860**	**3,481**
Narrabri	3,217	–
Maracás Menchen	606	–
Total royalty income	**8,683**	**3,481**

Total royalty income in the year was £8.7m, more than double the £3.5m reported in 2014.

Royalty income, on a like-for-like basis, for the period was £4.9m, compared with £3.5m in 2014. The increase was driven by a greater proportion of overall production, 49%, mined from within the Group's royalty land at Kestrel. This was broadly in line with our expectations. The proportion should increase to between 60-65% in 2016 based on the forward-looking information which Rio Tinto provide to us, and the expectation is for this to increase to 90% during 2017. The full benefit of this increased production was offset somewhat by further declines in the price of coking coal throughout the year. At EVBC, a combination of lower gold prices and production led to income being 24% lower in the period at £1.2m.

The Group earned £3.8m of income from its two recent royalty acquisitions during the year. The majority of this was associated with the Narrabri royalty which the Group acquired in March 2015, but was entitled to income from January 1, 2015. The mine operator, Whitehaven, announced a record level of production for 2015 which was comfortably in excess of the level of production assumed at the time of acquisition although, similar to Kestrel, the decline in the coal price during the year reduced some of the benefit of this excellent production achievement on the Group's reported income.

The other source of additional income in 2015 was initial receipts from the Group's Maracás Menchen royalty which was acquired in June 2014. Although the Group is pleased with the production progress which the operator, Largo, is making, the vanadium price has fallen by over 70% since the royalty was acquired which has significantly reduced the royalty income being reported.

Operating expenses

In addition to reporting a significant increase in royalty income in the year, the Group is also pleased to report a considerable reduction in its operating costs in the year.

	2015 £'000	2014 £'000	
Staff costs (excluding share-based payments)	1,937	3,057	
Professional fees	418	834	
Other costs	865	1,024	
	3,220	**4,915**	**(34.5%)**
Non-cash share-based payments	840	609	
Operating expenses	4,060	5,524	(26.5%)

This reduction of 34.5%, excluding non-cash share-based payments, followed an increased focus on cost control in light of the impact of falling commodity prices on overall profitability. A large portion of the reported reduction in costs in 2015 can be attributed to certain positions being vacated during the year which were not replaced. Furthermore, there was a significant reduction in bonus provisions in the current year. Management has identified other areas where there is the potential to reduce costs further in the year ahead without impacting on the day-to-day business of the Group, and intends to implement these.

Taxation

Current tax in the year amounted to £1.0m (2014: £1.4m), largely representing the payment of withholding taxes. No corporate tax was paid in the current year due to the utilisation of carried forward tax losses. The Group still has significant carried forward tax losses which it expects to utilise in the coming years and which in turn should help to reduce the effective tax rate in the short-term.

Financial review

Earnings per share

All of the above results in an increase to adjusted earnings for the year ended December 31, 2015 of £6.2m to £4.0m (2014: adjusted loss of £2.2m) which results in an adjusted earnings per share of 2.47p (2014: loss of 1.97p). See note 11 for a detailed calculation of adjusted earnings per share.

The income statement also includes non-cash charges relating to amortisation, impairment and fair value adjustments, along with a corresponding deferred tax credit.

The amortisation charge in 2015 relates to the Group's Narrabri, Maracás Menchen and Four Mile royalties, which are accounted for as intangible assets, all of which came into production during the year. The amortisation charge in 2014 related to the Amapá royalty. As there has been no production from this mine since mid-2013, amortisation was suspended in 2015 until such time as production recommences.

Other fair value adjustments reflected in the income statement include the revaluation of the Kestrel royalty and impairment charges relating to both mining and exploration interests and royalty intangibles net of the corresponding deferred tax allowance. These items are discussed in more detail in the balance sheet section below.

Allowing for these charges, the Group reported a loss after tax of £22.6m (2014: £47.6m) which equates to a loss per share of 14.06p (2014: 42.09p).

Balance sheet

The Group's reported net assets increased from £161.3m at the beginning of the year to £162.0m at December 31, 2015. Although a small increase, there were some large movements during the year which largely netted off, as illustrated in the table below.

Net asset value	*£'000*	*Pence per share (p)*
At January 1, 2015	161,250	138p
Narrabri acquisition	44,971	
Royalty impairments	(4,414)	
Amortisation	(2,573)	
Kestrel valuation (net of deferred tax)	(24,114)	
Dividends	(11,901)	
Other	(1,236)	
At December 31, 2015	**161,983**	**95p**

The addition of the Narrabri royalty in March 2015 for £45.0m, including acquisition costs, was the Group's largest ever royalty acquisition. This was funded by way of share issue. Although this increased net assets considerably, the benefit of this was largely offset in 2015 by the impact of falling commodity prices on the carrying value of the Group's other assets.

Kestrel is included on the balance sheet at fair value and remeasured at each report date. There is also a corresponding deferred tax liability recognised on this revalued amount. The net reduction on the balance sheet in the period relating to Kestrel was £24.1m. This comprised a decrease in its fair value of £34.5m, largely due to a revision to the long term coal price as outlined in note 14, partially offset by a decrease in the associated deferred tax liability of £10.3m. .

Impairment	***2015 £'000***	*2014 £'000*
Amapá	2,793	8,414
Ring of Fire	1,621	–
Isua	–	15,288
Bulqiza	–	700
Cresso	–	222
Total royalty related impairments	4,414	24,624
Impairment of mining and exploration interests	930	4,873
Other	–	1,352
Total impairments	**5,344**	**30,849**

The Group's royalty intangibles decreased by £10.6m in the period. Of this amount, £4.4m related to impairment provisions made in accordance with our accounting policy, caused by further falls in commodity prices and revising estimated production commencement dates, both of which impact on the expected future discounted cash flows. £2.8m of the provision related to the Amapá royalty whereby further falls in the iron ore price along with continued delays in rebuilding the port infrastructure have resulted in a further delay to the expected restart date. Pricing revisions also led to a further provision of £1.6m in relation to the Ring of Fire royalty.

The Group's intangible royalties, as described above, are amortised upon the commencement of production. The amortisation charge of £2.6m in the period included Narrabri, Maracás Menchen and Four Mile. Furthermore, as a considerable portion of the Group's assets are held in an Australian structure, there was a £3.6m translation loss at the reporting date.

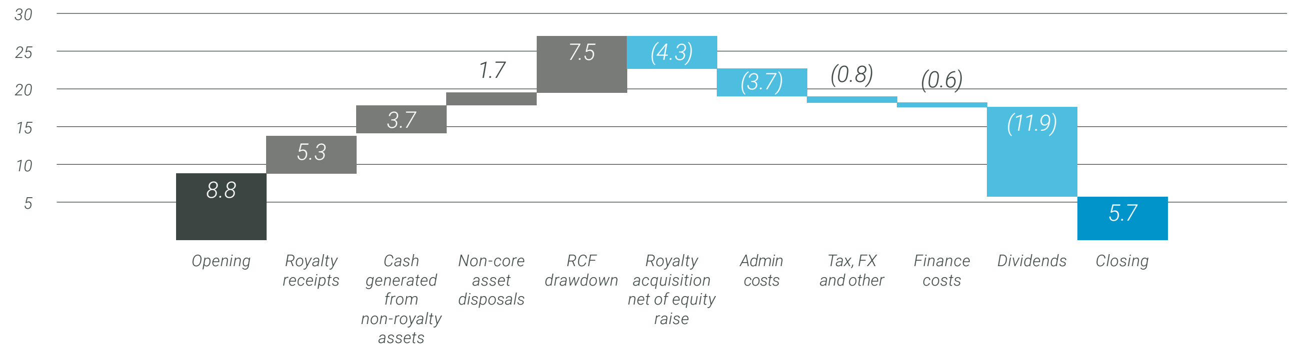
The Group's net asset value per share was 95p at December 31, 2015 (2014: 138p). Even allowing for the 2015 interim dividend paid in February 2016 of 4p per share, the net asset value is at a considerable premium to the share price of 58p at December 31, 2015.

It is worth highlighting that positive developments at certain of the Group's royalties during the period have, we believe, increased the value of these assets to the Group, although this is not reflected on the balance sheet. The following are some examples of this:

- Narrabri: the exceptional operating performance at Narrabri in the period, along with Whitehaven's announcement that they had received a permit to increase production to 11Mtpa from 8Mtpa has the effect of accelerating production, therefore increasing revenue, beyond the level which the Group had factored into the acquisition price. This acceleration and enhancement of production brings forward income which increases the present value of the royalty.
- Berkeley Energia: have made considerable progress advancing their uranium project in Spain. Recent drilling has produced some very encouraging results suggesting a near doubling of the resource. As the Group had only priced the royalty based on the original Zona 7 deposit, the additional reserves which were unknown at the time, represent additional value.

Under IFRS these royalties are accounted for as intangible assets which requires them to be carried at cost and amortised over the life of mine once production commences.

Cash flow and borrowings



2014	15.7	6.3	0.0	8.7	0.0	(6.6)	(5.6)	1.8	0.0	(11.5)	8.8

Cash flows generated from operations in the period were £1.5m compared to £3.0m in 2014. Although this seems at odds with the increase in royalty income reported in the period, this is largely due to timing differences. Royalty income for Q4 in any one year is not received until the following month. As such, the income is recognised in the income statement but not in the cash flow statement. Income in Q4 2014 (£0.1m) is included in the 2015 cash flow whereas the income for Q4 2015 (£2.9m) is not.

As part of the Narrabri royalty acquisition the Group entered into a US$30.0m three year secured revolving credit facility for working capital purposes. At December 31, 2015 the Group had net debt of £1.8m. The Group's cash position was enhanced by the recovery in full, upon maturity in December 2015, of the C$5.0m loan which it had provided to Laramide Resources Limited.

The Group retains its 16.67% equity holding in Berkeley Energia which increased in value considerably in the second half of 2015. This holding was included on the balance sheet at December 31, 2015 at US$£7.2m, being the market value at that point in time. Although the preference is to retain this stake, it does provide a further source of liquidity.

The single largest outgoing which the Group has is its dividend. This was uncovered in terms of free cash flow in 2015. Due to a lower commodity price outlook, which is outside the control of management, the Directors are proposing a slight reduction in the final dividend from 4p in the prior year to 3p, making a full year payment of 7p per share for 2015. The 3p half yearly payment is intended to remain unchanged in the short term, subject to any deterioration in the Group's financial prospects. At 6p per share, the annual dividend should be much closer to being covered in 2016 with full cover achieved from 2017 onwards.

Financial prospects for the year ahead

Although further declines in commodity prices reduced the overall level of income being reported in the year, the Group was very pleased with the underlying production performance achieved by the royalty operators. In spite of a difficult year for the mining sector, all of the Group's income generating royalties remained in production. With the proportion of production from Kestrel expected to increase to 60-65% in 2016, along with the Narrabri ramp up and initial royalty receipts from Four Mile, the Group expects to report a higher level of royalty income over the next twelve months, subject to commodity price stabilisation.

Foreign exchange also has the potential to increase reported revenue in 2016. The pound has weakened somewhat against the US and Australian dollar in the first few months of 2016. Should this trend continue, the Group's results would benefit from foreign exchange as most of its income is received in Australian dollars with the underlying pricing in US dollars.

The organic growth within the portfolio, along with plenty of financial headroom under the Group's revolving credit facility and a continued focus on costs, mean that the Group remains in a strong financial position for the year ahead.

Principal risks and uncertainties

Background

The Board undertook a comprehensive review of risk during the year. This review involved the Directors completing a risk questionnaire which required them to rank each risk on the Group's risk register and to identify any risks which they considered significant that were missing from the report. The results were compiled and presented to the Board in November 2015, which resulted in some changes to the principal risks as described below.

Following another challenging year for the mining sector which has seen even the largest global mining companies initiate measures to strengthen their balance sheets, the Board, led by the Audit Committee, has dedicated considerable time to analysing the risks and opportunities that this presents. For Anglo Pacific, further declines in commodity prices and the Company's share price provided further focus for the Board to carefully consider the risks facing the Group in being able to execute its strategy. This exercise was performed in conjunction with a wider analysis of the Group's prospects in voluntarily complying with provision C2.2 of the 2014 Combined Code, which requires a statement on viability to be made in the annual report, including the determination and consideration of a stress tested 'severe but plausible' scenario.

Risk appetite and viability

The underlying work involved in making a positive statement on viability, in accordance with C2.2 of the Combined Code, involves articulating the risk appetite of the Board in executing the Group's strategy. Although the Group refreshes its risk register on a regular basis, further quantitative analysis was included in the current year to enable the Board to consider in more detail the risks and mitigations so the net risk could be evaluated against the Group's risk appetite. In accordance with the Code, this exercise also considered an additional downside scenario which attempted to determine at what point strategic intervention would be required under a 'severe but plausible' case in order for the Group to remain viable. This analysis was performed for a three year period, consistent with the Group's medium term planning horizon and the term of its borrowing facility.

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

Conclusion

The outcome of the Board's risk assessment resulted in the following revisions to the principal risks as follows:

2014 Risks	*Revisions in 2015*	*2015 Risks*	*Description*
1. Commodity price risk 2. Achieving investment projections	2014 risks combined into one risk	1. That the current portfolio will not generate sufficient cash	Operational
3. Dependence on operators	No change	2. Dependence on operators	Operational
4. Financial covenants associated with secured debt	2014 risk expanded to include refinancing risk	3. That the Group fails to meet its obligations under its secured borrowing facility and is unable to refinance	Operational
		4. That royalty financing continues to be in demand	Strategic
		5. That the Group cannot finance royalty and streaming opportunities	Strategic
		6. That the reputation of coal will deteriorate and impact on its appeal as an investment proposition	Strategic

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

Principal risks

Operational

Risk	*Possible cause*	*Mitigation*	*Unmitigated risk*
That the current portfolio will not generate sufficient cash The Group expects the current portfolio to generate a certain level of income, largely driven by increased mining at Kestrel within the Group's land and continued production upside at Narrabri.	• Further falls in commodity prices • Unexpected production issues at Kestrel and/or Narrabri • Reduction in Queensland royalty rate • Foreign exchange risk (discussed separately below)	The Group has little ability to influence the quantum of royalties it receives post acquisition as it does not hedge its commodity exposure, nor can it influence the royalty rate at Kestrel.	The Group is exposed to commodity price volatility, although unlike mine operators its cost base is flexible and fully within its control.
Dependence on operators to remain in production The Group depends on mine operators to remain in production in order to earn royalty income. This will require the underlying operations to remain economically viable and for the operator to remain a going concern.	• Project becomes uneconomic due to falling commodity prices and is placed on care and maintenance • Operator gets into financial difficulty through over-leverage (covenant pressure, refinancing risk) or inability to access capital to meet capex requirements	The best way the Group can mitigate against operator reliance is to continue diversifying its source of income and reducing its reliance on any one operator, which in the past has been Rio Tinto at Kestrel. The acquisition of the Narrabri royalty was an example of such diversification.	The last twelve months has been as tough a period as any in recent times for the mining sector, yet all of our royalties which were in production in 2014, or acquired since, remain in production, showing the resilience of the operators and reflecting their position at the lower end of the cost curve.
That the Group fails to meet its obligations under its secured borrowing facility The Group's borrowings are secured and subject to certain financial covenants, the failing of which could impact on the ability of the Group to continue to run its business independently. The decline in commodity prices since the facility was entered into has also increased the refinancing risk upon maturity.	• Breach of financial covenant associated with a reduction in royalty income (via commodity price declines or production disruption) • Further deterioration in market conditions impacting on the Group's ability to refinance	Detailed cash flow forecasts provide timely warning of any upcoming tightening of headroom under financial covenants. The Group has some further liquidity in its equity portfolio which could be monetised to reduce borrowings.	Refinancing risk will depend on market conditions at a future point in time which is outside the control of management. The existing facility is committed until 2018 and the Group will pro-actively refinance ahead of that to mitigate the dependency on market conditions at that time.

Principal risks and uncertainties

Strategic

Risk	Possible cause	Mitigation	Unmitigated risk
That royalty financing continues to be in demand In order to execute its strategy, the Group needs to acquire further royalties. The success of this strategy will depend on the future demand for royalty financing as part of the financing mix in the sector.	• Recovery in the outlook for mining markets could trigger a sector rerating and share price appreciation • Pricing competitiveness of royalties versus conventional sources of finance (alternative financing can be perceived as more expensive on a headline basis) • Appetite of counterparties to relinquish operating margin in operating margin in favour of restrictive debt or dilutive equity	Generally, demand for royalty financing is greater when the underlying market conditions are challenging, as they are now. The past twelve months has seen considerable activity in the sector, primarily by way of streaming, which demonstrates that there is a need for alternative financing. The Directors acknowledge that there can be no guarantee market conditions will always be optimal for raising finance.	There can be no guarantee that royalties will always be in demand throughout mining cycles.

Risk	Possible cause	Mitigation	Unmitigated risk
That the Group cannot finance royalty opportunities Given the difficulties being experienced in the wider mining industry, there can be no certainty that the Group will have ready access to capital to finance royalty opportunities.	• Further fall in share price results in excessive dilution where the acquisition consideration is funded by equity • Further capital outflows from the sector may dampen investor appetite for new equity issuances • The Group's cost of capital, due to its current dividend yield, makes executing accretive deals more difficult • Further commodity price declines reduce the debt capacity of the Group	The Group demonstrated that royalty opportunities which meet its strict investment criteria, such as the recent Narrabri transaction, should be capable of being financed. The Group remains in close dialogue with several institutions who are interested in co-investing in appropriate opportunities. This should significantly de-risk financing risk for larger transactions.	There can be no guarantee market conditions will always be optimal for raising finance.

Risk	Possible cause	Mitigation	Unmitigated risk
That the reputation of coal will deteriorate and impact on its appeal as an investment proposition The coal industry has attracted considerable criticism in recent years as environmental lobbyists continue to exert pressure on the investment community not to support extractive industries. Although Anglo Pacific is not a coal operator, it continues to be considered similar to an indirect investment in coal.	• Climate change lobbyists continue to target the natural resource section and coal producers in particular	Australian coal, on which the Group's Kestrel and Narrabri royalties are based, is generally regarded as low in ash and low in sulphur and much cleaner in nature. Anglo Pacific believes that the coal industry is beginning to promote cleaner, more sustainable coal which clearly has a place in future power solutions.	The Group's strategy is to build a diversified royalty portfolio which should naturally reduce the Group's exposure to coal going forward. The Directors continue to believe in the future of coal as both a power source and raw material, especially less polluting coal from mines such as Kestrel and Narrabri.

Financial

Risk	*Possible cause*	*Mitigation*	*Unmitigated risk*
Liquidity risk That the Group cannot meet all of its obligations as they fall due	• Unexpected financial claim • Insufficient access to cash	The Group prepares regular cash flow projections which highlight all anticipated and probable expenses including routine overheads, tax and any capital commitments. The Group has over US$15m undrawn on its existing RCF and potential access to the capital markets to provide additional liquidity.	The Directors have carefully considered this risk in making a positive statement about going concern and viability.
Credit risk That there is a risk of default by those owing the Group money or those institutions holding the Group's cash reserves	• Royalty payment default • Bank collapse	The Group operates controlled treasury policies which spreads the concentration of the Group's cash balances amongst separate financial institutions with sufficiently high credit ratings	The risk of counterparty default is assessed when entering into new royalty agreements. The Directors are confident that the Kestrel and Narrabri royalties, which represent the majority of the Group's receivables, are at relatively low risk of default due to the nature of the operators involved.
Foreign exchange risk That foreign exchange movements adversely impact on the Group's cash flow projections	• Cash flow risk associated with US$ derived income and costs (including dividend) largely payable in pounds. • Translation risk of having a presentational currency in GBP but assets denominated in A$ • Financing risk when raising equity in GBP to fund US$ denominated acquisitions	Management is considering hedging a portion of the Group's foreign currency exposure now that there is a reliable track record of forecasting at Kestrel along with the significant income being received from Narrabri.	The Directors take into account foreign exchange risk when entering into royalty acquisitions and financing transactions.
Interest rate risk That an increase in interest rates could adversely impact on the Group's prospects	• The Group is exposed to the US and UK LIBOR rate as part of its bank facility	The Group has a relatively low level of borrowings and, as such, interest rate risk is not considered material when assessing the Group's longer term prospects.	Interest rates currently remain at historically low levels. There can be no guarantee that this will continue in the short to medium term which could impact on the cost of the Group's capital when acquiring future royalties.
Other pricing risk The Group's results are determined by other pricing inputs which could result in unrealised losses at each reporting date	• The Group has a portfolio of certain publically quoted equity investments which are marked to market at each reporting date • The Group's asset values are underpinned by the forward commodity price outlook at each reporting date. A decline in these prices could result in further impairment or revaluation charges.	The Group's equity portfolio has largely been divested, meaning any future impairment should be much less material to the Group. The Group uses independent third party consensus prices at each reporting date in assessing for impairment.	The Group is exposed to commodity prices and a significant decrease in commodity prices is likely to result in further impairment charges. There is little the Directors can do to mitigate against this risk once a royalty has been acquired.

aspects of the mine and comment on those likely to affect the surrounding community, including subsidence, noise and air quality. No issues were identified as part of this process.

The Group expects employees to address environmental and sustainability responsibilities within the framework of normal operating procedures and to look to minimise waste as much as economically practicable. The Audit Committee is responsible for periodically reviewing the Group's environmental practices and for monitoring their effectiveness.

Social and community issues

Anglo Pacific acknowledges that, whilst its activities have little direct contact with communities, it can positively influence the social practices and policies of companies it conducts business with. Positive social and community relationships are essential to profitable and successful mining activities. The Group endeavours to ensure that companies it works with have appropriate procedures in place to facilitate this. More specifically, Anglo Pacific's investment decision process for potential asset purchases involves due diligence relating to the full range of CSR issues, including the social and community aspects of the project. As part of its 2015 acquisition of a royalty on the Narrabri mine, Anglo Pacific extensively reviewed Whitehaven Coal's policies on community development, Aboriginal engagement, safety and environmental responsibilities. No issues were identified as part of this process.

Diversity

The Group's employees are instrumental to its success, and it respects and values the individuality and diversity that every employee brings to the business. As at December 31, 2015, 54% of the Group's employees were female (2014: 46%) as the Group had 11 employees, 6 of whom were female. In terms of the Company's Board of Directors, there were 6 Directors, 5 of whom were male and 1 of whom was female. Prior to any appointment to the Board, the Nomination Committee gives due regard to diversity and gender with a view to appointing the best placed individual for the role. The Group recognises that it has more to do in encouraging and supporting diversity and hopes to be able to identify and develop talent at all levels in the organisation as the Group continues to grow.

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

Human rights

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

Health and safety

The health and safety of the Group's employees is of fundamental importance and is a responsibility it takes seriously. During 2015, the Group implemented a new health and safety policy and undertook an office risk assessment. The Group's small size allows the day-to-day responsibility to remain at Board level, being monitored by the Chief Executive Officer. Furthermore, a commitment to health and safety is a fundamental component of any mining project, and, as part of the Group's investment decision process, consultants with the requisite expertise are engaged to assist in identifying and mitigating any such risks.

Donations

The Group's philosophy on charity has historically been that this is a decision best made by shareholders with their own resources. The Group has revised its policy and will now consider supporting select charities at the discretion of the Directors. No donations were made during 2015; however, the Group will continue to consider supporting select charities during 2016.

Greenhouse gas emissions

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

Following the Group's move to a new office at the end of 2014, power consumption has been monitored in 2015 and the Group will look to improve this going forward.

The information on *pages 08 to 35* represents the Group's Strategic Report and has been approved by the Board.

J.A. Treger

Chief Executive Officer

March 22, 2016

Corporate social responsibility

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

During 2014, the Board commissioned a review of all of Anglo Pacific's current corporate social responsibility ('CSR') practices and activities. Its purpose was to identify best practice. Where the review highlighted scope for improvement, the Company made practical and effective changes which it built on during 2015.

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

Following this extensive review, the Company extended and strengthened its due diligence process to reflect current best practices. The mechanism that the Company uses to monitor CSR issues has been given greater granularity. In particular, it directs the Company to consider the governance, policy provision, management, measurement and reporting of each material issue. During 2015, the Company has applied this to the consideration of potential investments, including it as a key royalty acquisition criterion, and uses it in the monitoring of existing investments.

At the same time the Company has further improved its office practices. The Company has implemented improvements, including but not confined to measures to conserve energy, which it will report against in the 2016 Annual Report and Accounts, and the reduction of office waste. During 2015, the Company successfully implemented a recycling policy and now recycles 25% of all office waste (2014: 0%). The Company plans to improve this further during 2016. In addition, to improve energy efficiency office lighting is now on motion and daylight sensors to minimise energy consumption.

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

Integrity

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

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

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

Environment

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

As part of the Group's investment decision process, careful consideration is given to the environmental aspects of any potential asset purchase during the due diligence phase. In particular, the Group typically engages with consultants who have the requisite expertise to ensure that it can consider and, if necessary, mitigate any risks in this regard to a properly maintainable level. In 2015, as part of its acquisition of a royalty on the Narrabri mine, Anglo Pacific engaged an independent consultant to review the environmental

Corporate governance report

Our approach towards corporate governance

As announced by the Company and approved by special resolution of the Company's shareholders on September 17, 2015, the Company transferred its listing category from a 'premium listing (commercial company)' on the Official List and into the category of a 'standard listing' on October 16, 2015 (the 'Transfer'). The Transfer was the result of ongoing discussions with the UKLA in relation to the appropriate categorisation of the Company under the Listing Rules with respect to technical considerations relating to the Company's royalty business model.

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

- certain continuing obligations set out in Chapter 9 of the Listing Rules such as providing pre-emption rights to shareholders (although the pre-emption rights under the Companies Act 2006 will continue to apply), the Model Code, certain rules regarding employee share schemes and long-term incentive plans, certain rules regarding the conduct of rights issues, open offers and placings and certain disclosures in annual financial reports;
- complying with or explaining against the UK Corporate Governance Code (although the Company will still be required to make a corporate governance statement under paragraph 7.2 of the Disclosure and Transparency Rules);
- complying with the requirement to obtain shareholder consent by way of special resolution for the cancellation of the listing of any of its shares as set out in Chapter 5 of the Listing Rules; and
- complying with provisions in Chapter 10 of the Listing Rules relating to significant transactions.

The Company is, however, continuing to comply on a voluntary basis with related party requirements that are substantially equivalent to those set out in Chapter 11 of the Listing Rules. A more detailed summary of the key differences between the regulatory requirements of standard listing companies and premium listing companies is contained at Part III of the 'Proposed transfer of listing category on the Official List from premium to standard' circular which is available on the Company's website at www.anglopacificgroup.com/circulars.

The Board remains committed to high standards of corporate governance.

Board and Committee structure

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

The Board was chaired by Mike Blyth, as Non-Executive Chairman, responsible for the leadership and effectiveness of the Board, during 2015. The time commitment expected of the Non-Executive Chairman is around six days per month. Mr. Blyth's other (mainly charitable) commitments are shown on *page 37*, none of which is considered to be significant.

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

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

David Archer acted as the Group's Senior Independent Director ('SID') during 2015, following his appointment on November 14, 2014. The role of the SID is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors where necessary. The SID takes the lead on meetings of the Non-Executive Directors outside the formal committee structure, and is available to shareholders if they have concerns that have not been resolved through the normal channels of Chairman, CEO or other member of the Executive Committee, or where such channels would be inappropriate.

The Board considers all Non-Executive Directors to be independent. Consequently, the Board believes that it has complied with the requirement of the UK Corporate Governance Code to have at least two independent Non-Executive Directors on the Board throughout the year.

The Board

Chairman

W.M. Blyth

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

Chief Executive Officer

J.A. Treger

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

Senior Independent Director

D.S. Archer

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

Non-Executive Directors

N.P.H. Meier

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

R.C. Rhodes

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

R.H. Stan

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

Board evolution

During 2015, the Company continued the process of Board rejuvenation and reinvigoration. Mark Potter resigned from his role as Chief Investment Officer and Executive Director of the Company on May 31, 2015 and Anthony Yadgaroff retired from his role as Non-Executive Director on December 31, 2015.

During the year, following the recommendation of the Nomination Committee, the Board appointed Patrick Meier as a Non-Executive Director and his experience is detailed on above.

The Company believes that the Board's composition is sufficient at this time because, following a series of appointments over the past couple of years, the Board now has the skills and experience necessary to drive the Company forward.

The Board

Appointment, development and assessment of directors

All Directors are subject to election by shareholders at the first opportunity after their appointment. Under the terms of the Company's Articles of Association, all Directors are required to retire and seek reappointment by shareholders at an AGM on the third anniversary of their appointment. All current Non-Executive Directors were appointed for an initial 3-year term, renewable at the Board's discretion for up to two further 3-year periods thereafter, and the Board intends that all future Non-Executive Director appointments will be on similar terms. Notwithstanding this, it is the Board's intention that all Directors, including the Non-Executive Directors, shall be subject to re-election at each AGM.

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

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

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

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

Board Evaluation

Every year, the Board undertakes an evaluation of its own performance and that of the Board Committees and individual Directors (including the Chairman). This year, PricewaterhouseCoopers (PwC) were asked to facilitate an independent evaluation against key areas of the Board's work including: roles and responsibilities; Committees; strategy setting; performance monitoring; risk management; and internal control.

Each of the Directors completed a self assessment questionnaire and discussed views with PwC in one-to-one meetings held during October and early November 2015. The findings of PwC's review were discussed at a meeting of the Board in November and a number of actions to improve Board performance were agreed.

Overall the review conducted by PwC concluded that the Board is performing well, with no significant issues identified. The Board is seen to be young and evolving with the appointments made to the Board in recent years having been welcomed and viewed as positively adding to the skills balance and experience of the overall Board.

The Board has recognised the importance of increased focus on risk and risk management and has agreed to extend the remit of the Audit Committee to monitor the effectiveness of the Company's risk management processes on behalf of the Board.

During the review process, the Board discussed a number of further performance enhancement opportunities. In summary, the Board has agreed to enhance the process of defining strategic objectives and monitoring progress against these throughout the year whilst also conducting more regular debate and monitoring of Board training needs, succession planning and Director performance. New and revised processes will be put in place during the coming year to progress these. In addition, the Board agreed on a number of minor administrative changes which have already been implemented.

Functioning of the Board

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

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

Directors' attendance at Board and Committee meetings which they were eligible to attend during 2015 was as follows:

	Full Board	*Audit*	*Remuneration*	*Nomination*
Total meetings held	11	3	5	3
Attendance:				
D.S. Archer	11	–	5	3
W.M. Blyth[1]	11	3	1/1	3
N.P.H. Meier[2]	4/4	–	4/4	–
M.R. Potter[3]	7/7	–	–	–
R.C. Rhodes	10	3	4	2
R.H. Stan	11	3	5	3
J.A. Treger	11	–	–	–
A.H. Yadgaroff	11	–	–	–

[1] W.M. Blyth stepped down from the Remuneration Committee on May 8, 2015.

[2] N.P.H. Meier was appointed to the Board and to the Remuneration Committee on April 30, 2015 and May 8, 2015 respectively.

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

Relations with shareholders

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

There are over 2,000 private investors in the Group. The Board was pleased by the attendance at the 2015 AGM and the active engagement of investors to further their understanding of the current business activity.

As disclosed in the 2014 Annual Report and Accounts, the Board appointed Macquarie Bank and Peel Hunt as joint brokers alongside its existing broker, BMO Capital Markets. The Board remains satisfied that the UK, Australia and Canada, which are the three jurisdictions likely to make up most of our shareholder base, are well covered by brokers with significant local expertise.

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

Risk management and internal control

The Board retains overall responsibility for the Group's system of internal control and risk management and determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. As discussed above, the Board has recognised the importance of increased focus on risk and risk management and has agreed to extend the remit of the Audit Committee to monitor the effectiveness of the Company's risk management processes on behalf of the Board. The Board, supported by executive management, will also enhance the review and monitoring of the Group's principal risks.

A statement of Directors' responsibilities in respect of the financial statements is set out on *page 61*.

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

The key elements of the control system in operation are:

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

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2015 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.

During 2015, the Company's internal controls and procedures were modified to take into account a reduction in senior personnel. The Directors confirm that the Board has reviewed the effectiveness of the system of internal control during the period and concluded that the controls and procedures are adequate. The Board will continue to review the adequacy of the Company's internal controls and will test the controls and procedures again during 2016.

Nomination Committee

Composition

Compliant with the Code:

W.M. Blyth – Chairman

D.S. Archer

R.C. Rhodes

R.H. Stan

Role and responsibilities

The primary responsibilities of the Nomination Committee are to:

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

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

Diversity policy

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

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

Main activities covered during 2015

The Nomination Committee was actively involved during 2015 in reviewing the structure, size and composition of the Board, in light of the need to maintain a balance of appropriate skills and accepted best corporate governance practice. The Committee is responsible for identifying and nominating candidates for both Executive and Non-Executive Directorships for approval by the Board.

The Committee has the authority to use an external search consultancy or open advertising. For the appointment of Mr. Meier, the Board was seeking a candidate with the financial and investment experience of Mr. Yadgaroff, prior to the latter's retirement on December 31, 2015. To assist with this, the Board employed the services of a search consultancy, Heidrick & Struggles.

The Committee has, with assistance from Heidrick & Struggles, reviewed the Company's Succession Planning Policy for Executive Directors and senior staff members and has implemented an appropriate policy to govern any future changes to executive management.

W.M. Blyth
Chairman
March 22, 2016

Audit Committee

Composition

Compliant with the Code:

R.C. Rhodes – Chairman

W.M. Blyth

R.H. Stan

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

Roles and responsibilities

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

The Committee is responsible for:

- monitoring the integrity of the Company's annual and interim financial statements, the accompanying reports to the shareholders and corporate governance statements;
- making recommendations to the Board concerning the adoption of the annual and interim financial statements;
- reviewing and challenging the consistency of, and any changes to, accounting policies, methods and standards;
- overseeing the Group's relations with the external auditors, including the assessment of independence, and their effectiveness;
- making recommendations to the Board on the appointment, retention and removal of the external auditors and tendering of external audit services;
- advising the Board on the external auditor's remuneration for both audit and any non-audit work;
- reviewing and monitoring the reports from management on the principal risks of the Group outlined on *pages 30 to 33* and the management of those risks;
- monitoring and reviewing the adequacy and effectiveness of the Company's internal financial controls;
- considering the need for and managing the effectiveness of the Company's approach to internal audit; and
- reviewing and monitoring the environmental and social impact of the Company's activities, the Company's whistle-blowing procedure and the Company's systems and controls for the prevention of bribery.

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

Main activities covered during 2015

In 2015 the Committee's activities focused on:

- recommending that the Board comply on a voluntary basis with provision C.2.2 of the 2014 Combined Code in making a statement on the Group's viability (these provisions only apply to companies listed on the premium segment of the London Stock Exchange but following the Company's transition from the premium to the standard segment in 2015 the Board committed to maintaining high levels of corporate governance);
- assessing management's projections under different scenarios to allow the Board to make its assessment of the longer-term viability of the Company;
- leading a comprehensive review of the Group's principal risks and overall risk appetite;
- monitoring the effectiveness of the Group's risk management systems;
- reviewing asset carrying values and other material accounting matters;
- reviewing the accounting classification and treatment of significant acquisitions;
- monitoring legal and tax matters and reviewing associated accounting provisions; and
- considering the requirement for the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable.

Significant issues relating to the financial statements

The significant issues considered by the Committee in relation to the financial statements are set out in the table below, together with a summary of how the issue was addressed by the Committee. In addition, the Committee and the external auditors have discussed the significant issues addressed by the Committee during the year and the areas of particular audit focus, as described in the Independent Auditor's Report on *pages 62 to 64*.

Audit Committee

Significant issues considered by the Committee in relation to the financial statements	*How the issue was addressed by the Committee*
Review of the accounting classification and treatment of significant acquisitions	The Committee reviewed and interrogated management's assessment of the individual characteristics and contractual terms and conditions of each royalty arrangement entered into by the Group during the year, to ensure the classification was consistent with the Group's accounting policies, stated in note 2. The Committee concluded the new royalties had been appropriately classified.
Review of carrying values of royalties held at amortised cost along with the investment portfolio and resulting impairment charges	The Committee reviewed and interrogated management's key assumptions including production profiles, forecast commodity prices and discount rates used to estimate the recoverable amount of each royalty and compared this to the respective carrying value. The Committee reviewed the disclosures related to the Group's impairment policy outlined in note 2 and the impairment charge of £4.4m described in note 16 for the year ended December 31, 2015. The Committee reviewed management's application of the Group's impairment policy in relation to available for sale equity investments outlined in note 3.9 together with the disclosures related to the £0.9m impairment charge described in note 17 for the year ended December 31, 2015. The Committee concluded the impairment charges recognised during the year ended December 31, 2015 were appropriate and have been adequately disclosed.
Review of the carrying value of royalties held at fair value	The Committee reviewed and interrogated management's key assumptions including production profiles, forecast commodity prices and discount rates used to determine the carrying value of those royalties held at fair value. The Committee concluded that the fair value has been calculated in accordance with the Group's accounting policy outlined in note 2 and is appropriate as at December 31, 2015.
Review and challenge the inputs and judgement used in arriving at the conclusion on going concern and viability	The Committee critically assessed the projections of future cash flows under different scenarios, including the 'severe but plausible' case, and compared these with cash balances and committed facilities available to the Group. The Committee satisfied itself that it was appropriate to recommend to the Board the adoption by the Group of the going concern basis of preparation.

Fair, balanced and understandable

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

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

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

Internal control and risk management

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

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

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

The key elements of the control system in operation are:

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

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2015 and up to the date of approval of the report and financial statements that have required the Board to deal with any related material internal control issues.

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

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

External audit

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

Deloitte UK LLP were appointed as the Group's new independent auditor in June 2014 following a tender process. Resolutions to authorise the Board to re-appoint the auditors and to determine their remuneration for the year ending December 31, 2016 will be proposed at the AGM on May 10, 2016.

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

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

R.C. Rhodes
Chairman
March 22, 2016

Remuneration Committee

Composition

Compliant with the Code:

D.S. Archer – Chairman

N.P.H. Meier – appointed to the Remuneration Committee on May 8, 2015

R.C. Rhodes

R.H. Stan

W.M. Blyth – stood down from the Remuneration Committee on May 8, 2015

Role and responsibilities

The primary responsibilities of the Remuneration Committee are to:

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

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

External advisors

The Remuneration Committee has access to the advice of independent remuneration consultants when required. During 2015, the Remuneration Committee received advice from New Bridge Street ('NBS'). NBS was first appointed by the Remuneration Committee on January 20, 2014. NBS is a signatory to the Remuneration Consultants' Code of Conduct and has no other connection with the Company. The Remuneration Committee is satisfied that the advice that it receives from NBS is objective and independent.

Main activities covered during 2015

The Remuneration Committee's activities focused on:

- the review of the effectiveness of the Value Creation Plan ('VCP') and developing, in conjunction with NBS, a set of tailored amendments to the VCP for the consideration of shareholders;
- designing the CEO's 2015 bonus framework and the associated performance scorecard criteria;
- considering the grant of additional VCP allocations;
- the design and implementation of the Unapproved Share Option Plan ('USOP') to incentivise both direct and indirect reports of the CEO; and
- providing guidance to the CEO on salaries and bonuses to be awarded to his direct reports and approving salaries and bonuses paid.

Directors' remuneration report

Dear Shareholder,

Our remuneration report is, as last year, in two parts: a statement of the Company's policy on Directors' remuneration, and an Annual Remuneration Report which describes how the policy was implemented in 2015. Reflecting proposed amendments to the Long-Term Incentive Plan ('LTIP'), the revised Remuneration Policy Report is being put to a binding shareholder resolution at the forthcoming Annual General Meeting ('AGM') and the Annual Remuneration Report will be subject to an advisory shareholder resolution.

Whilst we have an excellent established remuneration framework in place for short-term incentives for the CEO and his direct reports, the Remuneration Committee has concerns with the current effectiveness of the LTIP both to incentivise its participants as originally intended and to encourage the retention of key employees.

The LTIP is in the form of a Value Creation Plan ('VCP') which provides awards of shares (in the form of nil cost share options) at the end of five years to the CEO and to senior managers for increases in Total Shareholder Return ('TSR') at rates above 7% per annum. The VCP, as originally crafted, was designed to support the Company's growth strategy by providing incentives aligned with shareholder interests. Following an extensive review of the VCP we are proposing amendments to the plan to ensure it remains effective in aligning the interests of management with those of shareholders. Further details can be found in the Remuneration Policy part of this report.

In terms of short-term incentives, the CEO and the CEO's direct senior reports have individually crafted bonus objectives which were agreed for the 2015 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. This score is then applied to a maximum bonus calculated as a percentage of total salary as outlined on *page 53*.

While a number of the 2015 scorecard targets would have been achieved and there was a return to positive adjusted earnings per share, the CEO has elected to forgo a bonus in the current year. Bonus criteria will be further tailored for the 2016 year, both to ensure that they closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

With respect to the VCP, no awards were made during 2015 although the Committee is planning to recommend the issue of further units in 2016.

The main objectives for the Remuneration Committee in 2016 will be to:

- Review and further tailor the senior executive bonus criteria for the 2016 financial year;
- Consider the award of further units under the VCP; and
- Review and determine the most appropriate balance between salary and bonus for the senior executive.

More detail is provided in the body of the Remuneration Report and the Remuneration Committee trusts you will endorse the level of remuneration paid during 2015 and the revisions to the VCP and Remuneration Policy.

Yours sincerely

D.S. Archer
Chairman of the Remuneration Committee
March 22, 2016

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' and sets out the remuneration strategy that the Company will be applying (subject to approval by shareholders at the 2016 AGM) and outlines revisions to the VCP that the Company proposes to apply going forward. It has been developed taking into account the principles of the UK Corporate Governance Code 2014 and the views many of our major shareholders. The previous Policy Report was approved by shareholders at the 2014 AGM. However, in light of the proposed amendments to the VCP, the Remuneration Policy Report has been revised and will be put to a binding shareholder vote at the 2016 AGM. It is structured in the following sections:

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

The second part, the Annual Remuneration Report for 2015, details the remuneration paid to Directors during 2015 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2016 AGM. It is structured as follows:

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

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

Directors' remuneration report

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 focussed 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. We are introducing a relative measure in relation to the proposed amendments to the VCP whereby the rewards for the holders of awards granted in 2016 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 (£98.5m at December 31, 2015) and the number of its employees (11, as at March 1, 2015, 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.

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

When the VCP was introduced, circumstances within the mining sector and the value and income streams from the Company's royalties were significantly different from the current projections for the rest of the performance period. Given what has happened to commodity prices since 2014, we are concerned that the VCP is highly unlikely to be seen to be able to deliver a tangible incentive over the original period to either the CEO or other holders of VCP units. The VCP is based on the growth in the absolute TSR achieved over a five-year period from June 16, 2014. We believe that this offers the most direct alignment of Directors' interests with those of shareholders.

It is the Committee's view that these market influences, in addition to the reduction in royalties from legacy investments, are beyond what could reasonably have been anticipated at the time of the VCP's introduction and are outside the current management's control. As a result of these circumstances, the Committee has reviewed the efficacy of the VCP and has considered a number of different alternatives, which included cancelling the scheme and replacing it with a more standard LTIP with annual awards or an alternative one-off award. The Remuneration Committee wishes to avoid rewriting the general principles of remuneration as adopted at the 2014 AGM and wishes to avoid changing the key principles of the VCP whilst at the same time reflecting the major change in market conditions. Taking this into consideration, the Committee feels that an extension to the life of the initial awards and an amendment to the performance conditions for future awards is the best way to incentivise senior management and align them with shareholders, whilst retaining the principles which formed the basis of the scheme as originally designed. The performance target that has to be achieved before any options are awarded continues to be challenging. More details of this scheme are included in section F below.

Since 2014, salaries for the Executive Directors have been pre-set for the period through to December 31, 2016. Going forward Executive Directors salaries will be reviewed annually. Salaries will be increased where justified by role change, increased responsibility or a change in the latest available market data.

During 2015, the CEO's bonus criteria were extensively re-designed to incorporate a higher proportion of quantitative measures. The Committee is also very conscious of remuneration relativities within the organisation and keeps under review the bonus structure for non-Board senior managers to ensure a sensible relationship between Board and non-Board remuneration (see section I below).

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

The Remuneration Committee has a policy of active engagement with shareholders on remuneration matters. The Chairman of the Remuneration Committee met with a number of shareholders to discuss remuneration matters during 2015 and 2016. The Remuneration Committee also considers shareholder feedback received in relation to the AGM each year. Details of votes cast forand against the resolution to approve last year's remuneration report are provided in the Annual Remuneration Report. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Company's annual review of remuneration policy. Feedback during 2015 included concerns around the retention of senior executives and the efficacy of the VCP as currently designed. Concerns were also voiced by some shareholders over the level of remuneration of the CEO and the fixed salary increases contained within the policy report for Executive Directors.

The Remuneration Committee has actively engaged with most of our major shareholders on the potential changes to the VCP and the proposed introduction of an Unapproved Share Option Plan ('USOP') and was encouraged by the general support shown for both of these proposals. A revised remuneration framework has been established which is expected to remain in place for the next three years. Should there be a need for a material change to the framework within this period, the Remuneration Committee Chairman will consult major shareholders in advance.

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

C. The new remuneration policy for Executive Directors

The policy proposed for shareholder approval in respect of basic salary and annual bonus covers the three years 2016-2019 and will be effective from the date of shareholder approval. The VCP, which was approved at the 2014 AGM, remains in place. The only change being proposed to the awards which have already been made is to extend the term by two years to June 16, 2021 (previously June 16, 2019), which also requires the annual growth target of 7% to be achieved over seven years. Any future awards under the existing VCP will cover a period of approximately five years from the date of its grant to June 16, 2021, and will be based on the revised terms as outlined in the table below, subject to approval at the forthcoming AGM, the date which this Policy will be effective from. The Committee's specific policy for each element of remuneration is as follows:

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

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

Directors' remuneration report

D. Reasons for changing the previous remuneration policy

The revised remuneration package summarised above represents proposed changes to the salary review process and the VCP. The salary policy no longer prescribes fixed increases for the CEO and salaries will be reviewed annually. Under the VCP, additional awards will be allocated to the CEO and other senior non-Board managers under revised terms outlined in section F below. In addition, the performance period of existing awards would be extended by two years. The Committee believes that these changes will continue to align shareholders and management and therefore retain the original purposes of the scheme. The performance target that has to be achieved before any options are awarded continues to be considered challenging; and there is a sufficient incentive for both outperformance and retention over the next five years. The rigid ratio between corporate and personal performance bonus targets has been eliminated so as to introduce more flexibility in designing appropriate weightings to deal with individual circumstances at the time. No other changes to the Remuneration policy are proposed.

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

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

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

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

F. LTIP – Principal terms and conditions and reward scenarios

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

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

Awards granted in 2014

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

– CEO:	56%
– Non-Board Senior Management:	6.9%
– Total Allocated:	62.9%
– Unallocated:	37.1%

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

New awards to be granted in 2016

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

The maximum value that can accrue for the full award pool (which includes both the 2014 and the 2016 awards) is capped at 7.5% of the Company's issued share capital as at the end of the measurement period.

Illustrative returns

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

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

* Approximately 76% growth in TSR over the seven-year period results in a total pool equal to 9.3% of 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 cap of total growth in TSR of 300% over the period, the benefit to shareholders would be £677.20m and total participant awards would be £66.80m, of which the CEO would receive £41.7m under the original award and £8.7m under the new proposed award.

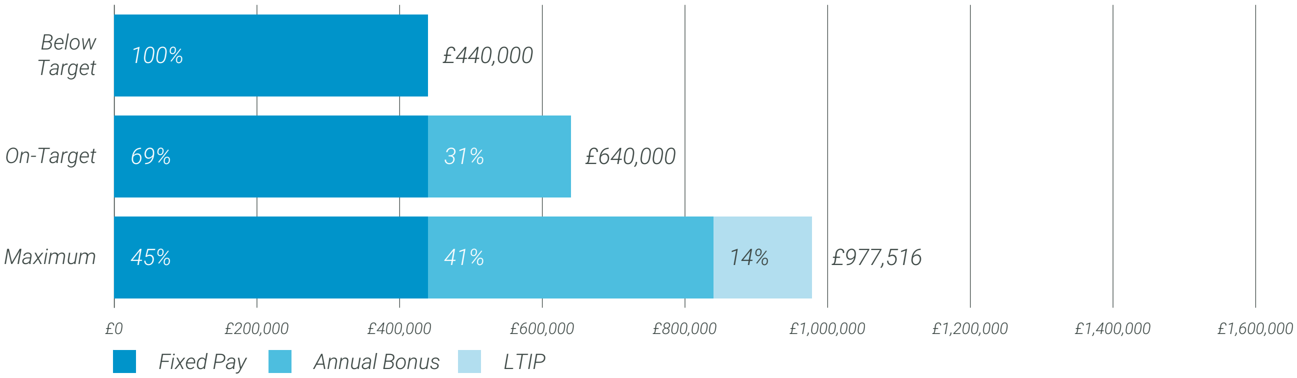
TSR performance must match or exceed the performance of the FTSE 350 All Mining Index for new awards to payout. Awards in the table are calculated from the respective starting market capitalisations (£248.0m for original awards and £161.3m for new awards (based on the net asset value as at December 31,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

G. Reward scenarios

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

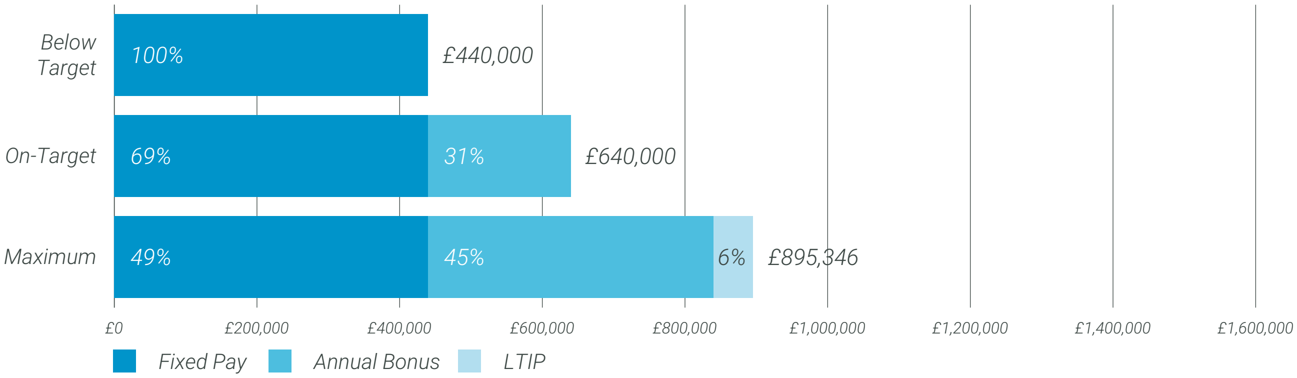
The chart below illustrates the total pay opportunities under three levels. Below target and on-target do not include any VCP vesting and simply allow for salary and pension for the below target level with a bonus award included in the on-target level. The maximum level includes the current fair value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

CEO full time equivalent total remuneration at different levels of performance



To aid comparability with standard LTIP structures, the chart below reflects the total pay opportunity if the VCP (both the original awards made in 2014 and the proposed awards to be made in 2016) are included on an annualised basis.

CEO full time equivalent total remuneration at different levels of performance



Assumptions:

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

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

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

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

If an event occurs which results in the annual bonus plan or long-term incentive performance conditions and/or targets beingdeemed 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.

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

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

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

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

J. Approach to appointment of new Executive Directors

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

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

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

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

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

K. Service contracts and payments for loss of office

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

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

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

Directors' remuneration report

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.

L. Non-Executive Directors

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

The Committee's specific policy is as follows:

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

Mr. Blyth, Mr. Archer, Mr. Meier, Ms. Rhodes and Mr. Stan were appointed for an initial 3-year term, renewable at the Board's discretion for up to two further 3-year periods thereafter and the Board intends that all future Non-Executive Directors' appointments will be on similar terms. None of the letters of appointment have provisions that relate to a change of control of the Company.

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

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

M. 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 2015

This part of the report details the remuneration paid to Directors during 2015 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2016 AGM. The information in sections A to G and I to M has been audited, the remaining sections are unaudited.

A. Single figure for total remuneration

		Salary/fees £'000	Benefits £'000	Total bonus £'000	Pension/cash allowance[13] £'000	Other £'000	Total remuneration £'000
Executive Directors							
J.A. Treger	2015	342	–	–	32	–	374
	2014	248	–	160	24	–	432
Non-Executive Directors							
W.M. Blyth[1]	2015	95	–	–	–	–	95
	2014	81	–	–	–	–	81
D.S. Archer[2]	2015	48	–	–	–	–	48
	2014	8	–	–	–	–	8
N.P.H. Meier[3]	2015	27	–	–	–	–	27
	2014	–	–	–	–	–	–
R.C. Rhodes[4]	2015	43	–	–	–	–	43
	2014	25	–	–	–	–	25
R.H. Stan[5]	2015	40	–	–	–	–	40
	2014	33	–	–	–	–	33
A.H. Yadgaroff[6]	2015	38	–	–	–	–	38
	2014	38	–	–	–	–	38
Former Directors							
M.H. Atkinson[7]	2015	–	–	–	–	–	–
	2014	19	–	–	–	–	19
P.M. Boycott[8]	2015	–	–	–	–	–	–
	2014	3	–	–	–	–	3
P.N.R. Cooke[9]	2015	–	–	–	–	–	–
	2014	28	–	–	–	–	28
M.R. Potter[10]	2015	93	–	–	2	–	95
	2014	179	–	113	6	–	298
J.G. Whellock[11]	2015	–	–	–	–	–	–
	2014	19	–	–	–	–	19
B.M. Wides[12]	2015	–	–	–	–	–	–
	2014	121	–	–	–	–	121

[1] W.M. Blyth was appointed Non-Executive Chairman on April 1, 2014.

[2] D.S. Archer was appointed to the Board on October 15, 2014.

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

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

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

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

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

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

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

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

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

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

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

Directors' remuneration report

B. Annual bonus for the year ending December 31, 2015

A set of individually crafted corporate and personal bonus criteria were agreed with the CEO for the 2015 financial year.

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 2015 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.

The CEO elected not to receive a bonus for the 2015 year. As a result of his election, his performance against these bonus criteria was not formally measured. The performance of the CEO was, nevertheless, assessed as part of his annual performance review.

No bonus was awarded to the Chief Investment Officer, Mr. Potter, an Executive Director who left the Company on May 31, 2015.

The CEO's direct senior reports have individually crafted bonus objectives which were agreed for the 2015 financial year. The bonus award criteria relate to a series of agreed corporate and personal performance criteria which are scored out of a total of 100 points. This score is then applied to a maximum bonus calculated as a percentage of total salary. The percentages range from 100% to 120% of salary depending on the executive's position and his level of individual participation in the VCP.

Bonus criteria will be further tailored for the 2016 year to ensure that these closely match key performance metrics and at the same time provide real 'stretch-performance' targets.

The scorecard for the CEO for 2015 is detailed below. Specific measures are excluded due to commercial sensitivity.

2015 CEO Scorecard

Criteria	*Maximum Award (%)*
Corporate Performance Criteria	
A. Growth	**26**
Measures for assessment included: • Acquisition of royalties (transformational and medium-sized) • Acquisition costs of royalties • Recovery of outstanding royalty related advances • Royalty accretiveness to earnings	
B. Financial Performance	**26**
Measures for assessment included: • EBITDA • Cash flow • EV/EBITDA • Price/book value • Share price growth	
C. Financial Control	**8**
Measures for assessment included: • Risk management and succession planning • Budgeting and financial reporting	
Personal Performance Criteria	
D. Relationships, Reputation and Business Development	**18**
• Implementation of IR plan • Alignment with a strategic partner • Engagement with debt and equity providers • Engagement with and development of royalty sourcing network	
E. Leadership	**22**
• Leadership and development of a senior management team • Development of a collaborative, goal-oriented, ethical company with harmonious working relationships • Personal contribution	
Total	**100**

C. Vesting of long-term incentive awards

Allocation of units under the VCP out of the pool to Executive Directors were 56,000 units or 56% of the total number of units to the CEO and 24,000 units or 24% to the CIO. Following the resignation of the then CIO on May 31, 2015, the 24,000 units allocated to him were returned to the un-allocated pool. As at the date of this report there are a total of 62,887 units issued out of a total pool of 100,000 units, including the awards for non-Board senior managers.

Long-term incentive awards made during the year

There were no awards granted to Executive Directors under either the JSOP or the CSOP in 2015.

Outstanding share awards

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

Directors' remuneration report

D. Directors' shareholding and share interests

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

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

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

			Not subject to performance conditions		*Subject to performance conditions*	
	Beneficially owned at March 18, 2016	*Beneficially owned at December 31, 2015*	*LTIP*	*Deferred bonus shares*	*LTIP*	*Deferred bonus shares*
Executive Directors						
J.A. Treger	5,506,454	5,506,454	–	–	–	–
Non-Executive Directors						
W.M. Blyth	104,822	104,822	–	–	–	–
D.S. Archer	–	–	–	–	–	–
N.P.H. Meier	120,000	120,000	–	–	–	–
R.C. Rhodes	15,000	15,000	–	–	–	–
R.H. Stan	123,540	123,540	–	–	–	–

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

E. Total pension entitlements

The Company makes contributions to employees' pensions and has designated the National Employment Savings Trust (NEST) as its stakeholder pension provider. The Committee is prepared to pay additional basic salary (or fees) in lieu of part or all of a Director's pension contribution.

F. Loss of office payments

There were no loss of office payments made to Directors in 2015 (2014: nil).

G. Percentage increase in the remuneration of the CEO

CEO £'000	***2015***	*2014*	*% change*
– salary	380	356	7%
– benefits	–	3	(100%)
– bonus	–	160	(100%)
Average per employee £'000			
– salary	85	78	9%
– benefits	–	–	–
– bonus	26	58	(55%)

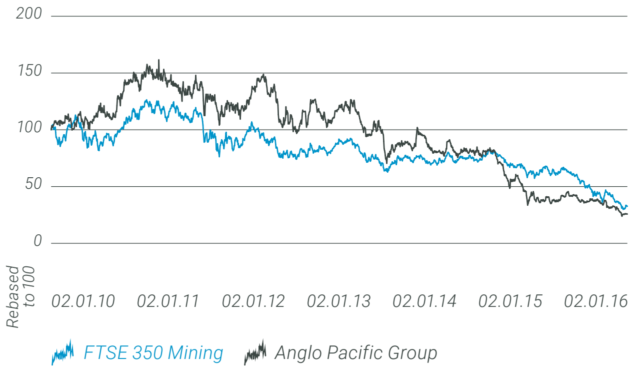
The table above shows the movement in the salary, benefits and annual bonus for the CEO between the current and previous financial year compared to that for the average UK employee. The Committee has chosen this comparator and it feels that it provides a more appropriate reflection of the earnings of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

H. Total shareholder return

The performance of the Company's ordinary shares compared with the FTSE 350 Mining Index for the five-year period ended on December 31, 2015 is shown in the graph opposite. Both have been re-based at the start of the period in order to provide a graphical measure of comparative performance.

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

The middle market price of an ordinary share on December 31, 2015 was 58.00p. During the year the share price ranged from a low of 53.75p to a high of 102.59p.



I. Total remuneration for the CEO over time

	2010	2010	2011	2012	2013	2013	2014	2015
	B.M. Wides				J. Theobald[1]	J.A. Treger[2]		J.A. Treger
Total remuneration (£'000)	155	69	253	209	193[3]	39	432	374
Bonus outturn (%)	N/A[4]	N/A[4]	37	–	–	–	64%	
Bonus (£'000)	76	38	84	–	–	–	160	
LTIP vesting (%)	–	–	–	–	–	–	–	

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

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

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

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

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

J. Relative importance of spend on pay

(£m)	**2015**	2014	% increase
Staff costs	2.68	3.66	(27%)
Dividends	11.90	11.53	3%

K. External directorships

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

L. 2016 salary review

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

Current salaries for the Executive Directors

Executive	***FTE Salary as at January 1, 2016***	*FTE Salary as at January 22, 2015*	*Increase*
J.A. Treger	400,000	380,000	5%
M.R. Potter[1]	–	190,000	–

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

Directors' remuneration report

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:

	2016	2015	% Increase
Chairman	95,000	95,000	–
Base fee	38,000	38,000	–
Senior Independent Director	48,000	48,000	–
Committee Chairman	43,000	43,000	–
Committee Member	40,000	40,000	–

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

The Chairman has elected to maintain the Chairman's fee at £95,000 for the duration of 2016.

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

N. Performance targets for the annual bonus and LTIP awards to be granted in 2015 and beyond

Annual bonuses and long-term incentive awards for 2015 were made in accordance with the policy approved by shareholders in 2014.

The CEO elected not to receive a bonus for the 2015 bonus year, as a result his performance against his scorecard was not formally measured. A similar scorecard approach will continue in 2016. 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 2016 will cover areas such as business performance, funding and finance, relationships and reputation. The 2015 scorecard for the CEO is detailed on *page 55*.

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

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

O. Statement of shareholder voting

At last year's AGM held on April 30, 2015, the Directors' remuneration report was approved by shareholders on a show of hands. Details of the valid proxy votes received for the resolution are detailed below:

	Votes	Percentage
Votes cast in favour (including proxy appointments that gave discretion to the Chairman)	70,833,806	72.78%
Votes cast against	26,497,588	27.22%
Total votes cast (excluding votes directed to be withheld)	97,331,394	100%
Votes withheld	44,594	

As a result of the number of proxy votes received (27.22% of the total number of proxy votes received) against the Directors' remuneration report resolution presented to the AGM held on April 30, 2015, the Chairman and the SID met with shareholders both in and outside of the Company's top 10 shareholders to understand their potential concerns. The discussions centred around the VCP, the salary level of the CEO and bonus levels and associated criteria. More recently, the Chairman and the SID extensively canvassed the views of a number of the larger shareholders, both institutions and individuals, concerning the efficacy of the VCP, both to provide an incentive to the Executive Directors and as a retention mechanism. Shareholders were supportive of the introduction of a secondary performance measure for new VCP awards. Shareholders were generally understanding that the mandated annual salary increases for the CEO had been contractually agreed at the time of his appointment in 2014. It was agreed that it was desirable to increase the depth of disclosure regarding the bonus scorecard elements. To this end, we have included the 2015 bonus scorecard in this report which details the individual personal and corporate performance bonus criteria to further improve transparency. In addition, we are proposing that any new VCP awards are subject to a secondary performance condition (i.e. the Company's share price to at least match or exceed the performance of the FTSE 350 Mining Index) as a hurdle for an award.

Approval

This report was approved by the Board on March 22, 2016 and signed on its behalf by

D.S. Archer

Chairman of the Remuneration Committee

Directors' report

The Directors present their report and audited consolidated financial statements for the year ended December 31, 2015.

Principal activities

The Group's principal royalty activities are set out in the Group Overview on page 4 and 5.

Going concern

The financial position of the Group and its cash flows are set out on pages 67 and 70. The directors have considered the principal risks of the company which are set out on pages 30 to 33 and considered key sensitivities which could impact on the level of available borrowings. As at December 31, 2015, the Group had net debt of £1.8m as set out in note 22 and subject to continued covenant compliance, has access to a further £12.8m in undrawn borrowings from its secured revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2017. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance and other uncertainties, together with the Group's net debt position and access to the undrawn facilities, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Results and dividends

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

The Group reported a loss after tax of £22.6m (2014: £47.6m).

Total dividends for 2015 will amount to 7.00p per share (2014: 8.45p per share), combining the recommended final dividend of 3.00p per share for the year ended December 31, 2015 with the interim dividend of 4.00p per share paid on February 4, 2016. The final dividend for the year ended December 31, 2015, is subject to shareholder approval at the 2016 AGM. The Board proposes to pay the final dividend on August 5, 2016 to shareholders on the Company's share register at the close of business on June 24, 2016. The shares will be quoted ex-dividend on the London Stock Exchange on June 23, 2016, and the Toronto Stock Exchange on June 22, 2016. At the present time the Board has resolved not to offer a scrip dividend alternative.

Directors

The names of the Directors in office on the date of approval of these financial statements, together with their biographical details and other information, are shown on page 37.

All Directors will stand for election or re-election at the 2016 AGM.

A table of Directors' attendance at Board and Committee meetings during 2015 is on page 38.

Directors' disclosures

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act 2006 and related legislation. At the next AGM, all of the Company's Directors will be offering themselves for election or re-election.

The Directors may exercise all the powers of the Company subject to applicable legislation and regulation and the Articles of Association of the Company. The Company's Articles of Association may be amended by special resolution of the shareholders. At the 2015 AGM, held on April 30, 2015, the Directors were given the power to issue new shares up to an aggregate nominal amount of £1,132,947. This power will expire at the earlier of the conclusion of the 2020 AGM or May 1, 2020. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 16,994,203. This power will expire at the earlier of the conclusion of the 2016 AGM or October 30, 2016.

At the AGM, held on April 30, 2015, 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 2016 AGM or July 30, 2016.

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

Capital structure

The structure of the Company's ordinary share capital at March 18, 2016 was as follows:

	Issued No.	*Nominal value per share*	*Total*	*% of total capital*
Ordinary shares	169,942,034	0.02	3,398,841	100%

Change of control

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

Rights and obligations

Dividends

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

Voting rights

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

Restrictions on transfer of holdings

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

Special control rights

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

Employee share schemes

Details of employee share schemes are set out on page 48 and in note 27 to the financial statements.

Treasury

No shares are currently held in treasury by the Company.

Directors' report

Warrants

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

Allotment of ordinary shares

On February 27, 2015, the Company issued 49,375,000 new Ordinary Shares at a price of 80p per share amounting to an aggregate nominal value of £987,500 and aggregate consideration of £39,500,000 as part of a firm placing, placing and open offer announced on February 4, 2015. The issue price was fixed on February 6, 2015 and represented a discount of approximately 3.6% to the closing middle market price on the London Stock Exchange of 83p per share on February 5, 2015. 15,460,557 of the shares issued were pursuant to the open offer, representing approximately 68% of the maximum shares available under the open offer. The 7,164,443 shares not applied for pursuant to the open offer were taken up by placees under the placing, with the remaining 26,750,000 shares being issued pursuant to the firm placing. The net proceeds were used to provide the majority of funding for the acquisition of the Narrabri royalty, further details of which are set out in notes 16 and 26 to the financial statements.

On March 12, 2015, the Company issued 4,135,238 new Ordinary Shares at a price of 80p per share amounting to an aggregate nominal value of £82,704.76 and aggregate consideration of £3,308,190.40. The issue price was fixed on February 6, 2015 and represented a discount of approximately 3.6% to the closing middle market price on the London Stock Exchange of 83p per share on February 5, 2015. The shares comprised part of the consideration for the acquisition of the Narrabri royalty, further details of which are set out in notes 16 and 26 to the financial statements.

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

Substantial shareholdings

The Company has been notified, aside from the interests of the Directors, of the following interests of 3% or more in the share capital of the Company at March 18, 2016.

	Ordinary Shares of 2p each	*Representing*
Liontrust Investment Partners LLP	17,388,541	10.48%
Schroders PLC	12,210,712	7.19%
Ransome's Dock Limited	7,489,360	4.51%
Aberforth Partners LLP	6,549,032	3.94%
AXA Investment Managers UK (Framlington)	5,494,332	3.31%
Kings Chapel International Limited*	5,235,204	3.15%

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

See *page 56* for a list of Directors' interests in shares.

Statement as to disclosure of information to auditors

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

Other statutory and regulatory information

Information in relation to the Group's payment policy can be found in note 25 and a statement on Going Concern is provided in note 3.1.1.

Auditors

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

Designated Foreign Issuer status

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

By Order of the Board

K. Flynn
Company Secretary
March 22, 2016

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 Company's ability to continue as a going concern.

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

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

We confirm that to the best of our knowledge:

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

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

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

By Order of the Board

W.M. Blyth
Chairman
March 22, 2016

Our assessment of risks of material misstatement

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Risk	*How the scope of our audit responded to the risk*
Classification of the Narrabri transaction Anglo Pacific Group ('APG') entered into one new royalty agreement in the year for a 1% gross overriding royalty on Narrabri, an Australian coal mine operated by Whitehaven. The accounting treatment for each royalty arrangement entered into by Anglo Pacific Group is a key area of judgement as the underlying terms of each arrangement are often complex and bespoke in nature in terms of how the Group will achieve a return on its investment.	We have assessed and challenged management's accounting treatment for the Narrabri royalty entered into in the year through obtaining the underlying contract and reviewing the key terms and conditions, specifically whether there were any mandated interest rates or milestones which, if not met, would trigger repayment, which would affect the classification of the royalty.
Impairment assessment of the royalty and investment portfolio (notes 16 and 17) As a consequence of the volatility in current commodity prices, the assessment of the recoverable amount of royalty arrangements accounted for as intangible assets, property, plant and equipment, available for sale equity financial instruments and loans and receivables to mining and exploration companies are key judgements. The recoverable amount valuations are often subjective and contain significant levels of judgement in relation to the discount rates used, the forecast commodity prices and the expected production profiles. In the year impairments totalling £4.4m have been recognised at Amapá and Ring of fire (see note 16). In the year impairments of the available for sale equity portfolio totalled £0.9m (see note 17).	We challenged management's assessment as to whether indicators of impairment exist for specific royalty arrangements through discussions with management, review of publicly available information and discussions with the entity's third party specialists. Where such indicators were identified, we obtained copies of the valuation models and challenged the assumptions made by management in relation to these models by comparison to third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports. Additionally, we used specialists to independently calculate our own discount rates as expectations to assess management's application of discount rates for specific royalty arrangements. We also considered management's assessment of whether projects still in the development phase would reach production. For loans and receivables we challenged management's assessment of recoverability based on the publicly available financial statements and interest payments received. In respect of the Group's equity investments, where the valuation was below cost, we challenged whether there was a significant or prolonged decrease in value. In all cases, required impairments were appropriately recognised in the income statement.
Valuation of royalty arrangements held at fair value (note 15) Royalties arrangements held at fair value, which have a value of £89.1m at 31 December 2015, have a material impact on the financial statements. The valuations are often subjective and contain significant levels of judgement in relation to the discount rates used, the forecast commodity prices and the expected production profiles.	We obtained the valuation models used by management to determine the fair value of royalty arrangements held at fair value. We challenged the assumptions made by management by comparison to recent third party forecast commodity price data, reference to third party documentation and review of reserves and resources reports.

Last year our report included one risk which is not included in our report this year:

Classification of new royalty arrangements acquired in transactions during 2014, this has been replaced in the current year with Classification of the Narrabri transaction

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on *pages 41 to 43*.

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.

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

Opinion on financial statements of Anglo Pacific Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at December 31, 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheet, the Consolidated and Company statement of changes in equity, the Consolidated and Company cash flow statement and the related notes 1 to 33.

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

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

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on *page 30* that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on *pages 30 to 33* that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 3.1.1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on *page 30* 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 agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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

Our application of materiality

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

We determined materiality for the Group to be £3.2m (2014: £3.0m), which represents 2% of equity (2014: 2% of equity). Equity was considered a more stable base than profits which in the current year was a loss due to the effect of unrealised fair value losses

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £64,000 (2014: £60,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

Our duty to read other information in the Annual Report

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

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

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Christopher Thomas ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
March 22, 2016

Consolidated income statement

for the year ended December 31, 2015

	Notes	**2015 £'000**	2014 £'000
Royalty related income	4	8,683	3,481
Amortisation of royalties	16	(2,573)	(759)
Operating expenses	5a	(4,060)	(5,524)
Operating profit/(loss) before impairments, revaluations and gain/(losses) on disposals		**2,050**	**(2,802)**
(Loss)/Gain on sale of mining and exploration interests	17	(484)	1,350
Gain on disposal of coal tenures	13	–	1,409
Impairment of mining and exploration interests	17	(930)	(4,873)
Impairment of royalty and exploration intangible assets	16	(4,414)	(10,033)
Impairment of royalty financial instruments	15	–	(15,288)
Impairment of property, plant and equipment	13	–	(1,352)
Revaluation of coal royalties (Kestrel)	14	(27,201)	(11,822)
Finance income	7	301	439
Finance costs	8	(218)	(1,408)
Other income	9	416	1,981
Loss before tax		**(30,480)**	**(42,399)**
Current income tax charge	10	(1,009)	(1,386)
Deferred income tax credit/(charge)	10	8,913	(3,804)
Loss attributable to equity holders		**(22,576)**	**(47,589)**
Total and continuing loss per share			
Basic and diluted loss per share	11	(14.06p)	(42.09p)

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

The Company has elected to take the exemption under section 408 of the Companies Act 2006 (United Kingdom) not to present the parent company profit and loss account.

The loss for the parent Company for the year was £1,359,000 (2014: £20,684,000).

Consolidated statement of comprehensive income

for the year ended December 31, 2015

	Note	**2015 £'000**	2014 £'000
Loss attributable to equity holders		**(22,576)**	**(47,589)**
Items that will not be reclassified to profit or loss		–	–
Items that have been or may be subsequently reclassified to profit or loss			
Available-for-sale investments			
Revaluation of available-for-sale investments		857	(8,640)
Reclassification to income statement on disposal of available-for-sale investments		484	(1,350)
Reclassification to income statement on impairment		930	4,873
Deferred tax relating to items that have been or may be reclassified	24	159	1,034
Net exchange loss on translation of foreign operations		(8,597)	(2,710)
Other comprehensive loss for the year, net of tax		**(6,167)**	**(6,793)**
Total comprehensive loss for the year		**(28,743)**	**(54,382)**

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

Consolidated balance sheet and Company balance sheet

as at December 31, 2015

	Notes	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Non-current assets					
Property, plant and equipment	13	113	153	113	153
Coal royalties (Kestrel)	14	82,649	117,097	–	–
Royalty financial instruments	15	6,534	8,142	6,534	8,142
Royalty and exploration intangible assets	16	71,491	37,110	2,349	2,349
Mining and exploration interests	17	10,898	9,896	8,259	6,190
Deferred costs	18	1,013	1,462	–	1,381
Investments in subsidiaries	19	–	–	56,595	36,973
Other receivables	20	10,132	9,657	46,518	22,318
Deferred tax	24	3,094	2,307	–	5
		185,924	185,824	120,368	77,511
Current assets					
Trade and other receivables	20	5,106	5,272	1,474	15,681
Cash and cash equivalents	21	5,708	8,769	410	1,996
		10,814	14,041	1,884	17,677
Total assets		**196,738**	**199,865**	**122,252**	**95,188**
Non-current liabilities					
Borrowings	23	7,272	–	–	–
Other payables	25	1,193	83	180	83
Deferred tax	24	24,546	34,908	766	1,206
		33,011	34,991	946	1,289
Current liabilities					
Income tax liabilities		574	687	465	623
Trade and other payables	25	1,170	2,937	1,019	2,883
		1,744	3,624	1,484	3,506
Total liabilities		**34,755**	**38,615**	**2,430**	**4,795**
Net assets		**161,983**	**161,250**	**119,822**	**90,393**
Capital and reserves attributable to shareholders					
Share capital	26	3,399	2,329	3,399	2,329
Share premium	26	49,211	29,328	49,211	29,328
Other reserves		29,976	15,832	33,912	12,289
Retained earnings		79,397	113,761	33,300	46,447
Total equity		**161,983**	**161,250**	**119,822**	**90,393**

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

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on *pages 65 to 106* were approved by the Board and authorised for issue on March 22, 2015 and are signed on its behalf by:

W.M. Blyth
Chairman

J.A. Treger
Chief Executive Officer

Consolidated statement of changes in equity

for the two years ended December 31, 2015

			Other reserves								
	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Investment revaluation reserve £'000	Share-based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2014	2,218	29,328	–	–	5,570	158	8,750	632	(2,601)	172,796	216,851
Loss for the year	–	–	–	–	–	–	–	–	–	(47,589)	(47,589)
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	–	–	–	–	(8,640)	–	302	–	–	–	(8,338)
Transferred to income statement on disposal	–	–	–	–	(1,350)	–	–	–	–	–	(1,350)
Transferred to income statement on impairment	–	–	–	–	4,873	–	–	–	–	–	4,873
Deferred tax	–	–	–	–	1,034	–	(19)	–	–	–	1,015
Foreign currency translation	–	–	–	–	–	–	(2,993)	–	–	–	(2,993)
Total comprehensive loss	**–**	**–**	**–**	**–**	**(4,083)**	**–**	**(2,710)**	**–**	**–**	**(47,589)**	**(54,382)**
Dividends	–	–	–	–	–	–	–	–	–	(11,535)	(11,535)
Issue of ordinary shares	111	–	9,453	143	–	–	–	–	–	–	9,707
Value of employee services	–	–	–	–	–	520	–	–	–	89	609
Total transactions with owners of the company	**111**	**–**	**9,453**	**143**	**–**	**520**	**–**	**–**	**–**	**(11,446)**	**(1,219)**
Balance at December 31, 2014	**2,329**	**29,328**	**9,453**	**143**	**1,487**	**678**	**6,040**	**632**	**(2,601)**	**113,761**	**161,250**
Balance at January 1, 2015	2,329	29,328	9,453	143	1,487	678	6,040	632	(2,601)	113,761	161,250
Loss for the year	–	–	–	–	–	–	–	–	–	(22,576)	(22,576)
Other comprehensive income:											
Available-for-sale investments:											
Valuation movement taken to equity	–	–	–	–	857	–	51	–	–	–	908
Transferred to income statement on disposal	–	–	–	–	484	–	–	–	–	–	484
Transferred to income statement on impairment	–	–	–	–	930	–	–	–	–	–	930
Deferred tax	–	–	–	–	159	–	1	–	–	–	160
Foreign currency translation	–	–	–	–	–	–	(8,649)	–	–	–	(8,649)
Total comprehensive loss	**–**	**–**	**–**	**–**	**2,430**	**–**	**(8,597)**	**–**	**–**	**(22,576)**	**(28,743)**
Dividends	–	–	–	–	–	–	–	–	–	(11,901)	(11,901)
Issue of ordinary shares	1,070	19,883	19,681	–	–	–	–	–	–	–	40,634
Value of employee services	–	–	–	–	–	630	–	–	–	113	743
Total transactions with owners of the company	**1,070**	**19,883**	**19,681**	**–**	**–**	**630**	**–**	**–**	**–**	**(11,788)**	**29,476**
Balance at December 31, 2015	**3,399**	**49,211**	**29,134**	**143**	**3,917**	**1,308**	**(2,557)**	**632**	**(2,601)**	**79,397**	**161,983**

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

Company statement of changes in equity

for the two years ended December 31, 2015

	Share capital £'000	Share premium £'000	Merger reserve £'000	Warrant reserve £'000	Other reserves: Investment revaluation reserve £'000	Other reserves: Share-based payment reserve £'000	Other reserves: Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2014	2,218	29,328	–	–	5,386	158	82	632	78,577	116,381
Changes in equity for 2014										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	(7,892)	–	–	–	–	(7,892)
Transferred to income statement on disposal	–	–	–	–	(1,786)	–	–	–	–	(1,786)
Transferred to income statement on impairment	–	–	–	–	4,557	–	–	–	–	4,557
Deferred tax on valuation	–	–	–	–	1,036	–	–	–	–	1,036
Net income recognised direct into equity	–	–	–	–	(4,085)	–	–	–	–	(4,085)
Loss for the period	–	–	–	–	–	–	–	–	(20,684)	(20,684)
Total recognised income and expenses	–	–	–	–	(4,085)	–	–	–	(20,684)	(24,769)
Dividends	–	–	–	–	–	–	–	–	(11,535)	(11,535)
Issue of ordinary shares	111	–	9,453	143	–	–	–	–	–	9,707
Value of employee services	–	–	–	–	–	520	–	–	89	609
Balance at December 31, 2014	**2,329**	**29,328**	**9,453**	**143**	**1,301**	**678**	**82**	**632**	**46,447**	**90,393**
Balance at January 1, 2015	2,329	29,328	9,453	143	1,301	678	82	632	46,447	90,393
Changes in equity for 2015										
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	–	272	–	–	–	–	272
Transferred to income statement on disposal	–	–	–	–	(13)	–	–	–	–	(13)
Transferred to income statement on impairment	–	–	–	–	618	–	–	–	–	618
Deferred tax on valuation	–	–	–	–	435	–	–	–	–	435
Net income recognised direct into equity	–	–	–	–	1,312	–	–	–	–	1,312
Loss for the period	–	–	–	–	–	–	–	–	(1,359)	(1,359)
Total recognised income and expenses	–	–	–	–	1,312	–	–	–	(1,359)	(47)
Dividends	–	–	–	–	–	–	–	–	(11,901)	(11,901)
Issue of ordinary shares	1,070	19,883	19,681	–	–	–	–	–	–	40,634
Value of employee services	–	–	–	–	–	630	–	–	113	743
Balance at December 31, 2015	**3,399**	**49,211**	**29,134**	**143**	**2,613**	**1,308**	**82**	**632**	**33,300**	**119,822**

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

Consolidated statement of cash flows and Company statement of cash flows

for the year ended December 31, 2015

	Notes	Group 2015 £'000	Group 2014 £'000	Company 2015 £'000	Company 2014 £'000
Cash flows from operating activities					
Loss before taxation		(30,480)	(42,399)	(1,263)	(12,621)
Adjustments for:					
Finance income	7	(301)	(439)	(1)	(127)
Finance costs – excluding foreign exchange gains/losses	8	629	1,042	231	871
Other income	9	(416)	(1,981)	(213)	(1,788)
Loss/(Gain) on disposal of mining and exploration interests	17	484	(1,350)	(13)	(1,786)
Gain on disposal of coal tenures	13	–	(1,409)	–	–
Impairment of mining and exploration interests	17	930	4,873	618	4,557
Impairment of royalty and exploration intangible assets	16	4,414	10,033	–	701
Impairment of royalty financial instruments	15	–	15,288	–	–
Impairment of property, plant and equipment	13	–	1,352	–	817
Impairment of investment in subsidiaries	19	–	–	–	9,954
Revaluation of coal royalties (Kestrel)	14	27,201	11,822	–	–
Depreciation of property, plant and equipment	13	40	23	40	23
Amortisation of royalty intangible assets	16	2,573	759	–	–
Share-based payment	6a	840	609	840	609
Forgiveness of loan to subsidiary undertaking		–	–	149	4,387
Intercompany dividends		–	–	–	(5,251)
		5,914	(1,777)	388	346
(Increase)/Decrease in trade and other receivables		(2,653)	2,588	47	52
(Decrease)/Increase in trade and other payables		(1,767)	2,175	(1,864)	1,407
Cash generated from/(used in) operations		1,494	2,986	(1,429)	1,805
Income taxes paid	10	(1,466)	(27)	(584)	(611)
Net cash generated from/(used in) operating activities		**28**	**2,959**	**(2,013)**	**1,194**
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests	17	1,722	9,549	113	6,350
Purchases of mining and exploration interests	17	–	(1,161)	–	(391)
Purchases of royalty and exploration intangible assets	16	(41,587)	(13,213)	–	–
Proceeds from royalty financial instruments	9	213	826	213	826
Other royalty related repayments/(advances)	20	2,868	(3,002)	–	–
Prepaid acquisition costs		–	(359)	–	(295)
Proceeds on disposal of coal tenures	13	–	302	–	–
Purchases of property, plant and equipment	13	–	(188)	–	(147)
Dividend and fixed income received from mining and exploration interests	9	–	169	–	–
Sundry income	9	203	475	212	451
Finance income	7	301	439	1	127
Investment in subsidiaries	19	–	–	(23,712)	(1,452)
Return of capital from subsidiaries	19	–	–	4,090	–
Loans granted to subsidiary undertakings	30	–	–	(22,553)	(14,870)
Loan repayments from subsidiary undertakings	30	–	–	16,001	9,245
Net cash used in investing activities		**(36,280)**	**(6,163)**	**(25,635)**	**(156)**
Cash flows from financing activities					
Drawdown of revolving credit facility	22, 23	10,853	–	–	–
Repayment of revolving credit facility	22, 23	(3,326)	–	–	–
Proceeds from issue of share capital	26	37,326	9,980	37,326	9,980
Transaction costs of share issue	26	–	(416)	–	(416)
Dividends paid	12	(11,901)	(11,535)	(11,901)	(11,535)
Prepaid fundraising costs		–	(320)	–	(306)
Finance costs – excluding foreign exchange gains/losses	8	(629)	(1,042)	(231)	(871)
Net cash generated from/(used in) financing activities		**32,323**	**(3,333)**	**25,194**	**(3,148)**
Net decrease in cash and cash equivalents		**(3,929)**	**(6,537)**	**(2,454)**	**(2,110)**
Cash and cash equivalents at beginning of period		**8,769**	**15,706**	**1,996**	**4,106**
Unrealised foreign currency gain/(loss)		868	(400)	868	–
Cash and cash equivalents at end of period		**5,708**	**8,769**	**410**	**1,996**

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

Notes to the consolidated financial statements

for the year ended December 31, 2015

1 General information

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

The Company is a public limited company, which is listed on the London Stock Exchange and Toronto Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 1 Savile Row, London, W1S 3JR, United Kingdom (registered number: 897608).

2 Critical accounting judgements and key sources of estimation uncertainty

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

Critical accounting judgements

Classification of royalty arrangements: initial recognition and subsequent measurement

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

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

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

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

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

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

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

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

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

Key sources of estimation uncertainty

Assessment of fair value of royalty arrangements held at fair value

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

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

Impairment review of property, plant and equipment and intangible assets

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

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

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

3 Significant accounting policies

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

3.1 Basis of preparation

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

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

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

3.1.1 Going concern

The financial position of the Group and its cash flows are set out on *pages 67 and 70*. The directors have considered the principal risks of the company which are set out on *pages 30 to 33*, and considered key sensitivities which could impact on the level of available borrowings. As at December 31, 2015, the Group had net debt of £1.8m as set out in note 22 and subject to continued covenant compliance, has access to a further £12.8m in undrawn borrowings from its secured revolving credit facility.

The Directors have considered the Group's cash flow forecasts for the period to the end of March 2017. The Board is satisfied that the Group's forecasts and projections, taking into account reasonably possible changes in trading performance and other uncertainties, together with the Group's net debt position and access to the undrawn facilities, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. For this reason the Group continues to adopt the going concern basis in preparing its financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2015

3.1.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after January 1, 2015:

- Annual Improvements to IFRSs 2010 – 2012 Cycle

  The Group has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2010 – 2012 Cycle* for the first time in the current year.

  The majority of the amendments are in the nature of clarification rather than substantive changes to existing requirements. However, the amendments to IFRS 8 'Operating Segments – Aggregation of operating segments' and IAS 24 'Related Party Disclosures – Key management personnel' represent changes to existing requirements.

  The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics. As the Group does not aggregate its operating segments, these amendments have had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements. Refer to note 4 for further details on the Group's segment information.

  The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. As the Group does not engage with a management entity, these amendments have had no material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements. Refer to note 30 for details of the Group's related party transactions.

- Annual Improvements to IFRSs 2011 – 2013 Cycle

  The Group has adopted the amendments to IFRSs included in the *Annual Improvements to IFRSs 2011 – 2013 Cycle* for the first time in the current year.

  The amendments are in the nature of clarifications rather than substantive changes to existing requirements.

  The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2015 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

The Group has not applied the following pronouncements which are not mandatory for 2015.

Mandatory for 2016 – endorsed by the EU

- Amendment to IAS 1 'Presentation of Financial Statements – Disclosure Initiative'. The amendment provides clarification of guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to IAS 16 'Property, Plant & Equipment' and IAS 38 'Intangibles'. The amendments provide clarification of acceptable methods of depreciation and amortisation.
- Annual improvements to IFS 2012 – 2014 cycle.

Mandatory for 2017 – not yet endorsed by the EU

- Amendments to IAS 12 'Recognition of Deferred Tax Assets for Unrealised Losses'. These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.
- IAS 7 'Statement of cash flows, narrow-scope amendments'. The amendments introduce an additional disclosure that will enable users of financial statement to evaluate changes in liabilities arising from financing activities.

Mandatory for 2018 – not yet endorsed by the EU

- IFRS 15 'Revenue from Contracts with Customers'. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer to promised goods and services when control of the goods and services passes to customers. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. A modified transitional approach is permitted under which a transitional adjustment is recognised in retained earnings at the date of implementation of the standard without adjustment of comparatives. The new standard will only be applied to contracts that are not completed at that date. The Group is finalising its evaluation of the standard, but it does not expect the standard to change the timing, quantum or presentation of its revenues.

- IFRS 9 'Financial Instruments'. The standard includes a single approach for the classification of financial assets, based on cash flow characteristics and the entity's business model. It introduces a new model for the recognition of impairment losses, the expected credit losses model, which requires expected losses to be recognised when financial instruments are first recognised. The standard amends the rules on hedge accounting to align the accounting treatment with risk management practices of an entity.

Mandatory for 2019 – not yet endorsed by the EU

- IFRS 16 'Leases'. Under the new standard, a lessee is in essences required to:
  - (a) recognise all lease assets and liabilities (including those currently classed as operating leases) on the balance sheet, initially measured at the present value of unavoidable lease payments;
  - (b) recognise amortisation of lease assets and interest on lease liabilities in the income statement over the lease term; and
  - (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (which companies can choose to present within operating or financing activities consistent with presentation of any other interest paid) in the cash flow statement.

The Group is currently evaluating the impact of the above pronouncements which may have an impact on the Group's earnings or shareholders' funds in future years. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3.2 Consolidation

Subsidiaries

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

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

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

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

3.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

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

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for the year ended December 31, 2015

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.

3.7 Impairment of property, plant and equipment and intangible assets

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

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

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

3.8 Financial instruments

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

(a) Cash and cash equivalents

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

(b) Loans and receivables

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

(c) Mining and exploration interests

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

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

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

(d) Royalty instruments

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

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

Debt

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

Equity

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

(e) Financial liabilities and equity instruments

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

(f) Trade payables

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

(g) 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.

(h) Equity instruments

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

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3.9 Impairment of financial assets (including receivables)

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

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

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

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

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

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

3.10 Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the year

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

3.11 Share-based payments

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

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

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

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

3.12 Reserves

Equity comprises the following:

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

Other reserves

- 'merger reserve' is created when more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company.
- 'warrant reserve' The warrant reserve was created in June 2014 in connection with the issue of share warrants as part consideration of the Maracas royalty.
- 'Investment revaluation reserve' represents gains and losses due to the revaluation of the investments in mining and exploration interests and royalty instruments from the opening carrying values, including the effects of deferred tax and foreign currency changes.
- 'Share-based payment reserve' represents equity-settled share-based employee remuneration until such share options are exercised.
- 'Foreign currency reserve' represents the differences arising from translation of investments in overseas subsidiaries.
- 'Special reserve' represents the level of profit attributable to the Group for the period ended June 30, 2002 which was created as part of a capital reduction performed in 2002.
- 'Investment in own shares' represents the shares held by the Anglo Pacific Group Employee Benefit Trust for awards made under the Joint Share Ownership Plan ('JSOP') (note 26 and note 27).
- 'Retained earnings' represents retained profits.

Of these reserves £79,397,000 are considered distributable as at December 31, 2015 (December 31, 2014: £113,761,000).

3.13 Revenue recognition

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

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

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

3.14 Leases

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

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

3.15 Dividend distribution

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

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4 Segment information

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

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

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

Europe: EVBC, Salamanca, Bulqiza

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

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

The segment information for the year ended December 31, 2015 is as follows (noting that total segment operating profit corresponds to operating profit before impairments, revaluations and gains/losses on disposals which is reconciled to (Loss)/Profit before tax on the face of the consolidated income statement):

	Australia Royalties £'000	*Americas Royalties £'000*	*Europe Royalties £'000*	*All other segments £'000*	*Total £'000*
Royalty income	6,831	606	1,246	–	8,683
Amortisation of royalties	(2,167)	(406)	–	–	(2,573)
Operating expenses	(1,898)	–	–	(2,162)	(4,060)
Total segment operating (loss)/profit	2,766	200	1,246	(2,162)	2,050
Total segment assets	138,635	17,359	6,298	34,447	196,738
Total assets include:					
Additions to non-current assets (other than financial instruments and deferred tax assets)	44,971	–	–	–	44,971
Total segment liabilities	23,573	1,013	767	9,402	34,755

The segment information for the year ended December 31, 2014 is as follows:

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

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

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

The royalty related income in Australia of £6,831,000 (2014: £1,657,000) is derived from the Kestrel and Narrabri royalties which generated £3,614,000 and £3,217,000 respectively (2014: Kestrel £1,657,000; Narrabri: £nil). Individually the revenue generated by Kestrel and Narrabri royalties represents greater than 10% of the Group's revenue in 2014 and 2015. In addition, royalty related income in Europe of £1,246,000 (2014: £1,650,000) is derived from a single gold royalty, EVBC, and represent greater than 10% of the Group's revenue in 2014 and 2015.

5a Expense by nature

	2015 £'000	2014 £'000
Group		
Employee costs (note 6a)	2,680	3,666
Professional fees	418	834
Listing fees	116	142
Operating lease payments	152	175
Other expenses	694	707
	4,060	5,524

5b Auditor's remuneration

	2015 £'000	2014 £'000
Group		
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	84	70
Fees payable to the Company's auditor and its associates for other services:		
– The audit of Company's subsidiaries	6	2
Total audit fees	90	72
– Audit-related assurance services[1]	–	499
– Other assurance services pursuant to legislation	22	17
– Other services	–	19
Total non-audit fees	22	535

[1] Audit related assurance services relate wholly to the reporting accountant work performed in 2014 by the auditors on the acquisition of the Narrabri royalty, details of which is set out in note 16.

Details of the Company's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on pages 41 to 43. No services were provided pursuant to contingent fee arrangements.

6a Employee costs

	Group		Company	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Wages and salaries	1,539	2,695	1,479	2,609
Share-based awards to directors and employees	743	609	743	609
Social security costs	338	309	336	306
Other pension costs	60	53	60	53
	2,680	3,666	2,618	3,577

Share-based awards to directors and employees are stated net of National Insurance of £0.1m (2014: £nil).

6b Retirement benefits plans

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

The total cost charged to income of £60,000 (2014: £53,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2015, contributions of £4,000 (2014: £4,000) due in respect of the current reporting period had not been paid over to the schemes.

6c Average number of people employed

	2015	*2014*
Group		
Number of employees	11	13

	2015	*2014*
Group		
Average number of people (including executive directors) employed:		
Executive directors	1	2
Administration	10	11
	11	13

Company

The average number of administration staff employed by the Company during the year, including Executive Directors was 9 (2014: 11).

Directors' salaries are shown in the Directors' Remuneration Report on *pages 53 to 58*, including the highest paid director.

7 Finance income

	2015 £'000	*2014 £'000*
Group		
Interest on bank deposits	23	98
Interest on royalty financial instruments	–	116
Interest on long-term receivables	278	225
	301	439

8 Finance costs

	2015 £'000	*2014 £'000*
Group		
Professional fees	(358)	(883)
Revolving credit facility fees and interest	(271)	(159)
Net foreign exchange gain/(loss)	411	(366)
	(218)	(1,408)

9 Other income

	2015 £'000	*2014 £'000*
Group		
Dividends received from mining and exploration interests	–	169
Shares in-lieu of interest on mining and exploration interests	–	511
Effective interest income on royalty financial instruments (note 15)	213	194
Recovery of royalty financial instrument	–	632
Sundry income	203	475
	416	1,981

10 Income tax expense

	2015 £'000	2014 £'000
Analysis of charge for the year		
United Kingdom corporation tax credit	–	329
Overseas tax	1,338	1,057
Adjustments in respect of prior years	(329)	–
Current tax	1,009	1,386
Deferred tax	(8,913)	3,804
Income tax (credit)/expense	(7,904)	5,190
Factors affecting tax charge for the year:		
Loss before tax	30,480	42,399
Tax on loss calculated at United Kingdom corporation tax rate of 20.25% (2014: 21.5%)	(6,172)	(9,116)
Tax effects of:		
Items non-taxable/deductible for tax purposes:		
Non-deductible expenses	681	5,998
Non-taxable income	(2)	(227)
Temporary difference adjustments		
Utilisation of losses not previously recognised	–	(1,048)
Current year losses not recognised	96	139
Write down of deferred tax assets previously recognised	–	7,628
Adjustment in deferred tax due to change in tax rate	–	177
Other temporary difference adjustments	–	2,754
Other adjustments		
Withholding taxes	1,180	961
Effect of differences between local and United Kingdom tax rates	(3,046)	(1,239)
Prior year adjustments to current tax	(329)	–
Other adjustments	(312)	(837)
Income tax (credit)/expense	**(7,904)**	**5,190**

Refer to note 24 for information regarding the Group's deferred tax assets and liabilities.

11 (Loss)/Earnings per share

Loss per ordinary share is calculated on the Group's loss after tax of £22,576,000 (2014: £47,589,000) and the weighted average number of shares in issue during the year of 160,512,425 (2014: 113,075,454).

Loss per ordinary share excludes the issue of shares under the Group's JSOP, as the Employee Benefit Trust has waived its right to receive dividends on the 925,933 ordinary 2p shares it holds as at December 31, 2015 (December 31, 2014: 925,933).

	2015 £'000	2014 £'000
Net loss attributable to shareholders		
Earnings – basic	(22,576)	(47,589)
Earnings – diluted	(22,576)	(47,589)

Notes to the consolidated financial statements

for the year ended December 31, 2015

	2015	*2014*
Weighted average number of shares in issue		
Basic number of shares outstanding	160,512,425	113,075,454
Dilutive effect of Employee Share Option Scheme	–	–
Diluted number of shares outstanding	160,512,425	113,075,454

In 2015 and 2014, the Group is loss making, therefore the Employee Share Option Scheme is considered anti-dilutive as including them in the diluted number of shares outstanding would decrease the loss per share.

Adjusted earnings per share

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

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

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

	Earnings £'000	*Earnings per share p*	*Diluted earnings per share p*
Net loss attributable to shareholders			
Loss – basic and diluted for the year ended December 31, 2014	(47,589)	(42.09p)	(42.09p)
Adjustment for:			
Amortisation of royalty intangible assets	759		
Gain on sale of mining and exploration interests	(1,350)		
Gain on disposal of coal tenures	(1,409)		
Impairment of mining and exploration interests	4,873		
Impairment of royalty and exploration intangible assets	10,033		
Impairment of royalty financial instruments	15,288		
Impairment of property, plant and equipment	1,352		
Revaluation of coal royalties (Kestrel)	11,822		
Effective interest income on royalty financial instruments	(194)		
Share-based payments and associated national insurance	609		
Tax effect of the adjustments above	3,577		
Adjusted loss – basic and diluted for the year ended December 31, 2014	(2,229)	(1.97p)	(1.97p)

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

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

	2015	*2014*
Weighted average number of shares in issue		
Basic number of shares outstanding	160,512,425	113,075,454
Dilutive effect of Employee Share Option Scheme	2,267	–
Diluted number of shares outstanding	160,514,692	113,075,454

12 Dividends

On February 4, 2015 an interim dividend of 4.45p per share was paid to shareholders in respect of the year ended December 31, 2014. On August 7, 2015 a final dividend of 4.00p per share was paid to shareholders to make a total dividend for the year of 8.45p per share. Total dividends, paid during the year were £11.9m (2014: £11.5m).

On February 4, 2016 an interim dividend of 4.00p per share was paid to shareholders in respect of the year ended December 31, 2015. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 3.00p per share be paid to shareholders on August 5, 2016, to make a total dividend for the year of 7.00p per share. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

The proposed final dividend for 2015 is payable to all shareholders on the Register of Members on June 24, 2016. The total estimated dividend to be paid is £5.1m. At the present time the Board has resolved not to offer a scrip dividend alternative.

13 Property, plant and equipment

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

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

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

Impairment

As at December 31, 2014 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 the year ended December 31, 2015.

Disposals (gain on coal tenures)

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

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

In addition, the Group retained a royalty on coal sales from the assets being sold equivalent to the higher of 1% of gross revenue on a mine gate basis or US$1/tonne. Due to the uncertainty regarding the Panorama project entering production this royalty has been considered to have £nil value at December 31, 2015 (2014: £nil).

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

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

14 Coal royalties (Kestrel)

	Group £'000
At January 1, 2014	131,434
Foreign currency translation	(2,515)
Loss on revaluation of coal royalties	(11,822)
At December 31, 2014	117,097
Foreign currency translation	(7,247)
Loss on revaluation of coal royalties	(27,201)
At December 31, 2015	82,649

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

The coal royalty was valued during December 2015 at £82.6m (A$167.6m) (2014: £117.1m and A$223.0m) by an independent coal industry advisor, on a net present value of the pre-tax cash flow discounted at a nominal rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation adjustment represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes.

Were the coal royalty to be realised at the revalued amount there are £3.7m (A$7.5m) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 24). Were the coal royalty to be carried at cost the carrying value would be £0.2m (2014: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

The shares over the entity which is the beneficial owner of the Kestrel royalty have been guaranteed as security in connection with the Group's three year secured revolving credit facility entered into in February 2015 (note 23).

15 Royalty financial instruments

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

Project	*Commodity*	*Original Cost '000*	*Royalty Rate*	*Escalation*	*Classification*	***December 31, 2015 Carrying value £'000***	*December 31, 2014 Carrying value £'000*
EVBC	Gold, Silver, Copper	C$7,500	2.50%	3% gold >US$1,100/oz	Available-for-sale equity	3,832	5,742
Jogjakarta	Iron Sands	US$4,000	2.00%	–	Available-for-sale debt	2,702	2,400
Isua	Iron Ore	A$28,000	1.00%	–	Available-for-sale debt	–	–
						6,534	8,142

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

	Group £'000	*Company £'000*
Fair value		
At January 1, 2014	27,847	12,839
Impairment of royalty financial instruments	(15,288)	–
Revaluation of royalty financial instruments recognised in equity	(4,697)	(4,697)
Foreign currency translation	280	–
At December 31, 2014	8,142	8,142
Revaluation of royalty financial instruments recognised in equity	(1,909)	(1,909)
Foreign currency translation	301	301
At December 31, 2015	6,534	6,534

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Effective interest of £0.2m was recognised in other income (see note 9) for the year ended December 31, 2015 (2014: £0.2m). This was directly offset by cash received in the period of the same amount.

On October 16, 2014 London Mining PLC, the operator of the Isua project over which the Group holds a royalty, announced that it has appointed administrators. In January 2015, the Isua project was sold to General Nice Limited, with the Group's royalty interest being transferred concurrently. Given the inherent uncertainty of this project reaching commercial production, the Group's royalty financial instrument arising from its interest in the Isua royalty was fully impaired in 2014 and continues to have a carrying value of £nil as at December 31, 2015.

16 Royalty and exploration intangible assets

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

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

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

Company	***2015 £'000***	*2014 £'000*
Royalty interests		
At January 1	2,349	3,050
Impairment charge	–	(701)
At December 31	2,349	2,349

Exploration and evaluation costs

The exploration and evaluation costs comprise expenditure that was directly attributable to the Panorama and Trefi coal projects in British Columbia, Canada. The Group disposed of its interest in the Panorama coal project and fully impaired its interests in the Trefi coal project in 2014.

Acquisition of royalty interests

On March 11, 2015, the Group completed its acquisition of the Narrabri royalty for £45.0m. The Narrabri royalty is a 1% gross revenue royalty over all coal produced from the Narrabri mine located in New South Wales, Australia, owned and operated by Whitehaven Coal Limited. The total cost of the Narrabri acquisition was total consideration of US$65.0m, US$60.0m (£40.0m) was paid in cash and US$5.0m (£3.3m) was satisfied by the issue of 4,135,238 ordinary shares (refer to note 26) and £1.7m in capitalised acquisition costs.

Under the terms of the Maracás Menchen royalty sale agreement, a further US$3.0m (£1.9m) of cash is payable when the project reaches certain annualised production milestones. As set out in notes 18 and 25, the Directors consider it highly probable that the first of these milestones will be achieved in the next eighteen to twenty-four months which would require the Group to pay US$1.5m. As a result the Directors have recognised a non-current liability for the deferred consideration, together with an asset under deferred acquisition costs.

Amortisation of royalty interests

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

Three of the underlying mining operations of the Group's royalty intangibles assets were in production during 2015, and were amortised on the following basis:

Royalty interest	*Estimated life of mine*	*Remaining life of mine*
Narrabri	22 years	21 years
Maracás Menchen	29 years	28 years
Four Mile	10 years	9 years

Under the terms of the Narrabri royalty sale agreement, the Group was entitled to royalty receipts from January 1, 2015 and has recognised royalty income of £3.2m for the year ended December 31, 2015. In accordance with the Group's amortisation accounting policy, the Narrabri royalty has been amortised from January 1, 2015 resulting in an amortisation charge of £2.0m for the year ended December 31, 2015.

The Group recognised maiden royalty receipts from its Maracás Menchen royalty of £0.6m for the year ended December 31, 2015. The Maracás Menchen royalty is a 2% net smelter return royalty interest on all mineral products sold from the area of the Maracás Menchen project that the Group acquired on June 10, 2014. The Group commenced amortising the Maracás Menchen royalty following its entry into commercial production and recognised an amortisation charge of £0.4m for the year ended December 31, 2015.

As noted in the Group's business review, the Four Mile uranium mine, over which the Group holds a 1% net smelter return royalty, continues to produce and stockpile uranium ore concentrate. The Group considers the production and stockpiling of the concentrate to constitute commercial production and commenced amortising the Group Mile royalty from January 1, 2015, recognising an amortisation charge of £0.2m for the year ended December 31, 2015.

Amortisation of the remaining interests will commence once they begin commercial production. No intangible assets have been pledged as security for liabilities.

Impairments of royalty interests

As described in note 3.6 and 3.7, an annual impairment review is carried out to determine whether the future expected cash flows (calculated on a value-in use basis) exceed cost. This has resulted in the Directors determining that two of the Group's intangible royalties were impaired at December 31, 2015 as outlined below. See note 2 for the impairment methodology applied.

Amapá

Production at Amapá remained suspended for the year ended December 31, 2015, whilst the operator, Zamin Ferrous Limited, commenced the restructuring of its finances in order to fund the rebuilding of the port facilities. Taking into account the Directors assessment as to when production will restart, the discounted cash flow model, using a discount rate of 10%, required an impairment charge of £2.8m to the year ended December 31, 2015 to be recognised (2014: £8.4m). Following the impairment charges recognised during the year, the residual carrying value of the Amapá royalty was £1.8m as at December 31, 2015 (2014: £4.9m).

Ring of Fire

Following the sale of the Ring of Fire chromite assets by Cliffs Natural Resources Inc to Noront Resources Ltd in April 2015, the Directors have reassessed the timeline to production in light of the new operator needing to complete a comprehensive preliminary economic analysis for development options for the project. The revision to the anticipated date of the mine entering commercial production has resulted in the Group recognising an impairment charge of £1.6m during the year ended December 31, 2015 (2014: £nil). Following the impairment charge recognised during the year, the residual carrying value of the Ring of Fire royalty was £3.1m as at December 31, 2015 (2014: £5.2m).

Notes to the consolidated financial statements

for the year ended December 31, 2015

17 Mining and exploration interests

	Group £'000	Company £'000
Fair value		
At January 1, 2014	20,072	13,975
Additions	1,161	391
Disposals	(8,197)	(6,350)
Revaluation adjustment	(3,162)	(1,826)
Foreign currency translation	22	–
At December 31, 2014	9,896	6,190
Mining and exploration interests received in lieu of payment	51	–
Disposals	(2,206)	(113)
Revaluation adjustment	2,766	2,182
Foreign currency translation	391	–
At December 31, 2015	10,898	8,259

The current strategy of the Group is to obtain royalties by other means, and as such, these assets, which have historically been acquired with a view to negotiating royalty acquisitions, have been gradually disposed of as they are now non-core to the Group's primary business. The fair values of listed securities are based on quoted market prices. Unquoted investments are initially recognised using cost where fair value cannot be reliably determined. In the absence of an active market for these securities, the Group considers each unquoted security to ensure there has been no material change in the fair value since initial recognition. Further guidance on fair value measurement is provided in note 2.

An impairment charge (representing the recognition of losses previously deferred to equity) is recognised in the income statement when the absolute decline in value below cost of any individual investment is considered 'significant' or 'prolonged' in accordance with the Group's impairment policy. Following continued declines in mining equity markets, the Group recognised an impairment charge of £0.9m for the year ended December 31, 2015 (December 31, 2014: £4.9m).

For the year ended December 31, 2015, the Group realised £1.7m in cash (December 31, 2014: £9.5m) 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 £0.5m for the year ended December 31, 2015 (December 31, 2014: gain of £1.4m).

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

	2015		2014	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Quoted investments	8,405	8,112	8,821	6,024
Unquoted investments	2,493	147	1,075	166
	10,898	8,259	9,896	6,190
Number of investments	10	7	16	12

18 Deferred costs

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

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

Deferred acquisition costs

On March 11, 2015 the Group announced the completion of its acquisition of the Narrabri thermal coal royalty. This acquisition was funded by a firm placing and open offer, together with the partial utilisation of a newly agreed bank facility (refer to note 23 for further details).

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

Upon the completing of the Narrabri acquisition and the associated firm placing and open offer in 2015, those costs deferred as at December 31, 2014 were released to the income statement or where applicable transferred to the cost base of the royalty intangible asset recognised in relation to the Narrabri royalty.

As at December 31, 2015, deferred acquisition costs represent the deferred consideration payable by the Group in relation to its acquisition of the Maracás Menchen vanadium royalty in 2014. Under the terms of the royalty sale agreement, the Group is required to pay an additional US$1.5m (£1.0m) once production reaches an annualised rate over a quarter of 9,500t. Following the latest production guidance issued by the operator of the Maracás Menchen mine, Largo Resources Ltd, the Directors consider it probable that this production milestone will be achieved within the next 18 to 24 months and as such have recognised both an asset and a corresponding liability (refer to note 25).

Deferred financing costs

Deferred financing costs represent the costs associated with entering into the US$30.0m, three year secured revolving credit facility that have been deferred and will be amortised over the term of the facility.

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

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

19 Investments in subsidiaries

The Group's full listing of subsidiaries is provided in note 33. The Company's investment in subsidiaries as December 31, 2015 and December 31, 2014 is as follows:

	Investments in subsidiaries £'000
Company	
Cost	
At January 1, 2015	51,114
Capital injection into subsidiaries	23,712
Return of capital from subsidiaries	(4,090)
At December 31, 2015	70,736
Impairment of investment in subsidiary	
At January 1, 2015	(14,141)
Impairment of investment in subsidiaries	–
At December 31, 2015	(14,141)
Carrying amount December 31, 2015	56,595

Company	
Cost	
At January 1, 2014	49,662
Capital injection into subsidiaries	1,452
At December 31, 2014	51,114
Impairment of investment in subsidiary	
At January 1, 2014	(4,187)
Impairment of investment in subsidiaries	(9,954)
At December 31, 2014	(14,141)
Carrying amount December 31, 2014	36,973

20 Trade and other receivables

	2015		2014	
	Group £'000	Company £'000	Group £'000	Company £'000
Current				
Income tax receivable	1,056	329	763	–
Prepayments	108	95	13	–
Royalty receivables	2,902	117	98	–
Other receivables	1,040	70	4,398	328
Deposits with subsidiaries	–	863	–	15,353
	5,106	1,474	5,272	15,681
Non-current				
Other receivables	10,132	–	9,657	–
Amounts due from subsidiaries	–	46,518	–	22,318
	10,132	46,518	9,657	22,318

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

Promissory note

On September 2, 2014 the Group completed its disposal of the Panorama Coal Project to Atrum Coal NL as described in note 13. Forming part of the consideration received by the Group is a US$2.0m 12-month promissory note with an interest coupon of 8.0% per annum. Atrum Coal NL were granted an extension to the maturity date of the promissory note to March 2016 following a partial repayment of US$0.8m in principal and interest together with agreeing to an increase in the interest coupon to 10.0% per annum. The balance of US$1.2m (£1.0m) is held as other receivables.

Hummingbird Resources PLC

On December 18, 2012 the Group entered into a royalty financing agreement with Hummingbird Resources PLC, under which the Group provided a non-interest bearing advance of US$15.0m (£10.1m) in three tranches of US$5.0m subject to the satisfaction of various conditions precedents in return for 2.0-2.5% NSR over the Dugbe 1 project. During the 2013, the Group advanced two of the three tranches. The third and final tranche of US$5.0m (£3.0m) was advanced on March 6, 2014.

Laramide Resources Ltd

On August 13, 2012, the Group provided Laramide Resources Ltd with an interest bearing facility of C$5.0m (£2.9m). The Group were repaid in full during December 2015.

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2015

21 Cash and cash equivalents

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

	2015		2014	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	5,708	410	7,395	622
Trading deposits with brokers	–	–	1,374	1,374
Cash and cash equivalents	5,708	410	8,769	1,996

22 Net debt

See note 3.8(a) and note 3.8(g) for the Group's accounting policy on cash and debt.

Net debt is a measure of the Group's financial position. The Group uses net debt to monitor the sources and uses of financial resources, the availability of capital to invest or return to shareholders, and the resilience of the balance sheet. Net debt is calculated as total borrowings less cash and cash equivalents.

The Group and Company's net (debt)/cash and cash equivalents position after offsetting the revolving credit facility against cash and cash equivalents is as follows:

	2015		2014	
	Group £'000	Company £'000	Group £'000	Company £'000
Revolving credit facility	(7,527)	–	–	–
Cash and cash equivalents	5,708	410	8,769	1,996
Net (debt)/cash and cash equivalents	(1,819)	410	8,769	1,996

Movement in net debt

	Cash and cash equivalents £'000	Medium and long-term borrowings £'000	Net debt £'000
At January 1, 2014	15,706	–	15,706
Cash flow	(6,537)	–	(6,537)
Currency movements	(400)	–	(400)
At December 31, 2014	8,769	–	8,769
Cash flow	(3,930)	7,527	(11,457)
Currency movements	869	–	869
At December 31, 2015	5,708	7,527	(1,819)

23 Borrowings

	2015 Group £'000	2015 Company £'000	2014 Group £'000	2014 Company £'000
Secured borrowing at amortised cost				
Revolving credit facility	7,527	–	–	–
Deferred borrowing costs	(255)	–	–	–
	7,272	–	–	–
Amount due for settlement within 12 months	–	–	–	–
Amount due for settlement after 12 months	7,527	–	–	–

The Group's borrowings relate to the partial draw-down of the three-year revolving credit facility, which is available at LIBOR plus 250bps. Deferred borrowing costs relate to the establishment fees associated with the facility and will be amortised over its three year term. As at December 31, 2015, the Group had utilised US$11.1m (£7.5m) of the US$30.0m (£20.3m) available under the facility.

The Group's revolving credit facility is secured by way of a floating charge over the Group's assets and is subject to a number of financial covenants, all of which have been met during the year ended December 31, 2015.

24 Deferred tax

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

	Coal royalties		*Available-for sale-investments*					
Group	*Revaluation of coal royalty £'000*	*Effects of Tax losses £'000*	*Revaluation of royalty instruments £'000*	*Revaluation of mining interests £'000*	*Impairment of Intangible royalties £'000*	*Accrual of royalty receivable £'000*	*Other tax losses £'000*	*Total £'000*
At January 1, 2014	38,463	(516)	3,116	(9,099)	(2,330)	731	–	30,365
Charge/(credit) to profit or loss	(3,858)	(460)	–	7,682	2,330	(714)	(1,176)	3,804
Reclassification from current to deferred tax asset	–	–	–	–	–	–	(650)	(650)
Charge/(credit) to other comprehensive income	–	–	(1,629)	877	–	–	–	(752)
Exchange differences	10	33	–	19	–	13	41	116
Effect of change in tax rate:								
– income statement	–	–	–	–	–	–	–	–
– equity	–	–	(281)	(1)	–	–	–	(282)
At December 31, 2014	34,615	(943)	1,206	(522)	–	30	(1,785)	32,601
Charge/(credit) to profit or loss	(8,190)	(469)	–	350	–	537	(1,141)	(8,913)
Charge/(credit) to other comprehensive income	–	–	(382)	276	–	–	–	(106)
Exchange differences	(2,146)	56	–	(1)	–	–	14	(2,077)
Effect of change in tax rate:	–	–	–	–	–	–	–	
– income statement	–	–	–	–	–	–	–	–
– equity	–	–	(57)	4	–	–	–	(53)
At December 31, 2015	24,279	(1,356)	767	107	–	567	(2,912)	21,452

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for the year ended December 31, 2015

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:

	2015 £'000	2014 £'000
Group		
Deferred tax liabilities	24,546	34,908
Deferred tax assets	(3,094)	(2,307)
	21,452	32,601

As at December 31, 2015, the Group has unused tax losses of £13.5m (2014: £8.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of these losses which may be carried forward indefinitely.

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

	2015				2014			
	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
Expiry date								
Within one year	–	–	–	–	–	–	–	–
Greater than one year, less than five years	–	–	–	–	–	–	–	–
Greater than five years	–	–	–	–	–	–	–	–
No expiry date	24,539	37,230	6,547	68,316	4,843	4,879	22,828	32,550
	24,539	37,230	6,547	68,316	4,843	4,879	22,828	32,550

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:

	Available-for sale-investments		
	Revaluation of royalty instruments £'000	*Revaluation of mining interests £'000*	*Total £'000*
At January 1, 2014	2,244	(8,016)	(5,772)
Released to income for the year	–	8,013	8,013
Charge to equity for the year	(1,038)	(2)	(1,040)
At December 31, 2014	1,206	(5)	1,201
Released to income for the year	–	–	–
Charge to equity for the year	(440)	5	(435)
At December 31, 2015	766	–	766

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:

	2015 £'000	2014 £'000
Company		
Deferred tax liabilities	766	1,206
Deferred tax assets	–	(5)
	766	1,201

25 Trade and other payables

	2015		2014	
	Group £'000	Company £'000	Group £'000	Company £'000
Current				
Other taxation and social security payables	61	56	240	236
Trade payables	31	28	107	91
Other payables	277	176	231	225
Accruals and deferred income	801	759	2,359	2,331
	1,170	1,019	2,937	2,883

The average credit period taken for trade purchases is 19 days (2014: 16 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.

	2015		2014	
	Group £'000	Company £'000	Group £'000	Company £'000
Non-current				
Deferred consideration	1,013	–	–	–
Other taxation and social security payables	180	180	83	83
	1,193	180	83	83

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

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

Following the latest production guidance issued by the Largo Resources Ltd, the Directors consider it probable that an annualised rate over a quarter of 9,500t will be achieved. As such a contingent liability has been recognised for the US$1.5m (£1.0m) deferred consideration that will become payable once this criteria has been satisfied. A corresponding asset has been recognised under deferred acquisition costs (note 18).

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

26 Share capital and share premium

Issued share capital

	Number of shares	Share capital £'000	Share premium £'000	Merger reserve £'000	Total £'000
Group and Company					
Ordinary shares of 2p each at January 1, 2014	**110,887,425**	**2,218**	**29,328**	**–**	**31,546**
Issue of share capital under private placing (a)	5,544,371	111	–	9,453	9,564
Ordinary shares of 2p each at December 31, 2014	**116,431,796**	**2,329**	**29,328**	**9,453**	**41,110**
Issue of share capital under placing and placing and open offer (b)	49,375,000	987	16,658	19,681	37,326
Issue of share capital for royalty acquisition (b)	4,135,238	83	3,225	–	3,308
Ordinary shares of 2p each at December 31, 2015	**169,942,034**	**3,399**	**49,211**	**29,134**	**81,744**

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

(b) On February 27, 2015, the Group completed a firm placing, placing and open offer that resulted in the issue of 49,375,000 new ordinary shares of 2 pence each at a price of 80p per share, raising £39.5m, against which £2.2m in allowable transaction costs were offset. The funds raised were used to satisfy the US$60.0m (£38.2m) cash component of the Narrabri royalty acquisition.

On March 11, 2015, the Group issued 4,135,238 new ordinary shares of 2 pence each at a price of 80p per share to satisfy the non-cash component of US$5.0m (£3.3m) upon the completion of the Narrabri royalty acquisition. Total consideration for the Narrabri royalty acquisition was US$65.0m (note 16).

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:

	2015		2014	
	Number of shares	***£'000***	*Number of shares*	*£'000*
Own shares				
Own shares held by the EBT	925,933	(2,601)	925,933	(2,601)
Total	**925,933**	**(2,601)**	**925,933**	**(2,601)**

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

27 Share-based payments

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

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

(a) Company Share Ownership Plan

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

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

	2015		*2014*	
	Options	**Weighted average exercise price (£)**	*Options*	*Weighted average exercise price (£)*
Outstanding at 1 January	44,222	2.1205	52,880	2.7406
Granted during the year	133,212	0.8257	24,600	1.6258
Exercised during the year	–	–	–	–
Surrendered during the year	(19,622)	3.0577	(33,258)	2.7060
Forfeited during the year	–	–	–	–
Outstanding at 31 December	157,812	1.0275	44,222	2.1205

Out of the 157,812 outstanding options (2014: 44,222), nil options (2014: nil) were exercisable.

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

		Options	
Expiry date	*Exercise price in £ per share*	**2015**	*2014*
2022	3.3043	–	9,079
2022	2.8454	–	10,543
2024	1.6258	24,600	24,600
2025	0.9221	48,798	–
2025	0.7700	84,414	–
		157,812	44,222
Weighted average remaining contractual life		9.84	9.11

The weighted average fair value of options granted during 2015 determined using the Black-Scholes valuation model was £0.472 per option granted in May 2015 and £0.394 per option granted in October 2015. The significant inputs into the model were weighted average share price of £0.922 and £0.77 at the grant date in May and October respectively, exercise price shown above, volatility of 40%, expected option life of three years and an annual risk-free interest rate of 1.5% for both grants.

The weighted average fair value of options granted during 2014 determined using the Black-Scholes valuation model was £0.816 per option granted in September 2014. The significant inputs into the model were weighted average share price of £1.626 at the grant date, exercise price shown above, volatility of 40%, expected option life of three years and an annual risk-free interest rate of 1.1%. See note 6a for the total expense recognised in the income statement for share options granted to Directors and employees.

Two employees surrendered a total of 19,622 options during the year ended December 31, 2015, after the options lapsed due to the performance criteria not being satisfied (2014: 33,258).

(b) Joint Share Ownership Plan

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

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

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

JSOP awards made during the year were as follows:

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

No shares were awarded under the JSOP during 2014 or 2015. A total of 154,660 shares were surrendered in 2015 as a result of performance criteria not being satisfied in accordance with the terms of the JSOP (2014: 122,697).

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

(c) Value Creation Plan

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

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

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

VCP awards made during the year were as follows:

Expiry date	***Units 2015***	*Units 2014*	*Expiry Date*
Outstanding at January 1	88,000	–	2019
Awarded in June 2014	–	88,000	2019
Forfeited during the year	(21,120)	–	
Outstanding at December 31	66,880	88,000	
Weighted average remaining contractual life	3.50	4.50	

No awards were made under the VCP during 2015. The weighted average fair value of options granted during 2014 determined using the Monte Carlo valuation model was £54.86 per option granted in June 2014. The significant inputs into the model were weighted average share price of £1.833 at the grant date, exercise price of nil, volatility of 33.3%, expected dividend yield of 5.57%, expected option life of five years and an annual risk-free interest rate of 1.95%.

In accordance with the terms of the VCP, Mr. Potter forfeited his awards upon his resignation on May 31, 2015.

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

28 Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended June 30, 2002. At December 31, 2015, this reserve remains unavailable for distribution.

	Group £'000	*Company £'000*
At January 1, 2015 and December 31, 2015	632	632

29 Financial commitments

Operating leases

The Group's most significant operating lease commitments relate to premises maintained in both London, England and Shetland, Scotland.

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases. The total commitments due under these leases are shown according to the scheduled expiry dates of the leases as follows:

	2015 £'000	*2014 £'000*
Group		
Within one year	300	176
In the second to fifth years inclusive	830	1,171
After five years	–	–
	1,130	1,347

Capital commitments

At the year end the Group had capital commitments of £nil (2014: £nil) in respect of purchases of quoted investments.

30 Related party transactions

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

	2015 £'000	*2014 £'000*
Net financing of related entities	6,552	5,625
Management fee	1,825	3,251
Amounts owed by related parties at year end	47,381	37,671

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 53 to 58*.

	2015 £'000	*2014 £'000*
Short-term employee benefits	1,487	1,973
Post-employment benefits	50	42
Share-based payment	734	563
	2,271	2,578

Directors' transactions

The Group made payments of £5,590.87 to Audley Capital Advisors LLP, a company which Mr J.A. Treger, Chief Executive Officer, is both a director and shareholder, for the reimbursement of travel related expenditure and IT recharges during the year ended December 31, 2015 (2014: £21,842.77). During the same period, the Group received £47,654.51 from Audley Capital Advisors LLP for the subletting of office space (2014: £nil). In 2014, the Group received £48,201.60 for the reimbursement of office relocation expenditure. At December 31, 2015 a total of £nil was owing to or from Audley Capital Advisors LLP (2014: £nil).

31 Financial risk management

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

Financial instruments

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

	2015		2014	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Investment property (held at fair value)				
Coal royalties (Kestrel)	82,649	–	117,097	–
Financial instruments				
Available-for-sale (held at fair value)				
Royalty financial instruments	6,534	6,534	8,142	8,142
Mining and exploration interests	10,898	8,259	9,896	6,190
Loans and receivables				
Trade and other receivables[1]	14,073	47,568	14,153	37,999
Cash at bank and in hand	5,708	410	8,769	1,996
Financial liabilities				
Trade and other payables[2]	832	787	2,466	2,422
Borrowings[3]	7,527	–	–	–
Other payables[4]	1,013	–	–	–

[1] Trade and other receivables include royalty receivables and other non-current receivables only, as set out in note 20.
[2] Trade and other payables include trade payables and accruals only, as set out in note 25.
[3] Borrowings include the revolving credit facility only, as set out in note 23.
[4] Other payables include the deferred consideration only, as set out in note 25.

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

Liquidity and funding risk

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At December 31, 2015 the Group had £7.5m in borrowing (2014: £nil) and access to a further £12.5m in undrawn funds from its revolving credit facility.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayments periods. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from the interest rate at the balance sheet date. The contractual maturity is based on the earliest date on which the Group may be required to pay.

	Weighted average effective interest rate %	***1-5 years £'000***	***Total £'000***
December 31, 2015			
Interest bearing revolving credit facility	2.95	7,526	7,526
		7,526	7,526

Credit risk

The Group's principal financial assets are bank balances, royalty instruments held as financial assets, trade and other receivables and investments. These represent the Group's maximum exposure to credit risk in relation to financial assets and total £19.8m at December 31, 2015 (£22.9m at December 31, 2014).

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

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

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

Share price risk

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

A 10% increase or decrease in the fair value of our mining and exploration interests (listed and unlisted) would increase/decrease the mining and exploration interests balance (and investment revaluation reserve in equity) by £1.1m at December 31, 2015 (£1.0m at December 31, 2014). We note that if a 10% decrease were to occur then a further assessment would be required to determine whether the decrease was considered to be 'significant' with any resulting impairment recognised in the income statement.

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

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.

Foreign exchange risk

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

Financial assets and liabilities, are split by currency as follows:

						2015						*2014*
	GBP £'000	**AUD £'000**	**CAD £'000**	**USD £'000**	**NOK £'000**	**EUR £'000**	*GBP £'000*	*AUD £'000*	*CAD £'000*	*USD £'000*	*NOK £'000*	*EUR £'000*
Financial assets	5,919	93,271	3,389	17,187	1	95	9,963	125,579	5,661	16,852	–	2
Financial liabilities	6,291	1	1	3,040	–	39	2,457	8	1	–	–	–
Net exposure	(372)	93,270	3,388	14,147	1	56	7,506	125,571	5,660	16,852	–	2

Foreign exchange sensitivities

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

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

- A +/- 10% change in the GBP: AUD rate would increase/decrease profit after tax and equity by £13k (2014: £28k);
- A +/- 10% change in the GBP:CAD rate would increase/decrease profit after tax and equity by £309k (2014: £246k);
- A +/- 10% change in the GBP: USD rate would increase/decrease profit after tax and equity by £87k (2014: £355k).

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

Capital management and procedures

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

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

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

Notes to the consolidated financial statements

for the year ended December 31, 2015

Fair value hierarchy

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at December 31, 2015:

Group	Notes	**2015** **Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets					
Coal royalties (Kestrel)	(a)	–	–	82,649	82,649
Royalty financial instruments	(b)	–	–	6,534	6,534
Mining and exploration interests – quoted	(c)	8,405	–	–	8,405
Mining and exploration interests – unquoted	(d)	–	2,493	–	2,493
Net fair value		8,405	2,493	89,183	100,081

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

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

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2015:

Company	Notes	**2015** **Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Assets					
Royalty financial instruments	(a)	–	–	6,534	6,534
Mining and exploration interests – quoted	(b)	8,112	–	–	8,112
Mining and exploration interests – unquoted	(c)	–	147	–	147
Net fair value		8,112	147	6,534	14,793

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

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

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

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

(a) Coal royalties (Investment Property)

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

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

- a 10% reduction in the coal price would have resulted in the coal royalties being valued at A$141.7m (£69.9m) and an additional charge to the income statement of £12.7m; and
- a 10% increase in the coal price would have resulted in the coal royalties being valued at A$195.9m (£96.6m) and a decrease in the charge to the income statement of £14.0m.

(b) Royalty instruments

At the reporting date the royalty instruments are valued based on the net present value of the pre-tax cash flows discounted at a rate management considers reflects the risk associated with each of the underlying projects. The outcome is then risk weighted to reflect the likelihood of the project achieving production based on any published updates in the year. Note 15 details the discount rates used. This is the only unobservable input determined by management. All other unobservable inputs are obtained from third parties.

(c) Mining and exploration interests – quoted

All the quoted mining and exploration interests have been issued by publicly traded companies 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.

Fair value measurements in Level 3

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

The following table presents the changes in Level 3 instruments for the year ended December 31, 2015.

	Royalty financial instruments £'000	***Coal royalties (Kestrel) £'000***	***Total £'000***
At January 1, 2015	8,142	117,097	125,239
Revaluation gains or losses recognised in:			
Other comprehensive income	(1,909)	–	(1,909)
Income statement	–	(27,201)	(27,201)
Foreign currency translation	301	(7,247)	(6,946)
At December 31, 2015	6,534	82,649	89,183

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

	Royalty financial instruments £'000	*Coal royalties (Kestrel) £'000*	*Total £'000*
At January 1, 2014	27,847	131,434	159,281
Revaluation gains or losses recognised in:			
Other comprehensive income	(4,697)	–	(4,697)
Income statement	–	(11,822)	(11,822)
Impairment	(15,288)	–	(15,288)
Foreign currency translation	280	(2,515)	(2,235)
At December 31, 2014	8,142	117,097	125,239

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.

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for the year ended December 31, 2015

32 Events occurring after year end

No events have occurred subsequent to year end that require additional disclosure.

33 Principal subsidiaries

The following tables outline the Group's subsidiaries, as defined in Regulation 7 of the UK Companies Act 2006. All subsidiaries are included in the Group consolidation.

Company and country of incorporation/operation	*Principal activities*	*Class of shares held*	***Proportion of class held at December 31, 2015 %***	***Group interest at December 31, 2015 %***
Australia				
Alkormy Pty Ltd	Investments	Ordinary A$1.00	100%	100%
APG Aus No 1 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 2 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 3 Pty Ltd	Owner of uranium royalties	Ordinary A$1.00	100%	100%
APG Aus No 4 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 5 Pty Ltd	Owner of iron ore royalties	Ordinary A$1.00	100%	100%
APG Aus No 6 Pty Ltd	Owner of vanadium royalties	Ordinary A$1.00	100%	100%
APG Aus No 7 Pty Ltd	Owner of coal royalties	Ordinary A$1.00	100%	100%
Argo Royalties Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Gordon Resources Ltd	Owner of coal royalties	Ordinary A$0.20	100%	100%
HydroCarbon Holdings Pty Ltd	Dormant	Ordinary A$1.00	100%	100%
Indian Ocean Resources Pty Ltd	Investments	Ordinary A$0.25	100%	100%
Indian Ocean Ventures Pty Ltd	Dormant	Ordinary A$0.20	100%	100%
Starmont Holdings Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Starmont Ventures Pty Ltd	Investments	Ordinary A$1.00	100%	100%
Woodford Wells Pty Ltd	Dormant	Ordinary A$0.25	100%	100%
Canada				
Advance Royalty Corporation	Owner of uranium royalties	Ordinary C$0.01	100%	100%
Albany River Royalty Corporation	Owner of chromite royalties	Ordinary C$1.00	100%	100%
Panorama Coal Corporation	Owner of coal royalties	Ordinary C$0.01	100%	100%
Polaris Royalty Corporation	Intermediate holding company	Ordinary C$1.00	100%	100%
Trefi Coal Corporation	Owner of coal tenures	Ordinary C$0.01	100%	100%
England				
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%
Guernsey				
Anglo Pacific Group Employee Benefit Trust	Administering Group incentive plans		100%	100%
Ireland				
Anglo Pacific Finance Ltd	Treasury	Ordinary £1.00	100%	100%
Scotland				
Shetland Talc Ltd	Mineral exploration	Ordinary £1.00	100%	100%

Performance measures

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

Adjusted earnings/(loss)

Adjusted earnings/(loss) represents the Group's underlying operating performance from core activities. Adjusted earnings/(loss) is the profit/(loss) attributable to equity holders less all valuation movements, non-cash impairments and amortisation charges (which are non-cash IFRS adjustments that arise primarily due to changes in commodity prices), finance costs, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing. See note 11 to the financial statements for adjusted earnings/(loss).

Operating profit/(loss)

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

Shareholder statistics

(a) Size of Holding (at March 21, 2016)

Category	*Number of Shareholders*	*%*	*Number of Shares*	*%*
UK and Canada				
1 – 1,000	605	31.69	315,096	0.19
1,001 – 5,000	761	39.86	1,784,571	1.05
5,001 – 10,000	187	9.80	1,349,642	0.79
10,001 – and over	356	18.65	166,492,725	97.97
	1,909	100.00	169,942,034	(b) 100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at March 21, 2016 was 67.77%.

Contact details

Registered office

Anglo Pacific Group PLC
1 Savile Row
London W1S 3JR

Registered in England
No. 897608

Telephone: +44 (0)20 7435 7400

Fax: +44 (0)20 7629 0370

Website

www.anglopacificgroup.com

Shareholders

Please contact the respective registrar if you have any queries about your shareholding.

Equiniti Registrars Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Telephone: +44 (0)371 384 2030

Equity Transfer & Trust Company
Suite 400
200 University Avenue
Toronto
Ontario M5H 4H1

Telephone: +1 416 361 0152

Stockbrokers

BMO Capital Markets Limited
1st Floor
95 Queen Victoria Street
London EC4V 4HG

Macquarie Capital
Ropemaker Place
28 Ropemaker Street
London EC2Y 9HD

Peel Hunt
120 London Way
London EC2Y 5ET

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ANGLO PACIFIC GROUP PLC

1 Savile Row
London W1S 3JR
United Kingdom

T +44 (0)20 3435 7400
F +44 (0)20 7629 0370

e *info@anglopacificgroup.com*

w *www.anglopacificgroup.com*