A Strong Foundation for Growth

ANGLO PACIFIC GROUP PLC

Annual Report & Accounts 2013

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The vision

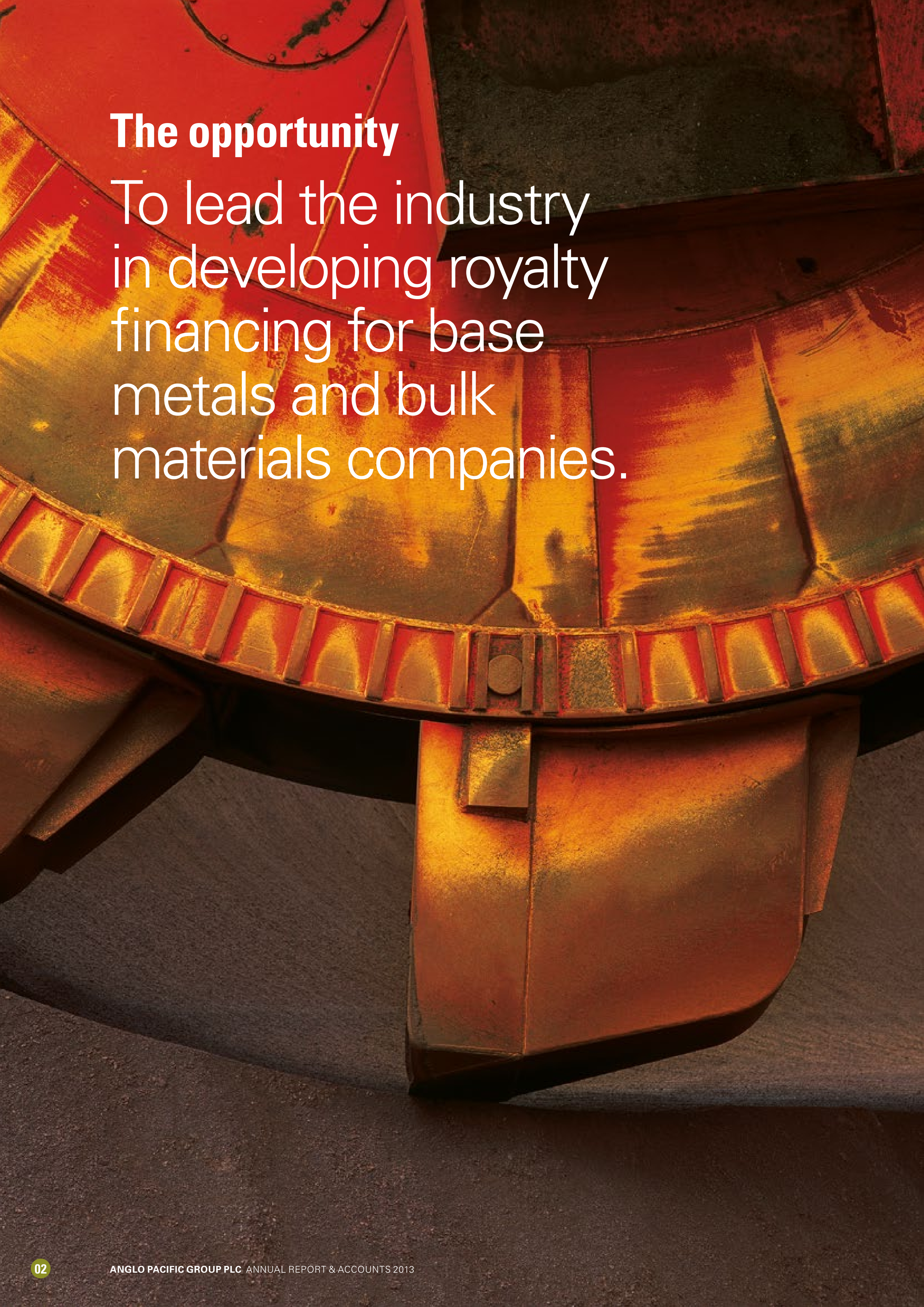
To create a leading international diversified royalty company with a focus on base metals and bulk materials.

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

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

The opportunity

To lead the industry in developing royalty financing for base metals and bulk materials companies.



Past

Historically, royalties have originated as a result of the sale of a mineral property, allowing the seller to retain some ongoing profit participation in the property.

Present

An increasing number of royalties are now created directly by operators and developers as a source of finance.

Falling commodity prices, operating cost inflation, poor capital allocation (in particular M&A at the top of the cycle and unproductive exploration spending) in conjunction with slowing growth in China have led to a de-rating of mining equities. Raising capital through conventional sources has therefore become increasingly difficult. Consequently, demand has increased for alternative forms of financing.

Future

Anglo Pacific is well positioned to grow its business in the underserved base metals and bulk materials sector.

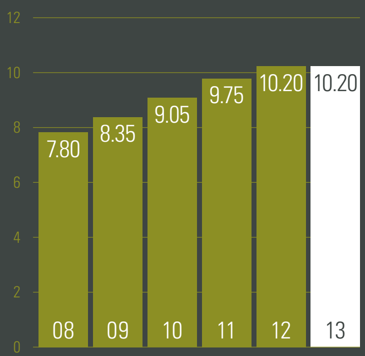
Alternative financing has been more prevalent in the precious metals sector. With a focus on base metals and bulk materials, and a solid existing asset base, Anglo Pacific intends to lead the development of this market and continue to support operators in bringing their projects into development.

Anglo Pacific at a glance

- Dual listing: London Stock Exchange (Premium Listing) and Toronto Stock Exchange

Delivering long-term returns to shareholders

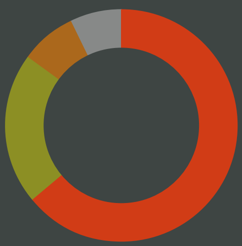
Commitment to a progressive dividend policy



Dividend per share *(p)*

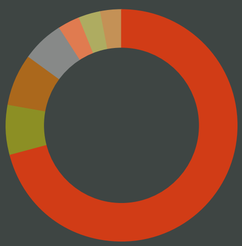
Consistent outperformance of the FTSE 350 Mining Index

- 10 principal royalty assets across five continents covering commodities and properties at various stages from production to early-stage exploration



Commodity exposure

Coal	64%
Iron ore	21%
Gold	8%
Other	7%



Geographic exposure

Australia	71%
Greenland	7%
Brazil	7%
Spain	6%
Liberia	3%
Canada	3%
Other	3%

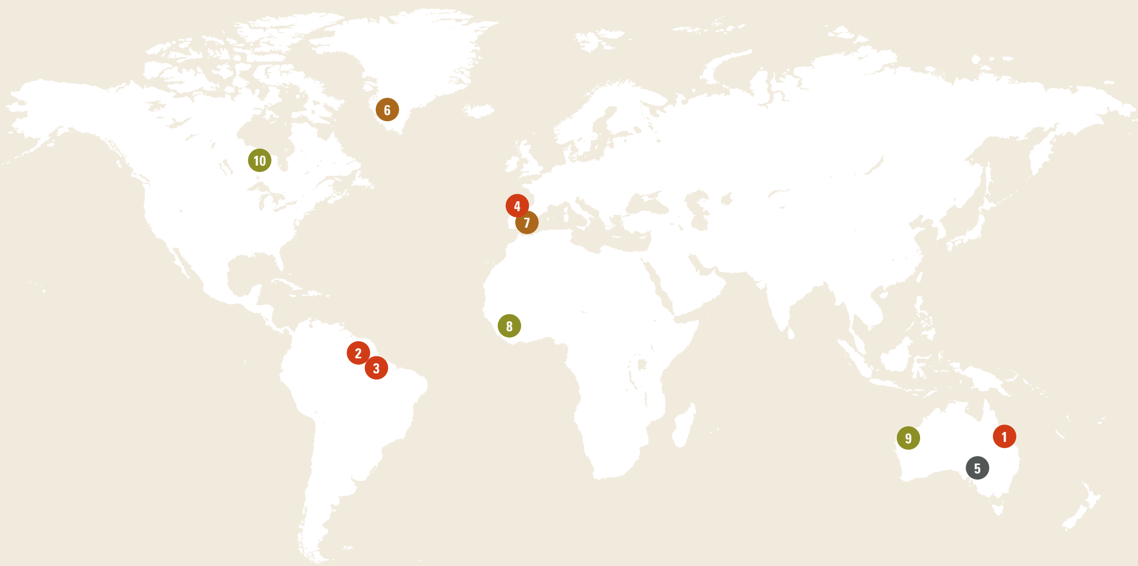
Exposure by stage of production

Producing	76%
Early-stage	13%
Development	10%
Near-production	1%

- Key royalty asset in Kestrel, a Tier 1 coking coal mine in Australia operated and majority-owned by Rio Tinto

- Net assets at December 31, 2013 of £216.9m

Our principal royalties



Producing royalties
page 22

1 **Kestrel** (Coking coal)
2 **Amapá** (Iron ore)
3 **Tucano** (Iron ore)
4 **El Valle-Boinás/Carlés** (Gold, copper & silver)

Near-production royalties
page 26

5 **Four Mile** (Uranium)

Development royalties
page 27

6 **Isua** (Iron ore)
7 **Salamanca** (Uranium)

Early-stage royalties
page 28

8 **Dugbe 1** (Gold)
9 **Pilbara** (Iron ore)
10 **Ring of Fire** (Chromite)

The table on page 21 provides additional information on the Company's entire royalty portfolio.

Chairman's statement

Total dividend for 2013 maintained at 10.2p

Appointment of Julian Treger and Mark Potter as CEO and CIO

Despite the current challenges facing the global mining industry, Anglo Pacific continued its underlying profitability during the period. We have maintained our total dividend for the year, despite the headline loss reported, as we view the potential outlook for the business as being one where we expect to see future growth.

We are pleased to welcome Julian Treger and Mark Potter as the Company's new Chief Executive Officer and Chief Investment Officer respectively. Julian and Mark joined late in 2013 from Audley Capital Advisors LLP, an investment advisory firm managing value-orientated, special situations investment strategies through hedge fund and co-investment vehicles. Both have a strong track record of investing in the mining sector and a level of financial expertise that we believe will be of considerable benefit to Anglo Pacific's current portfolio of royalty investments and also to future acquisitions. In particular, they bring with them new avenues for acquiring and creating royalties and opportunities for a wider spectrum of new investors in the Company. Julian and Mark invested £2.5m in new Anglo Pacific shares and the expectation is for them to increase their shareholding as the Company grows.

We believe that there is increasing demand for alternative financing in the base metals and bulk materials sector. This should provide many opportunities to acquire value-accretive royalties, increasing and diversifying the Group's revenue sources.

Our ambitions to expand are underpinned by our cornerstone asset, the Kestrel royalty. The completion of Rio Tinto's US$2bn capex program on its new Kestrel South mine underlines its commitment to the Kestrel operations. Rio Tinto's production update for Q4 2013 reflects substantial increases across both its coking coal and thermal coal operations and further strengthens our conviction in Kestrel's ability to meaningfully contribute to EBITDA growth for the Group in the medium-term.

Our adjusted profit (refer to page 30) of £9.1m (2012: £9.4m (restated)), which excludes non-cash impairment and valuation items and their associated tax impact, demonstrates that the underlying business of the Group remains profitable. The Group's strategic equity investments, currently representing 7.7% of its assets, amount to £20.1m as at December 31, 2013. Despite difficulties in the junior mining markets during the year, the Group realised £5.3m in cash from the sale of equities where a royalty was no longer considered achievable. The Group plans to retain a select group of strategic equity investments, which is hoped will enable future royalty discussions.

In November 2013, the Group was pleased to announce the signing of a co-investment agreement with FlowStream Commodities Ltd ('FlowStream'), an oil & gas streaming and royalty company. Anglo Pacific was also a founding shareholder in this venture. The agreement entitles the Group to participation in FlowStream's first five investments.

Cornerstone asset commences production at Kestrel South following completion of Rio Tinto US$2bn capex program

Renewed focus on near-term, cash-producing royalties

Impairment has been widespread across the international mining industry amidst falling commodity prices and continued tightening in the capital markets. We believe that Anglo Pacific is well placed to endure these challenges and the underlying business of the Group has remained profitable. We have not escaped our own impairments, particularly in our strategic equity investments, most of which are junior mining equities. However, as these are carried at market value at each reporting date, this has had little impact on the balance sheet. There have also been impairment charges in relation to some of the Group's long dated royalties where macro-economic conditions may delay the eventual production expected from them.

The Company is pleased to recommend a final dividend for 2013 of 5.75p per share, maintaining a total dividend of 10.2p per share, equalling the level paid out to shareholders for the year ended December 31, 2012. This reflects our confidence in future production from Kestrel and our other producing royalties as well as our ability to acquire additional cash-producing royalties in the near-term.

Board

It was with great sadness that on January 7, 2014 Peter Boycott passed away. Peter had served as Chairman of the Board of the Company since 1997. He stepped down as Chairman in August 2012 for health reasons but was still able to participate actively at Board meetings and to chair the Annual General Meeting ('AGM') in May 2013. With his tireless energy and business skills, Peter made an enormous contribution to the Company's recovery and growth over the past decade, transforming it into the successful mining royalty company it is today. As I took on the role of Acting Chairman due to Peter's ill health, I will be stepping down from this intermediary position and will not be offering myself for re-election at the next AGM. I will be handing over to Mike Blyth, who will succeed me as Non-Executive Chairman with effect from April 1, 2014. John Whellock and Michael Atkinson will also be stepping down from the Board at the next AGM. I would like to thank both John and Michael for their contribution to the Company over the years and have every confidence in Mike, and the rest of the team, in leading Anglo Pacific through a new period of growth.

Finally, I am pleased to welcome Robert Stan onto the Board. Robert is a Canadian national with a prominent background in the mining industry, most recently serving as CEO for Grande Cache Coal Corporation until the company was sold in 2012 for US$1bn. His extensive knowledge and experience in the mining industry makes him a strong addition and his particular focus on the coal sector should provide valuable insights to the Group's bulk materials royalties. His considerable network of contacts within the Canadian investment community will also prove beneficial as the Company seeks to expand its North American investor base.

Chairman's statement

Outlook

The Group enters 2014 with cautious optimism. The mining majors appear to be focused on increasing returns to their shareholders, which they are trying to achieve through renewed focus on the efficiency of their existing operations. Cutbacks have been announced for many new projects, which over the medium and long-term should positively affect the supply/demand balance across commodities.

In the meantime, opportunities continue to arise for alternative financing in the base metals and bulk materials sector. The Group is currently assessing a number of suitable opportunities and we look forward to updating shareholders as and when these materialise.

In conclusion, I would like to thank all my colleagues for their considerable energy and unstinting dedication to the running of our Company throughout the year.

On behalf of the Board

B.M. Wides
Acting Chairman
March 31, 2014

Chief Executive Officer's statement

I am pleased to be joining Anglo Pacific at an important stage in the Company's development. We believe we are well positioned to lead the Company into its next phase of growth.

I was encouraged by our maiden set of results for 2013. The Company was able to maintain a steady royalty income, at £14.7m for 2013 only slightly down from £15.2m for 2012, despite continued difficulties in the mining sector. The Company's ability to withstand the current macro-economic backdrop is further reflected in a resilient adjusted earnings after tax number (refer to page 30), which has in turn encouraged us to maintain our total dividend at 10.2p.

Since my appointment in October 2013, the team has been hard at work on a number of fronts. Our primary focus has been on sourcing viable royalty transactions and I am pleased to say that our pipeline continues to grow. Our current focus is on diversifying our existing asset portfolio and securing near-term, cash-producing royalties in base metals and bulk materials projects, providing the Company with a clearly differentiated strategy from its North American listed precious metals peer group.

Furthermore, we have sought to provide a fair and balanced picture of the Group's assets in these accounts and believe our results reflect this. Updates during the year in relation to some of our royalties resulted in impairment charges as there is some uncertainty as to if and when these royalties will come into production. We believe these impairment charges are accurate in the context of long-term commodity prices and the challenges facing those operations. We believe we now have a robust balance sheet and this should serve as a good base for future growth.

In February 2014, we also took on a new US$15m twelve-month unsecured revolving credit facility. Together with our net cash position, this gives availability of between US$35m and US$40m and provides additional funding flexibility for the next 12 months.

We were also pleased to welcome BMO Capital Markets ('BMO') to work alongside Liberum Capital as Joint Corporate Broker in January 2014. BMO will play an increasingly important role as we look to grow the Company and increase our profile internationally. Finally, I would like to take the opportunity to thank Brian Wides for his contribution to the Company as Acting Chairman over the past 15 months and in particular for his wise, thoughtful leadership and guidance since my appointment in October 2013.

We look forward to 2014 and are confident of the opportunity to provide our shareholders with growth and income from our dividend, through the existing assets in our portfolio and the acquisition of new royalties.

The following section of our Annual Report, up to and including page 34 is our strategic report for the year ended December 31, 2013 and outlines amongst other things, our business model and new strategic objectives along with an overview of the market and how we performed in the period.

J.A. Treger

Chief Executive Officer

March 31, 2014

Market overview

Increased capital constraint amongst base metals and bulk materials producers...

Over the past few years, the mining industry has faced increased funding challenges. Some of the world's biggest projects have suffered from high cost inflation and budget overruns. M&A activity at the peak of the last economic cycle also resulted in a substantial increase in leverage across global miners, which in a falling commodity price environment has resulted in substantial declines in earnings and reduced balance sheet flexibility. For instance, the net debt to EBITDA multiple for the Bloomberg World Mining Index increased from 0.8x in 2010 to 1.4x in 2013. This has impacted on share prices. As the most capital intensive sector within the mining industry, base metals and bulk materials producers have been under additional pressure.

Falling commodity prices have put junior miners under increasing financial strain with limited access to capital. This is further compounded by the typically higher cost operations of junior miners versus the mining majors.

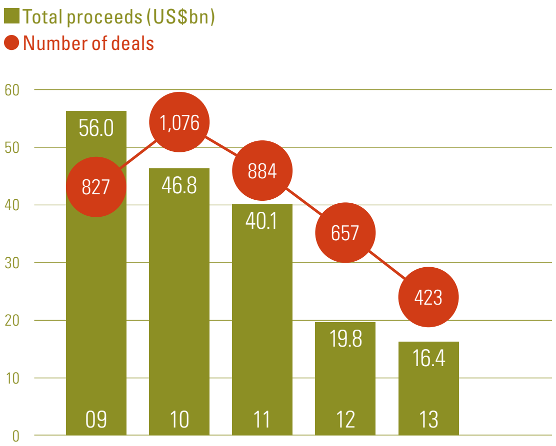
...who are left with limited financing

Traditional funding routes remain limited

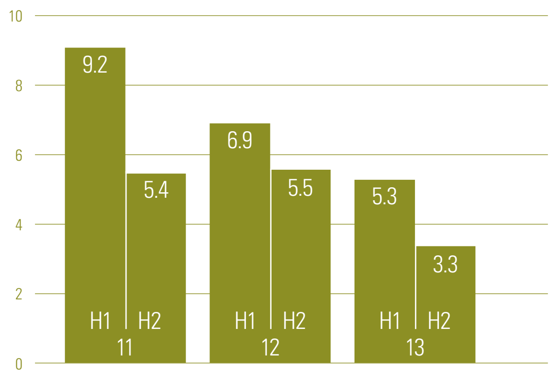
During the course of 2013, the sell-off in the mining sector impacted on the mining equity markets. Global mining equity issuance in 2013 amounted to US$16.4bn, 17% and 59% down from 2012 and 2011 respectively.

Lending to the global mining industry has also been impacted. For example, there has been a notable decrease in high yield debt issuance to the mining industry over the past two years, down 41% from US$14.6bn in 2011 to US$8.6bn as of the end of 2013.

Global mining equity issuance
(US$bn)



Global mining high yield debt issuance
(US$bn)



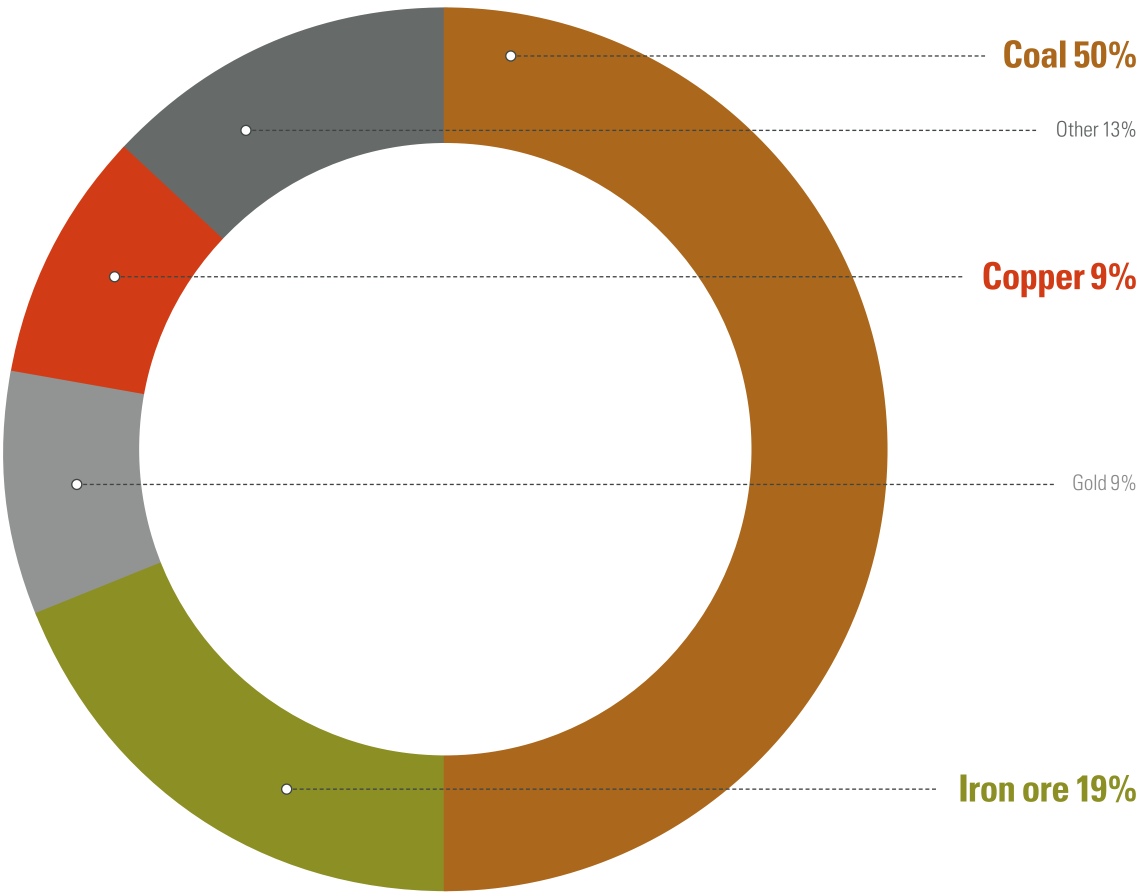
Source:
1. *Global mining equity issuance: Dealogic*
2. *Global mining high yield debt issuance: Company filings, Bloomberg, LCD News*

Royalty financiers are focused almost exclusively on precious metals producers

The financing provided by the royalty and streaming industry has grown considerably in recent years, with upfront payments totalling more than US$2bn in each of 2012 and 2013. Nevertheless, the industry's historical focus on precious metals is disproportionately channelling investment into only a small part of the mining industry. The aggregate market cap of the top listed precious metals royalty companies in 2013 was approximately US$20bn, yet gold and silver producers made up approximately 11% of global mining production by value. By contrast, the largest non-precious metals royalty company, Labrador Iron Ore, had a market cap of just under C$2bn. Anglo Pacific intends to provide royalties and streams to the rest of the mining sector.

STRATEGIC REPORT

2013 global mining production by value



Source:

1. *Source: Global mining production by value: Global Mining Perspective, Arctic Cluster of Raw Materials Conference, IntierraRMG report (September 26, 2013), BMO Global Commodities Research (November 10, 2013)*
2. *Royalty and stream payments in 2012 and 2013: Company filings of Silver Wheaton Corp, Sandstorm Gold Ltd, Franco-Nevada Corp, Anglo Pacific Group PLC, Royal Gold, Inc.*
3. *Aggregate market cap of the top listed precious metals royalty companies in 2013: Silver Wheaton Corp, Franco-Nevada Corp, Royal Gold Inc, Factset (March 21, 2014)*
4. *Labrador Iron Ore Royalty Corporation market cap: Bloomberg (March 28, 2014)*

Our strategic objectives

Specialise

Focus on base metals and bulk materials, typically linked to GDP growth. The supply side economics of metals such as copper and zinc make it an attractive investment proposal. Infrastructure-led GDP growth in developed economies combined with urbanisation in developing countries should ensure continued demand for bulk materials.

Accelerate

Acquire royalties on producing or near-term producing mines with operators who have a strong track record. In order to manage its risk profile, the Group will focus mainly on mines in established mining jurisdictions, primarily North America, South America, Europe and Australia. The current portfolio will be enhanced by the acquisition of existing royalties or the negotiation of new agreements. Royalties will be preferred which can demonstrate the potential to generate additional income from (amongst other things):

- Increased realised commodity prices
- Increased production volumes
- Increased reserves and resources and subsequent mine life extensions

Diversify

Rebalance the commodity spread and stage of production of the Group's royalty assets, recognising that Kestrel, our cornerstone producing asset, currently accounts for c. 67% of revenues, which in turn has meant an overweight position in coal. Our target portfolio would see increased exposure to iron ore, copper and zinc, in line with our strategic objective to specialise in the non-precious metals sector. Opportunistic investment in non-core commodities such as oil & gas, uranium, diamonds and precious metals may be pursued. The Group will also be reviewing existing non-core royalty assets and mining and exploration interests which no longer fit with the new strategy.

Our business model

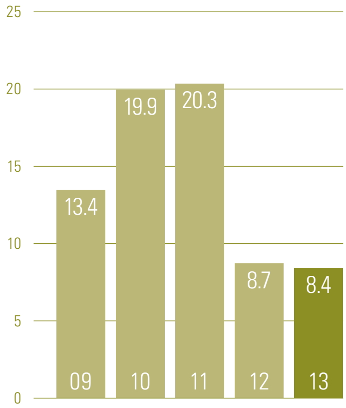
Creating value for our shareholders

Generating long-term cash returns	The Group is seeking to grow its portfolio of cash-generative royalties and streams by investing in producing or near-term producing assets with long mine lives. Given the relatively low overhead requirements of the business, the Group believes cash flow to shareholders can be maximised through economies of scale, which would allow for growth in the portfolio without significantly increasing our cost base.
Lower risk through top-line, revenue participation in mining companies	Revenue-based royalties limit the Group's direct exposure to operating or capital cost inflation of the underlying mine operations, as there is no ongoing requirement for the Group to contribute to capital, exploration, environmental or other operating costs at mine sites.
Lower volatility through commodity and geographic diversification	The Group is seeking to build a diversified portfolio of royalties across a various commodities and geographic locations. Investing in royalties across a wide spectrum of commodities and jurisdictions reduces the dependency on any one asset or location and any corresponding cyclicality. A fully diversified portfolio can help to reduce the level of income volatility, stabilising cash flows which contribute towards investment and dividend payments.
Exposure to increases in mineral reserves and production	Royalty holders generally benefit from improvements made to the scale of a mining operation. Exploration success, or lower cut-off grades as a result of rising commodity prices, can serve to increase economic reserves and resources. Increased reserves will extend a mine's life, or facilitate an expansion of the existing operations. Any subsequent increases in production will generally result in higher royalty payments, without the requirement of the royalty holder to contribute to the cost of expanding or optimising the operation.
Exposure to commodity price upside	Royalties provide exposure to underlying commodity prices. The Group expects to benefit from a rising commodity price environment, with the upside feeding through to increased royalty receipts.

Creating value for our mining partners

We serve as a partner to the mine operator	Royalties reduce the upfront capital required to fund the development of a project. These are generally structured as asset (or even bi-product) specific, often leaving the remaining assets of the developer unencumbered for raising additional finance. The creation of a new royalty can create positive news flow for the developer and provides some validation of the economic viability of a project. Together, these can help developers in securing additional funds from more traditional sources.
An alternative form of financing which is often less dilutive to shareholders	Compared to the issuance of new equity, royalties do not depend on the prevailing state of the capital markets but are rather the result of bilateral negotiations. The issuance of new equity can also serve to dilute existing shareholders, particularly during periods of depressed share prices. Furthermore, as royalties are asset specific, the reduction in the upside for existing shareholders can be limited to a certain mine or product. This is particularly relevant for companies with more than one asset for which the issue of new shares gives away upside over all assets or future assets in the company. Finally, there are costs associated with issuing equity, which can be direct in the form of underwriting fees or indirect via the pricing of an issue at a discount to market.
Flexible financing structures to suit the mine operator	Royalties represent an alternative form of raising finance. Royalties do not typically levy interest, nor do they typically require principal repayments or have a maturity date. More importantly, unlike conventional debt arrangements where interest payments tend to start immediately or are capitalised until cash payments can be made from a project's cash flow, most royalties are repayable when a 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. Finally, debt financing agreements can also be slower to implement, typically requiring more intrusive due diligence and increased documentation.

Key performance indicators

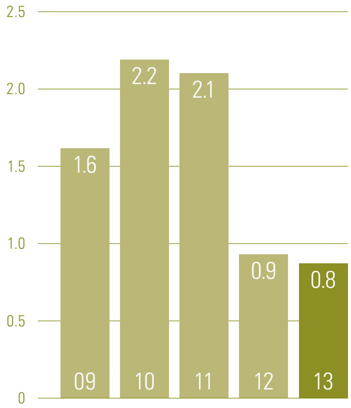


Adjusted earnings per share

(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 charges.

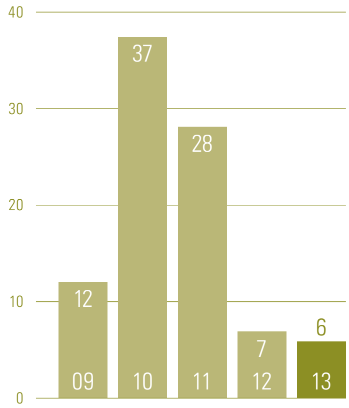
It also adjusts for any profits or losses which are realised from the sale of equity instruments within the mining and exploration interests as these are determined based on market forces outside the control of the Directors. (see note 12 for further details)



Dividend cover

(x)

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



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.

Principal risks and uncertainties

Whilst limiting a number of the risks associated with traditional mining and commodity investments, royalties remain exposed to a number of risk factors. An optimised selection of royalty investments within a balanced portfolio should nevertheless help to mitigate these.

Anglo Pacific also undertakes measures to seek to further mitigate the key risks related to its strategy:

Risk description	Mitigation
Corporate	
Overweight exposure to coking coal, a key input in steel production, increasing dependence on future demand for steel	The Group's strategy is to diversify more broadly within the base metals and bulk materials sector, increasing exposure to copper, zinc and other metals not directly linked to steel production, in line with our objective of specialising in the non-precious metals sector.
Highly dependent on a single cash-generative royalty	The Group's current strategy is to accelerate the process of acquiring cash-generative royalties to reduce the current reliance on Kestrel, our principal cash-generative royalty.
Limited access to information from the operators	Management is looking to improve relationships with the operators of the Group's existing royalties and to try to obtain better information rights for both existing and new royalties.
Inability to pay the dividend	A renewed focus on acquiring income generating royalties along with liquidity in its mining and exploration interests should allow the Group to seek to maintain and grow its dividend. In addition, the Company has considerable accumulated distributable reserves.
Retention of key executives	The Group understands the importance of and is committed to attracting, retaining and incentivising key executives. For more information on the Group's remuneration policies, please refer to the Directors' remuneration report on pages 44 to 51.
Inability to acquire royalties due to pricing or competition	The Group has an experienced management team with an extensive network of contacts and a strong track record of investing in the mining industry. The new management team bring with them alternative avenues in exploring for and creating new royalty opportunities. The Group believes it can lead the development of royalty financing in the base metals and bulk materials sector, given the predominant focus of its peers on precious metals.
Inability to acquire new royalties due to lack of financing	The Group is cash generative and has liquidity in its mining and exploration portfolio. In addition, the potential to access capital markets and the entering into by the Group of a twelve-month unsecured revolving credit facility provide additional resources to acquire new royalties.

Principal risks and uncertainties

Risk description	Mitigation
Corporate	
Royalty acquisitions may not produce anticipated revenues	The Directors have significant experience of investing in the mining industry and have considerable expertise in assessing the forward demand for commodities. The Group uses consensus or lower forecasts when valuing all royalty investments, which reduces the risk of underperformance and a site visit is undertaken to assess the viability of the underlying project.
Dependence on the operator to deliver a commercially efficient mining operation	The Group has limited control over the operation of the mine it has invested in. The Group conducts detailed due diligence on all investments, which will often include a site visit by suitably qualified personnel that will highlight any economic, operational or environmental concerns. Further, newly created royalties can be tailored to allow for performance milestones to try to ensure that the operator performs as intended.
Potential misalignment of interests between the Group and operators	Newly created royalties can be tailored to allow for performance milestones to try to ensure that the operator performs as intended.
Legal	
Enforceability of royalty rights	The Group seeks to invest in countries with well established legal jurisdictions which will provide a means of recourse for breach of contract. In addition, the Group will seek to register its royalty interest where possible to try to ensure the royalty survives both bankruptcy and change of control.
Jurisdiction risk **(i) Resource nationalism** **(ii) Labour relations** **(iii) Tax**	(i) The Group seeks to focus its investments on those countries with established legal jurisdictions, low geopolitical risk and an established mining industry. Having a diversified portfolio has allowed the Group to de-risk small investments in operations in developing countries. (ii) The Group does not operate the mines which it invests in and bears no liability for any adverse event or disaster at site level. (iii) As part of the due diligence process the Group considers applicable withholding taxes and any existing state royalties. A material alteration of a tax regime could impact the economic viability of a project, and ultimately royalty income. As the royalty rate for the Kestrel royalty is set by the state, a change in the tax regime could have a direct effect on royalty income. The Group's assets are generally located in developed economies which encourage mining activity through a fair and consistent tax system.

Risk description	Mitigation
Financial (including financial instruments)	
Commodity price	The Group's strategy is to diversify away from its dependence on coking coal through acquiring royalties in the base metals and bulk materials sector. The Group uses consensus or lower forecasts when valuing all royalty investments which reduce the risk of overpayment. A fall in commodity price is mitigated by virtue of the relatively low fixed cost base of the Group as it is not an operator nor has it any hedging contracts to fulfil.
Liquidity	The Group seeks to ensure that it can meet all of its obligations as they fall due by preparing regular cash flow projections, highlighting any currency requirements well in advance of settlement. The Group has a strong balance sheet, an undrawn US$15m twelve-month revolving credit facility and potential access to the capital markets to provide additional funding to meet its obligations as well as its investment objectives.
Credit	The Group operates controlled treasury policies which spreads the concentration of the Group's cash balances amongst separate financial institutions with high credit ratings. The Group's credit risk on monies advanced to explorers and operators is taken into account when assessing the fair value of these assets at each reporting date. For receivables, the Group presents these on the balance sheet net of any amount for doubtful debt. As these primarily relate to the Kestrel royalty, the credit risk is minimal due to the world class nature of the operator.
Foreign exchange	The Group's exposure to foreign currency arises from different currencies associated with income (mainly Australian dollars), expenditure including dividend (mainly in pounds sterling) and investment (usually in US dollars). As there are so few transactions, the risk is managed by the Board using detailed cash flow projections prepared regularly. At present the Board has determined that a hedging policy is unnecessary.
Interest rates	The Group has limited exposure to interest rate risk, and its twelve-month revolving credit facility is unhedged.
Other pricing	The value of the Group's royalties is underpinned by commodity prices which may affect the future expected cash flows. This is taken into account at each reporting date in assessing for impairment. The Group has a portfolio of junior mining equity investments which fluctuate in value based on the active quoted share price. The reduction in value of the portfolio over the last few years has resulted in a full impairment of unrealised losses such that any further pricing risk should be much less material to the Group.

Our portfolio

Stage	Royalty	Commodity	Operator	Location	Royalty type and rate [1,2]	Balance sheet classification
Producing	**Kestrel**	**Coking coal**	**Rio Tinto**	**Australia**	**7 – 15% GRR**	**Investment property**
Producing	**Amapá**	**Iron ore**	**Zamin Ferrous**	**Brazil**	**1% GRR**	**Intangible**
Producing	**Tucano**	**Iron ore**	**Beadell Resources**	**Brazil**	**1% GRR**	**Intangible**
Producing	**El Valle-Boinás /Carlés ('EVBC')**	**Gold, copper and silver**	**Orvana Minerals**	**Spain**	**2.5 – 3% NSR**	**Royalty instrument**
Near-production	**Four Mile**	**Uranium**	**Quasar Resources**	**Australia**	**1% NSR**	**Intangible**
Development	**Salamanca**	**Uranium**	**Berkeley Resources**	**Spain**	**1% NSR**	**Intangible**
Development	**Isua**	**Iron ore**	**London Mining**	**Greenland**	**1 – 1.4% GRR**	**Royalty instrument**
Development	**Jogjakarta**	**Iron sands**	**Indo Mines**	**Indonesia**	**1 – 2% NSR**	**Royalty instrument**
Early-stage	**Pilbara**	**Iron ore**	**BHP Billiton**	**Australia**	**1.5% GRR**	**Intangible**
Early-stage	**Ring of Fire**	**Chromite**	**Cliffs Natural Resources**	**Canada**	**1% NSR**	**Intangible**
Early-stage	**Dugbe 1**	**Gold**	**Hummingbird Resources**	**Liberia**	**2 – 2.5% NSR**	**Loan**
Early-stage	**Bulqiza**	**Chromite**	**Columbus Copper**	**Albania**	**3% NSR**	**Intangible**
Early-stage	**Mount Ida**	**Iron ore**	**Jupiter Mining**	**Australia**	**0.75% GRR**	**Intangible**
Early-stage	**Churchrock**	**Uranium**	**Uranium Resources**	**USA**	**5% GRR**	**Option**

Private coal interests

In addition to its royalty assets the Group also owns mineral licences in the Groundhog (Panorama and Discovery, collectively referred to as 'Panorama') and Peace River ('Trefi') coal deposits in British Columbia, Canada.

Mining and exploration interests

The Group has a select number of listed and unlisted equity investments, primarily in junior miners across a wide spectrum of commodities, which are held with a view to obtaining royalties. The decline in junior mining markets has led to further declines in value during the year and this portfolio represents less than 8% of the Group's total assets.

1. *Please refer to page 28 for further detail on the Royalty type and rate for Kestrel, Tucano, EVBC, Isua, Jogjakarta, Dugbe 1, and Mount Ida. Please note that the table above does not include royalty assets which have been ascribed no value as at December 31, 2013.*
2. *GRR and NSR stand for Gross Revenue Royalty and Net Smelter Return respectively.*

Business review

Significant developments across our principal royalties during 2013

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: 7% of value up to and including A$100, 12.5% of the value over A$100 and up to and including A$150, and 15% thereafter.

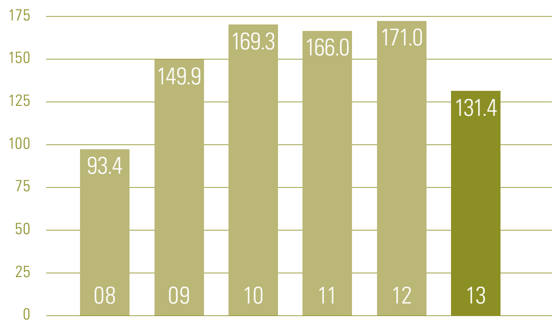
Performance

Rio Tinto successfully completed the transition into its new Kestrel South mine in H2 2013 and provided a strong Q4 2013 production update. More specifically, a steady ramp up in Kestrel hard coking coal production during 2013 was reported by Rio Tinto in its fourth quarter operations review 2013, released on January 16, 2014, from 402kt in Q1 to 908kt in Q4, an increase of 126%.

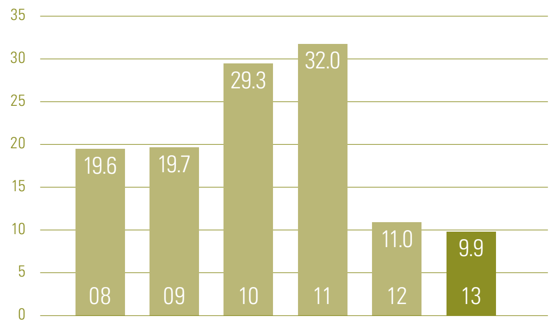
Coking coal royalty receipts for Anglo Pacific amounted to A$16.1m (2012: A$16.7m) translating into £9.9m compared to £10.9m reported in 2012. The decrease in income is due to both the weakening of the Australian dollar throughout 2013 and production disruptions associated with the extension to the new Kestrel South mine. With the transition to the new Kestrel South mine now completed, it is anticipated that production at Kestrel should become less volatile, which will benefit the Group as and when production moves fully within its private royalty land.

➤ For additional information, please see www.riotintocoalaustralia.com.au

Coal royalty valuation
(£m)



Coal royalty income
(£m)



Valuation

The Kestrel royalty accounts for 51% of the Group's total assets. The value of the land is calculated by reference to the discounted expected royalty income from mining activity. This is an independent valuation conducted by suitably qualified consultants. A discount rate of 7% is applied. The Group monitors the accuracy of this valuation by comparing the actual cash received to that forecasted.

The decline in coking coal prices in addition to the Australian dollar to US dollar exchange rate over the last two years has impacted on the valuation of expected future cash receipts and, therefore, valuation.

Amapá and Tucano, Iron ore, Brazil

What we own

Amapá

The Group has a 1% life of mine GRR on all iron ore and other non-precious minerals produced from the Amapá Iron Ore System ('Amapá') in northern Brazil. Amapá consists of the mine in Pedra Branca do Amapári and the port in Santana, which are linked by a railway. Amapá's recorded revenue in 2012 was US$327m and US$481m in 2011, based upon production volumes of 6.1Mt and 4.8Mt, respectively. The mine produces a mix of sinter feed, pellet feed and spiral concentrates.

On January 4, 2013 Zamin Ferrous Ltd ('Zamin') announced that it had signed a binding agreement for the purchase of Amapá from Anglo American Plc (70%) and Cliffs Natural Resources Inc (30%). This process completed on November 4, 2013 and Zamin is now the owner and operator. The Group is encouraged by this change of ownership and looks forward to establishing a good working relationship with Zamin going forward.

Tucano

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

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

Performance

Shipments of iron ore from Amapá were suspended in March 2013 due to a serious incident at the Santana port, which impacted key infrastructure at the loading bay. This resulted in reported 2013 income from Amapá of £0.7m (2012: £2.2m). Shipments have now recommenced and the expectation is that royalties will resume in the near-term. The Group is also expecting royalty income to commence from the adjacent Tucano mine in 2014.

➤ *For additional information, please see www.zaminferrous.com and www.beadellresources.com.au*

Valuation

The Group acquired these pre-existing royalties in 2010. These are considered to be intangible assets and, as such, are presented on the balance sheet at cost. Intangible royalties are amortised when production commences, on a straight line basis over the expected life of the mine.

Business review

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

What we own

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

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

Performance

Production at EVBC was encouraging throughout 2013. The Group received royalty income of £2.0m during the year, a satisfactory result considering the decline in the gold price in 2013. The Group received an additional payment of £2.0m in 2013 representing repayment of the original debenture instrument. Orvana announced FY 2013 calendarised production for EVBC of 65,992 ounces of gold, 197,768 ounces of silver and 6.7m pounds of copper, whilst FY 2014 production guidance was 65,000 to 75,000 ounces of gold, 175,000 to 200,000 ounces of silver and 6 to 6.5m pounds of copper.

➤ *For additional information, please see www.orvana.com*

Valuation

Although EVBC is a royalty, the original debenture agreement displayed characteristics of a financial asset. As such, the asset is carried on the balance sheet at its fair value by reference to the discounted expected future cash flows over the life of the mine.

Business review

Near-production royalties

Four Mile, Uranium, South Australia

What we own

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

Performance

Significant progress was made in advancing the Four Mile project during 2013 and the expectation of Alliance is for this to enter production during 2014. The progress at the project includes:

- On August 16, 2013, Alliance announced that the Program for Environment Protection and Rehabilitation had been approved. On the same day, it was announced that the Environment Protection Authority South Australia had approved a Licence for Mining and Mineral Processing, including Radiation Management and Radioactive Waste Management plans.
- On September 3, 2013, Alliance announced that the Four Mile Uranium Mine Monitoring, Mine Closure and Community Engagement Plans had also been approved.
- On December 3, 2013, Alliance announced that construction had commenced and that the production budget had been approved.
- On January 31, 2014, Alliance announced the approval of the Four Mile Revised Start-Up Plan and Program and Budget. The Start-Up Plan envisages in-situ recovery mining commencing in April 2014, with first uranium oxide sales in July 2014.

➤ *For additional information, please see www.allianceresources.com.au*

Valuation

Similar to Amapá, this was the acquisition of a pre-existing royalty and is accounted for as an intangible asset at cost with amortisation commencing upon production.

Development royalties

Isua, Iron ore, Greenland

What we own

The Group has a 1% life of mine GRR on AIM-listed London Mining PLC's ('London Mining') Isua iron ore project in Greenland. The royalty rate increases for iron ore of less than 55% Fe to a maximum of 1.4%.

The royalty agreement contains a number of milestones, the breach of which would allow the Group to convert the royalty back into the US$30m consideration, the satisfaction of which can be in cash or London Mining shares at London Mining's election. The remaining milestones include commercial production not occurring prior to June 20, 2017, a change of control of the project (or of London Mining) and the revocation of any material licences or permits.

London Mining announced a feasibility study for Isua on March 27, 2012, which envisaged an initial 10-year mine life with annual production of 15Mtpa.

Performance

The project was granted an exclusive 30-year exploitation licence on October 24, 2013. This is a key milestone in advancing the project.

➤ *For additional information, please see www.londonmining.co.uk*

Valuation

As there is a contractual means of recovering the monies advanced, the royalty is considered a financial asset and carried at fair value at each reporting date.

Salamanca, Uranium, Spain

What we own

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

Performance

On September 26, 2013, Berkeley announced the results of its pre-feasibility study, which estimated an average production of 2.7Mlbs U_3O_8 per annum over an 11-year mine life and a total capital cost of US$169m. In October 2013, Berkeley announced that it had been granted its Environmental Licence for the Retortillo deposit. This is a major milestone for the project.

➤ *For additional information, please see www.berkeleyresources.com.au*

Valuation

This is an intangible asset, carried at cost until such time as production commences at which point amortisation will commence.

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, operated by NYSE-listed Cliffs Natural Resources Inc. ('Cliffs'), in the Ring of Fire region of Northern Ontario, Canada.

Performance

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

➤ *For additional information, please see www.cliffsnaturalresources.com*

Valuation

This is an intangible asset and accounted for at cost. Due to the announcement referred to above, the expected future cash flows no longer exceed cost. An impairment charge has been recognised to reflect the difference.

Footnotes to the royalty table on page 21

Kestrel: For more information on the royalty rate, please see page 22.

Tucano: The 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.

EVBC: The Company owns a 2.5% NSR royalty which escalates to 3% when the gold price is over US$1,100 per ounce.

Isua: The royalty rate increases to 1.4% for iron ore of less than 55% iron content and 1.2% for beneficiated ore of less than 55% iron content.

Jogjakarta: The NSR royalty reduces to 1% after repayment of the principal amount of the debenture if at the time the pig iron price is below US$700 per tonne. The royalty is only payable over a 70% share in the project.

Dugbe 1: The royalty is 2% except where both the average gold price is above $1,800 and sales of gold are less than 50,000 ounces, in which case it increases to 2.5% in respect of that quarter.

Mount Ida: The consideration was payable in three tranches as follows: US$6m paid for a 0.3% GRR on completion and agreement on the terms of the transaction; US$4m for a further 0.225% GRR on the production of a positive DFS, plus a formal decision to mine, plus 20% of pre-production capital costs being provided for; and US$4m for a further 0.225% GRR on commencement of commercial production. To date only the first tranche has been paid by the Group.

Financial review

The Group revised some of its accounting policies during the year in light of a review of the Group's 2012 Annual Report by the Conduct Committee of the Financial Reporting Council ('FRC') as part of their annual review process.

The following changes/clarifications have been reflected in the financial statements:

- Kestrel: following the FRC review, this is now accounted for as Investment Property in accordance with IAS 40. This has no impact on valuation.
- Royalty instruments (EVBC): this is accounted for as an available for sale equity financial asset in accordance with IAS 39. As such, all receipts should be accounted for as returns on investment. Previously, the Group treated the EVBC debenture repayments as offsetting the capital outstanding. These are now restated as a return on investment and recognised in the income statement. This has no impact on the balance sheet, as these are carried at fair value.
- Royalty instruments (other): these are accounted for as available for sale debt financial assets in accordance with IAS 39, as the agreements contain several features which are similar to those found in conventional financing contracts. As such, regardless of the contractual interest rate, an effective interest rate is applied where material. Similar to IAS 39 equity financial assets, these too are carried at fair value at each reporting date.
- Impairment of equity instruments: although the way in which the Group considers impairment has not changed in the period, a key input into this assessment is relevant underlying mining indices. As this has changed the threshold which the Directors consider to be significant, this is deemed a change in policy which requires a prior period adjustment. This does not alter the value of the equities which are always accounted for at mark to market at each reporting period end.

Please see note 2.1.3 to the financial statements, which describes the items yet to be resolved with the FRC and the Group's assessment of their potential impact.

Income statement

The Group's underlying business remained profitable throughout 2013. A number of valuation and non-cash items recognised in the income statement results in the Group reporting a loss after tax of £42.5m compared to a profit of £11.6m in 2012 (restated). Due to the number of such items, the Group has decided to present an adjusted earnings per share metric to better report the underlying performance of the Group.

Financial review

Adjusted earnings per share (see note 12)	2013 £'000	2012 (restated) £'000	Description
(Loss)/Profit after tax	**(42,497)**	**11,580**	Per the income statement
Non-cash valuation of coal royalties	13,568	(9,512)	This represents the revaluation of Kestrel, in accordance with IAS 40. Previously, Kestrel was accounted for in accordance with IAS 16. This change in policy has no impact on the carrying value of the asset (see note 2.1.4).
Non-cash impairment of mining and exploration interests (strategic equity investments) (IAS 39)	26,321	11,401	The further unrealised decline in value of the Group's mining and exploration interests in the period is considered 'significant' in the context of the Group's impairment policy and IAS 39. Such decline requires previous unrealised losses recognised in the Revaluation Reserve to be recognised as impairment in the income statement. The balance sheet always reflects current market value.
Non-cash impairment of intangible assets (royalty interests)	8,313	–	An impairment review is carried out to determine whether the expected future cashflows exceed carrying value. As discussed below, events during the year have created uncertainty as to if and when some of the Group's royalties will come into production.
Non-cash revaluation of available for sale debt financial assets (royalty instruments)	8,689	767	This represents the valuation movement in the year caused by changes to expected future cash flows in accordance with IAS 39 (see note 2.9(e)(ii) and 2.1.4).
Effective interest rate on available for sale debt financial assets (royalty instruments – Jogjakarta)	(1,140)	(570)	IAS 39 requires an effective interest rate to be applied to financial assets which fall under the definition of debt. As this is a non-producing royalty, it is considered un-prudent to reward income ahead of receiving the equivalent cash. (See note 2.9(e)(ii).)
Non-cash amortisation of producing royalties (Amapá)	854	1,018	This represents the amortisation charge of royalty interests once the project is in production (IAS 38).
Realised loss/(profit) on sale of mining and exploration interests	6,398	(7,347)	This represents realised losses/gains on the sale of certain mining and exploration interests (strategic investments) once the possibility of obtaining a royalty becomes unlikely.
Non-cash tax associated with the above adjustments	(11,370)	2,096	Deferred tax is recognised on most valuation movements.
Adjusted profit after tax	**9,136**	**9,433**	
Weighted average number of shares ('000)	108,932	108,545	
Adjusted earnings per share	8.39p	8.69p	There is no impact of dilution on these numbers.
Dividend per share	10.2p	10.2p	

Royalty income

The Group was encouraged by the performance of its producing royalties during the year. Despite falling commodity prices and foreign exchange rates, royalty income during the year was resilient. Overall, royalty related income was £14.7m in 2013, a decrease of only £0.4m from that reported in 2012 (restated).

	2013 £'000	2012 £'000
Kestrel	9,941	10,921
EVBC – royalties	2,018	1,890
EVBC – conversion payment	2,023	–
Amapá	749	2,229
Crinum	–	117
Total	**14,731**	**15,157**

Income from Kestrel was £9.9m (2012: £10.9m). The weakening of the Australian dollar resulted in a foreign exchange loss of £0.5m. Underlying income was A$16.1m compared to A$16.7m in 2012.

Elsewhere, royalty income from EVBC during the year of £2.0m reflects the favourable impact of an increased level of gold and copper production, despite lower gold and copper prices. The additional £2.0m received represents repayment of the initial debenture investment. As EVBC is accounted for as an available for sale equity interest in accordance with IAS 39, this represents a return on investment and not a return of capital and is recognised in the income statement and is not recurring. All income from EVBC will be in the form of royalties going forward.

As previously reported, royalty income from Amapá was significantly impacted by the incident at the Santana port in March 2013, which resulted in the suspension of all shipments of iron ore from the mine. This has not stopped production at the mine, and royalties will resume once shipping recommences.

The Group was encouraged that operating profit remained steady in 2013 at £11.3m (2012: £11.2m (restated)).

Impairment

The following table summarises the impairment charges reflected in the income statement:

Impairment summary	2013 £'000	2012 £'000	Description
Ring of Fire	(4,047)	–	The operator's announcement that it was placing its operation on care and maintenance places uncertainty over the future of this project. This announcement has resulted in a partial impairment of this royalty. However the Group maintains its view that this is a world class deposit that will eventually come into production.
Mount Ida	(3,319)	–	Similar to the Ring of Fire, the operator has placed this operation on care and maintenance and is now focusing on its other projects. Should iron ore prices increase significantly in future years, this project could restart. In the meantime, the Group has ascribed limited value to this royalty.
Bulqiza	(947)	–	The operator is increasingly focused on its copper projects in Turkey rather than this chromite deposit in Albania. This has altered the timing of expected cash flows, impacting on the value of the Group's royalty.
Royalty impairment	**(8,313)**	–	
Mining and exploration interests	(26,321)	(11,401)	This represents the transfer of the absolute decline in value of the strategic equity investments from the revaluation reserve to the income statement in the period. Equities are always carried at mark to market at each reporting period reflecting current share prices.
Total	**(34,634)**	**(11,401)**	

Financial review

Balance sheet

The Group's net assets decreased in value from £301.0m at the end of 2012 to £216.9m at December 31, 2013. Foreign exchange movements accounted for a significant portion of this decline, as several of the Group's royalty assets, including Kestrel, are denominated in Australian dollars. The underlying valuation of the majority of these royalties remained resilient in 2013.

Net asset reconciliation	£m	£m	Pence per share
Net assets at January 1, 2013		301.0	275
Kestrel (note 15)			
– Foreign exchange	(26.0)		
– Underlying valuation	(13.6)		
– Deferred tax	11.9	(27.7)	
Intangibles (note 17)			
– Foreign exchange	(7.3)		
– Impairment	(8.3)	(15.6)	
Royalty instruments (note 16)			
– Fair value (net of tax)	(11.1)		
– Foreign exchange	(2.9)	(14.0)	
Mining and exploration interest (note 18)			
– Mark to market	(29.7)		
– Net disposals	(5.3)	(35.0)	
Dividend (note 13)		(11.1)	
Share issue (page 37)		2.5	
Adjusted profit (note 12)		9.1	
Other		7.7	
Net assets at December 31, 2013		**216.9**	**196**

The net decline in the valuation of the Kestrel royalty of £27.7m in the period largely reflects the weakness in the Australian dollar. The royalty was independently valued at A$244.6m before tax at December 31, 2013 – a decrease of A$22m from the value at the beginning of the year. The decline in the royalty valuation also reflects the foreign exchange impact of the exchange rate between the US dollar (the currency in which the income is derived) and the Australian dollar (the currency in which the royalty is reported). The US dollar also weakened substantially against the pound during the year.

Royalty intangibles represent the Group's 'plain vanilla' royalties. As a proportion of these are denominated in Australian dollars, the decrease in value is largely represented by unfavourable exchange rate movements. As discussed above, certain of these interests were considered impaired as at December 31, 2013.

Royalty instruments represent the EVBC, Isua and Jogjakarta royalties, which are accounted for as financial assets. These are carried at fair value on the balance sheet as they represent financial assets in accordance with IAS 39. The decline in value is largely attributable to project assumptions for Jogjakarta along with a risk assessment of operating in Indonesia. The decline in the gold price during the year also had some impact on the valuation of EVBC.

The decline in value of the Group's mining and exploration interests (strategic equity investments) largely reflects a decline in the mark to market value during the period, although there were some sales when it was considered a royalty was no longer probable. The magnitude of the decline is such that the Directors consider this to be significant in the context of the Group's impairment policy and have recognised an impairment charge accordingly.

The Group ended the year with £15.7m of cash and cash equivalents and together with the new US$15m unsecured twelve-month revolving credit facility signed in February 2014, this leaves the Group in a favourable position to continue to expand and diversify its portfolio of royalties.

Allowing for deferred tax associated with the unrealised revaluation surplus of Kestrel and the royalty instruments, the Group ended the year with net assets of £216.9m (2012: £301.0m (restated)).

Corporate social responsibility report

Anglo Pacific seeks to maintain the highest standards in all areas of its business. As part of this, the Board has committed to undertake a review all of Anglo Pacific's current corporate social responsibility ('CSR') practices and activities, focusing on examining current activities and identifying areas of improvement based on industry best practice. The Board expects to be in a position to implement changes commencing in 2014.

Integrity

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

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

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

Environment

Anglo Pacific is committed to an environmental policy of collaborating fully with statutory authorities, local communities and other interested parties in order to limit any potential adverse impacts of its activities on the natural and human environments associated with its operations. The nature of our royalty investments is such that we do not operate any of the properties underlying our royalty portfolio and consequently, we do not always have the ability to influence the manner in which the operations are carried out. Nevertheless, a responsible approach to a project's environmental impact and its sustainability management is essential to the success of the project over its life. As part of our investment decision process, we give careful consideration to the environmental aspects of any potential asset purchase during the due diligence phase. In particular, we typically engage with consultants who have the requisite expertise to ensure that we can consider and, if necessary, mitigate any risks in this regard to a properly maintainable level. In 2010 for instance, a due diligence report was commissioned which investigated the environmental aspects of the Amapá project. Where we do engage in exploration efforts as part of advancing a property, we undertake to do so in accordance with the highest industry standards. We expect our employees to address environmental and sustainability responsibilities within the framework of normal operating procedures and to look to minimise waste as much as economically practicable. The Audit Committee is responsible for periodically reviewing the Group's environmental practices and for monitoring their effectiveness.

Social and Community Issues

Anglo Pacific acknowledges that, whilst its activities have little direct contact with communities, it can positively influence the social practices and policies of companies it conducts business with. Positive social and community relationships are essential to profitable and successful mining activities and we endeavour to ensure that companies we work with have appropriate procedures in place to facilitate this. More specifically, Anglo Pacific's investment decision process for potential asset purchases routinely involves a due diligence process on the environmental, social, and health and safety aspects of the project. The Group standardises its due diligence process with regards to CSR aspects by including these in its due diligence checklists. In 2011, the Group's due diligence of the Isua project involved a detailed review of the ecology, ground water, surface water and socio economic effects of the project by an external specialist consultant. Where we believe our own operational activities may have an impact on local community groups, we consult with these groups and provide them with the opportunity to engage at the planning stage. The Audit Committee is responsible for periodically reviewing the Group's social and community practices and for monitoring their effectiveness.

Diversity

Our people are instrumental to our success, we respect and value the individuality and diversity that every employee brings to the business. As at December 31, 2013, the Group had 13 employees, four of whom were female. Of the total workforce, two were senior managers (both male). In terms of the Company's Board of Directors, there were nine Directors, all of whom were male. Prior to any appointment to the Board, the Nomination Committee gives due regard to diversity and gender with a view to appointing the best placed individual for the role. We recognise that we have more to do in encouraging and supporting gender diversity and hope to be able to identify and develop talent at all levels in the organisation as the Company continues to grow.

More information on the Nomination Committee's approach to diversity can be found on ➤*page 41*.

Human Rights

Over the past year, there has been continued external attention and debate on the role of business and human rights. Anglo Pacific welcomes this focus as respect for human rights is implicit across all of the Group's employment practices. Further, a commitment to human rights is an important part of any successful organisation, and, as part of our investment decision process, we have access to consultants with the requisite expertise to ensure that we can consider and, if necessary, help to mitigate any such risks.

Health and Safety

The health and safety of our employees is a fundamental responsibility. The small size of our organisation allows the day-to-day responsibility to remain at the Board level, being monitored by the Chief Executive Officer. Furthermore, a commitment to health and safety is a fundamental component of a mining project, and, as part of our investment decision process, we have access to consultants with the requisite expertise to ensure that we can consider and, if necessary, help to mitigate any such risks.

Corporate social responsibility report

Donations

Our philosophy on charity has historically been that this is a decision best made by shareholders with their own resources. The Group is currently evaluating its donations policy and will in future consider supporting select charities at the discretion of the Directors. No donations were made in 2013.

Greenhouse Gas Emissions

During the year, the UK Government introduced a requirement that UK listed companies should report their global levels of Greenhouse Gas emissions in their Annual Report. Anglo Pacific is a relatively small organisation, with 13 employees, which means that any emission sources within our operational and financial control, such as business travel, purchase of electricity, heat or cooling by the Group, are not material in their impact. The Group pays for the consumption of utilities through its annual service charge, and therefore does not receive detailed information on its carbon emissions. Anglo Pacific does not operate (or control) any of the properties where royalty interests are held, which means that the Group does not have any greenhouse gas measures to quantifiably report from operations.

The information on *pages 9 to 34* represents the Group's Strategic Report and has been approved by the Board.

J.A. Treger
Chief Executive Officer
March 31, 2014

Directors' report

Directors

The following individuals have held office as Directors of the Company since January 1, 2013, unless stated otherwise:

Executive:

J. Theobald	(Chief Executive Officer) (resigned October 21, 2013)
A.C. Orchard	(Chief Investment Officer) (resigned October 21, 2013)
B.M. Wides	(Acting Chairman)
J.A. Treger	(Chief Executive Officer) (appointed October 21, 2013)
M.R. Potter	(Chief Investment Officer) (appointed October 21, 2013)
P.M. Boycott	(Executive Director) (deceased January 7, 2014)

Non-Executive:

M.H. Atkinson	(Senior Independent Director, Nomination Committee and Remuneration Committee Chairman)
W.M. Blyth	(Non-Executive Director and Audit Committee Chairman) (appointed March 20, 2013)
P.N.R. Cooke	(Non-Executive Director)
J.G. Whellock	(Non-Executive Director)
A.H. Yadgaroff	(Non-Executive Director)
R.H Stan	(Non-Executive Director) (appointed February 19, 2014)

Brian M. Wides joined the Board in June 1997 and was appointed Finance Director in September 1997. In July 2006 he was appointed Chief Executive Officer and on October 6, 2010 was appointed Director of International Business Development after standing down as Chief Executive Officer. He has a Bachelor of Commerce from the University of Witwatersrand and is a Chartered Accountant (South Africa). His specialist experience includes corporate finance, management consultancy and creating shareholder value for a large spectrum of private and public companies in the UK, Australia and Canada. Mr. Wides has served as Acting Chairman since December 2012, at which time the Company's Chairman, Peter M. Boycottt, took a leave of absence from his role for health reasons. Mr. Boycott passed away on January 7, 2014.

Julian A. Treger joined the Group as Chief Executive Officer and member of the Board 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 $900m 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.

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

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

Directors' report

W. Michael Blyth was appointed Director in March 2013. He has a BSc from St Andrews University and is a Chartered Accountant. He was, until his retirement in 2011, a partner for 30 years in Baker Tilly, specialising in providing audit and related services to AIM and full list clients. During his career he held a number of senior management positions with the firm, including a period on its National Executive Committee. Mike is also vice-chairman of Erskine Hospital, a veterans' charity and a board member of Wheatley Housing Group, Scotland's largest registered social landlord.

Paul N.R. Cooke was appointed Director in December 2012. He has an MA in History from the University of Cambridge and is a qualified Chartered Surveyor. He is a substantial shareholder in a number of property companies specialising in property development, investment and financing. He is also involved in farming and forestry interests in the UK and abroad. He serves on the boards of several charities.

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

Anthony H. Yadgaroff was appointed Director in March 2003. He is a Member of the Chartered Institute for Securities and Investment, and has specialised in investment research and management consultancy during a forty year City career. Allenbridge Group, which he founded in 1984 to provide advisory services to private and institutional investors, was acquired by Close Brothers in February 2011. He is Chairman of Allenbridge Investment Solutions LLP ('AIS'), and is a member of the partnership alongside Moody's, the global rating agency. AIS is a leading UK investment advisory business, consulting to 13 local authorities, corporate pension funds and charity clients which control some £40bn of assets.

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

Principal activities

The Group's principal royalty activities are set out in the Strategic Report on ➤*page 21*.

Results and dividends

The consolidated income statement is set out on ➤*page 62* of the financial statements.

The Group reported a loss after tax of £42.5m (2012: profit of £11.6m (restated)).

Total dividends for 2013 will amount to 10.2p per share (2012: 10.2p per share), combining the recommended final dividend of 5.75p per share for the year ended December 31, 2013 with the interim dividend of 4.45p per share paid on February 5, 2014. The final dividend is subject to shareholder approval at the 2014 Annual General Meeting ('AGM'). The Board proposes to pay the final dividend on August 7, 2014 to shareholders on the Company's share register at the close of business on June 6, 2014. The shares will be quoted ex-dividend on the London Stock Exchange and the Toronto Stock Exchange on June 4, 2014. At the present time the Board has resolved not to offer a scrip dividend alternative.

Directors' disclosures

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code (the 'Code'), the Companies Act 2006 and related legislation. At the next AGM, all of the Company's Directors will be offering themselves for re-election, aside from those who have indicated that they will be stepping down.

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 2013 AGM, held on May 22, 2013, the Directors were given the power to issue new shares up to an aggregate nominal amount of £730,702. This power will expire at the earlier of the conclusion of the 2018 AGM or May 22, 2018. Further, the Directors were given the power to make market purchases of ordinary shares up to a maximum number of 10,960,537. This power will expire at the earlier of the conclusion of the 2014 AGM or November 22, 2014.

At the AGM, held on May 22, 2013, the Directors were also 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 2014 AGM or August 22, 2014.

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

Capital structure

The structure of the Company's ordinary share capital at March 27, 2014 was as follows:

	Issued No.	Nominal value per share £	Total £	% of total capital
Ordinary shares	110,887,425	0.02	2,217,749	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

None of the shares carry any special control rights.

Employee share schemes

Details of employee share schemes are set out on *page 52* below and in note 25 to the financial statements.

Treasury

No shares are currently held in treasury by the Company.

Allotment of ordinary shares

On October 21, 2013, in connection with the appointment of Mr. Treger and Mr. Potter as CEO and CIO, respectively, the Company announced the issue of 1,282,049 new ordinary shares of 2p each at a price of 195 pence per share amounting to an aggregate nominal value of £25,640.98 and aggregate consideration of £2,501,000. The terms of the issue were fixed on October 18, 2013 on which date the market price of the ordinary shares on the London Stock Exchange was £1.95. The shares were issued to the following persons: Audley Natural Resources Master Fund Limited, in which Mr. Treger has a 44.3% shareholding, 333,333 shares; Kings Chapel International Limited, in which Mr. Treger has a beneficial interest, 897,435 shares; and Mr. Potter, 51,281 shares.

Substantial shareholdings

The Company has been notified, aside from the interests of Directors, of the following interests of 3% or more in the share capital of the Company at March 20, 2014.

	Ordinary Shares of 2p each	Representing
Liontrust Investment Partners LLP	7,195,364	6.49%
Schroders PLC	5,501,515	4.96%
AXA Investment Managers UK	5,494,332	4.95%

See *page 52* 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 have confirmed that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Other statutory and regulatory information

Information in relation to the Group's payment policy can be found in note 26 and a statement on Going concern is provided in note 2.1.1.

Auditors

Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 (United Kingdom) a resolution to reappoint appoint auditors will be proposed at the 2014 AGM.

Designated foreign issuer status

The Company continues to be listed on the Toronto Stock Exchange 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

P.T.J. Mason
Company Secretary
March 31, 2014

Registered office
17 Hill Street
London
W1J 5LJ

Corporate governance report

Approach towards corporate governance

The Group is characterised by a high ratio between its market capitalisation (£204m as at December 31, 2013) and the size of its management team (staff total: 13, of which three are Executive Directors, as at March 27, 2014), and by relatively few, but high value, transactions. The Board believes that corporate governance and internal control processes need to be appropriately tailored to this distinctive profile.

As a premium listed company on the London Stock Exchange, the Group is subject to the UK Corporate Governance Code (the 'Code'), and specifically to the revised 2012 version, which is available from the Financial Reporting Council's website. The Board believes that it complies with the main principles of the Code as it applies to companies below the FTSE 350, except in respect of a formal annual process to evaluate the performance of the Board and of its Committees and individual Directors. The reasons for this departure from the Code are explained on *page 40*.

With the appointment of the new management team in October 2013 and in conjunction with the Group's newly publicised strategy to create a leading international diversified royalty company with a focus on base metals and bulk materials, the Board is focused on improving its corporate governance in line with FTSE 350 best practice and believes that it has already taken some useful steps forward in this process, as detailed below.

Board and committee structure

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

During 2013, the Board continued to be chaired by an Executive Chairman, responsible for the leadership and effectiveness of the Board. The year was overshadowed by the illness, and death early in 2014, of the Chairman, Mr. Boycott. He had been Executive Chairman of the Company since 1997, and had, together with Mr. Wides (then Chief Executive Officer), played a large part in the Group's strong growth over the following decade. Despite his illness, Mr. Boycott continued during 2013 to participate actively in many meetings of the Board, and chaired the Annual General Meeting ('AGM') in May. Mr. Wides was appointed Executive Acting Chairman in 2012. During 2013, both Mr. Wides and Mr. Boycott served on a part-time (3-day-a-week) basis.

In the 2011 Annual Report, prior to Mr. Boycott's illness, the Board announced its intention that the role of Chairman should become a Non-Executive post within the following two to three years, and that thereafter Mr. Boycott and Mr. Wides would consider acting as Non-Executive Directors. On March 28, 2014, in accordance with this objective the Board announced the appointment of Mr. Blyth as Non-Executive Chairman, with effect from April 1, 2014, from his role as an independent Non-Executive Director. Mr. Wides will continue in his role as an Executive Director until the 2014 AGM, or earlier by mutual agreement, when he is to retire from the Board. He will then continue in a part-time consulting role for six months to ensure an effective handover of his responsibilities.

The time commitment expected of the new Non-Executive Chairman is around 6 days per month. Mr. Blyth's other (mainly charitable) commitments are shown on *page 36*, none of which are considered to be significant.

The day to day management of the Group is delegated to the Executive Committee, save for certain matters reserved for consideration by the Board. The Executive Committee is chaired by the Chief Executive Officer ('CEO'), and comprises the Executive Directors (which throughout 2013 included the Acting Chairman), the General Counsel and the Chief Financial Officer ('CFO'). The Chairman/Acting Chairman and CEO continue to 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.

Mr. Atkinson acted as the Group's Senior Independent Director ('SID') throughout the year. 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, or where such channels would be inappropriate.

Following the appointment of Mr. Blyth, who the Board also considers to be independent, as a Non-Executive Director in March 2013, the Company complied with the requirement of the Code to have at least two independent Non-Executive Directors on the Board for the remainder of the year.

Board evolution

During 2013, alongside the move to a Non-Executive Chairman, the Directors took the view that the Board should be rejuvenated and reinvigorated ahead of the next stage of the Group's development, with the transition handled in an orderly and progressive way. In October 2013, Mr. Theobald (CEO) and Mr. Orchard (Chief Investment Officer ('CIO')) stepped down from the Board by mutual agreement and left the Group. The Board would like to express its appreciation for what they achieved over the four years they served in these roles.

In October 2013, the Board, on the recommendation of the Nomination Committee, appointed Mr. Treger and Mr. Potter as CEO and CIO respectively. Mr. Treger and Mr. Potter joined from Audley Capital Advisors LLP. Both have a strong track record of investing in the mining sector, and a level of financial expertise and breadth of contacts that will be of considerable benefit in developing the Group's business. Mr. Treger joined the Group initially on a three-day a week basis, but, since January 2014, he has increased his formal commitment to three and half days a week. The expectation is for Mr. Treger to increase this further over the coming year.

Dr. Whellock and Mr. Atkinson have indicated that they will be standing down at the forthcoming AGM after 11 and eight years service respectively as Non-Executive Directors. Each has contributed his own valuable expertise to the work of the Board, and the Board is extremely grateful for the experience and wise advice they have provided.

In March 2014, on the recommendation of the Nomination Committee, the Board appointed Mr. Stan as a replacement Non-Executive Director. Mr. Stan is Canadian-based and comes with a deep knowledge and proven track record in the Canadian and international mining industry. He was a founding shareholder and, until 2012, the President and CEO of Grande Cache Coal Corporation. On account of his strong experience and entrepreneurial background, the Board considers Mr. Stan to be independent, despite his being a fellow director alongside Mr. Treger on Whetstone Minerals Ltd. The Nomination Committee is currently conducting a search for an additional independent Non-Executive Director.

Appointment, development and assessment of directors

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

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

Actual and potential conflicts of interest are regularly reviewed. As permitted under the Companies Act 2006, the Company's Articles of Association contain provisions that enable the Board to authorise conflicts or potential conflicts that individual Directors may have and to impose such limits or conditions as the Board thinks fit. During the year the Group's policy on conflicts of interest was reviewed and tightened in line with evolving best practice.

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

Corporate governance report

The Code recommends that the Board undertakes a formal and rigorous annual evaluation of its own performance and that of its Committees and individual Directors (including the Chairman). Given the compactness of the organisation, the long-established personal working relationships and the extent of collective decision-taking, the Board has not hitherto felt such formal stand-alone systems were justified. However, in the light of the current changes in its composition, the Board believes a more structured and rigorous annual assessment process is needed, which would be linked to the Directors' training and development needs and expects to comply with the Code's requirements during 2014.

Similarly, the Board has previously provided an informal induction process for new Directors on joining the Board, but now believes a more structured process is needed and expects to comply with the Code's requirements for a full, formal and tailored induction moving forward.

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 Committee 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.

Peter Mason, the Group's General Counsel and Company Secretary, is responsible for advising the Board, through the Chairman, on all governance matters. All of the Directors have access to his 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 2013 was as follows:

	Full Board	Executive	Audit	Remuneration	Nomination
Total meetings held:	15	8	7	4	3
Attendance:					
P.M. Boycott	14/15	5/8	–	–	–
A.C.Orchard	12/13	8/8	–	–	–
J. Theobald	13/13	8/8	–	–	–
B.M. Wides	15/15	8/8	–	–	–
J.A. Treger	2/2	–	–	–	–
M.R. Potter	2/2	–	–	–	–
M.H. Atkinson	14/15	–	7/7	4/4	3/3
J.G. Whellock	15/15	–	7/7	–	1/1
A.H. Yadgaroff	15/15	–	1/1	–	3/3
P.N.R. Cooke	12/15	–	–	–	–
W.M. Blyth	9/10	–	6/6	4/4	2/2

W.M. Blyth was appointed to the Board on March 20, 2013.

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

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

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

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

Relations with shareholders

The Group is the only major mining royalty company in the UK and recognises the importance of developing a fuller understanding of its business model amongst investors. and an effective two-way communication with fund managers, institutional investors and analysts. During 2013 the illness of our Chairman reduced the opportunity for dialogue with major shareholders, although the SID continued to meet a range of fund managers and institutions.

There are over 2000 private investors in the Group. The Board was pleased by the attendance at the 2013 AGM, where investors were able to ask about current business activity. At this year's AGM it is anticipated that all of the Directors, including the chairmen of the Audit, Remuneration and Nomination Committees will be available to answer any shareholder questions.

In November 2013, the Group appointed a designated head of marketing and investor relations, as part of a strategy of strengthening investor relations. In January 2014, the Board appointed BMO Capital Markets ('BMO') to work alongside Liberum Capital as Joint Corporate Broker. BMO will play an increasingly important role as we look to grow the Company and internationalise our share register. At the same time we have put in place arrangements for more regular investor relations reports to the Board, including commentary on the perception of the Company, views expressed by the investment community, media reports, share price performance and analysis, so as to ensure that all Directors are made aware of the major shareholders' issues and concerns.

Nomination Committee

During 2013, the Nomination Committee comprised Mr. Atkinson, Mr. Yadgaroff, Dr. Whellock (until March 2013) and Mr. Blyth (from March 2013). Mr. Atkinson was Chairman of the Committee. Consequently, for most of the year under review, the Committee complied with the Code requirement that it be comprised of a majority of independent Non-Executive Directors. Mr. Stan joined the Committee following his appointment to the Board in February 2014.

The Nomination Committee was actively involved during 2013 in reviewing the structure, size and composition of the Board, in the light of the succession policies discussed earlier, the need to maintain a balance of appropriate skills and accepted best corporate governance practice. The Committee is responsible for identifying and nominating candidates for both Executive and Non-Executive Directorships for approval by the Board.

Although the Committee has the authority to use an external search consultancy or open advertising, it chose not to do so in respect of any of the appointments made during 2013, nor for the appointment of Mr. Stan. The background to Mr. Blyth's March 2013 appointment as Non-Executive Director was described in the Group's 2012 Annual Report. The October 2013 appointment of Mr. Treger as CEO and Mr. Potter as CIO was seen as the bringing in of an executive team rather than as separate individual appointments, and the issues raised, which included the future strategic direction of the Group, meant that it was appropriate for the Board as a whole to take the lead in considering their joint appointment.

In the case of Mr. Stan's appointment, the Committee was looking for a replacement for the coal industry experience of Mr. Atkinson and the insight into North American mining and mineral processing provided by Dr. Whellock. Although the combination of familiarity with the global coking coal market (on which the Group has historically been heavily dependent), and an understanding of the Canadian mining scene (which is likely to be a key focus for the Group's future) is not unique, the Committee felt that the degree of Mr. Stan's insights and his successful entrepreneurial background was unlikely to be matched through a search process. Further, once Mr. Stan had been identified as a potential candidate, the Committee did use the services of OPUS Executive Partners, to interview him and advise on his suitability for the role. OPUS Executive Partners does not have any other connection with the Group.

Given the appointment of an external Executive Director team, there was a general view amongst the Board, including all of the Non-Executive Directors, that in the interests of continuity the new Non-Executive Chairman should be an internal appointment, and that Mr. Blyth's experience of financial and corporate governance made up him well-qualified for this role. Consequently, the Committee also chose to use neither an external search consultancy nor open advertising for this appointment.

The Board recognises the benefits of diversity and that its current composition does not provide this in several respects. A description of the Board's policy on diversity can be found on ➤ *page 33*. One particular focus of the Committee has been to increase gender diversity on the Board and it is its intention to include, wherever possible, at least one woman on the short-list for future Non-Executive Director appointments. The final selection will continue to be based on merit and on what the Committee judges to be the best interests of shareholders. The opportunities for developing and appointing women to Executive Directorships will be kept under review.

Audit Committee

Until March 20, 2013, the Audit Committee comprised Mr. Yadgaroff, Mr. Atkinson and Dr. Whellock, who was also the chairman of the Committee. Following Mr. Blyth's appointment to the Board on that date, the Audit Committee comprised of Mr. Blyth, Mr. Atkinson and Dr. Whellock, who remained the chairman of the Committee until February 14, 2014 when Mr. Blyth assumed that role. Consequently, the Committee comprised entirely of Non-Executive Directors, the majority of whom the Board consider to be independent, for most of the year under review. The Board believes that Dr. Whellock still brings useful skills and experience to the Committee and that he should continue to be a member until he steps down from the Board at the forthcoming AGM. Mr. Stan joined the Committee following his appointment to the Board in February 2014. Mr. Blyth and Mr. Atkinson both have recent and relevant financial experience.

The Committee meets at least three times a year at appropriate times in the reporting and audit cycle and may be attended, by invitation, by the Chairman, the CEO, the CFO and the Company Secretary. The external auditors are invited to attend meetings on a regular basis. The Committee's primary duty is to monitor the integrity of the Group's financial statements and the related reports and announcements. In doing so, the Committee reviews and, where necessary, challenges the consistency of the Group's accounting policies, methods and standards, the clarity and context of disclosures and the material information presented with the financial statements. The Committee is also responsible for monitoring and reviewing the adequacy and effectiveness of the Group's internal controls, including the Group's policies and procedures in relation to anti-corruption and whistle blowing and to the environmental and social impact of the Group's activities. One particular area of focus of the Committee in 2013 was the Group's policy on conflicts of interest, which was thoroughly reviewed and tightened in line with evolving best practice.

The Committee also considers the adequacy of arrangements for the statutory audit and supporting the independence and objectivity of the external auditor. In particular, the Committee advises the Board in respect of the external auditor's appointment, performance and remuneration and meets regularly with the external auditor to discuss its remit, any issues arising from the audit and its effectiveness. The Committee is responsible for reviewing the extent of non-audit services provided by the external auditor. The Committee accepts that some non-audit work is most appropriately undertaken by the firm responsible for the statutory audit, but requires any such engagement to be approved in advance by the Committee's Chairman. The Group also uses other accounting firms for non-audit work, with the decision on each engagement being taken with the objective of maintaining an appropriate balance between experience, objectivity, independence and value for money.

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.

In 2013, the Committee met seven times. During the year the Committee undertook an in depth review of the Group's accounting policies following an enquiry by the Conduct Committee of the FRC into the Group's 2012 Annual Report and Accounts. The particular matters under review included the Group's accounting policies in respect of coal royalties, royalty interests and royalty instruments, together with its impairment policy in respect of its mining and exploration interests. The Committee sought external professional accountancy advice in relation to some of these matters. This review has resulted in changes in policy in relation to the accounting for the Group's coal royalties and royalty instruments as detailed in note 2.1.4. The FRC enquiry remains open in relation to royalty interests, royalty instruments and the impairment of mining and exploration interests. Our accounts have been prepared in accordance with our existing policies in these areas. See note 2.1.3 which discusses the possible impact on the financial statements should any further restatement be required.

Corporate governance report

The Committee continued to place a particular focus on the Group's risk management systems. It reviewed in detail the annual assessment conducted by the CEO and the Company Secretary of the risks that face the Group and the adequacy of the prevention, monitoring and mitigation practices in place for those risks. Whilst the review did not highlight any significant issues with the effectiveness of the Group's internal controls and procedures, it did highlight a few areas where improvement could be made and the Group has subsequently implemented the Committee's recommendations. The review also resulted in an updating of the Group's risk register following the changes in senior management team and the resulting revision to the Group's strategy. Additional information on the Group's internal controls can be found below.

The current year is the sixth that Christopher Smith, the audit partner of the Group's external auditors, Grant Thornton UK LLP, has been in post as Senior Statutory Auditor. In normal course there would have been a rotation of Senior Statutory Auditor after five years' service. The Committee felt, however, that, given the changes in accounting policy that have taken place and the further changes which may occur following the conclusion of the FRC review, it was important to maintain continuity of Senior Statutory Auditor for a further year. The Committee is satisfied that this extension does not in any way prejudice the objectivity and independence of the Senior Statutory Auditor. The Committee is due to conduct a full review of the effectiveness of the external audit process following the completion of the year-end process and will consider the appointment or the reappointment of the Senior Statutory Auditor in light of its findings.

Risk management & internal control

The Board retains overall responsibility for the Group's system of internal control and risk management and determines the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. A statement of directors' responsibilities in the preparation of the financial statements is set out on ➤ *page 58*.

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 judgment 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, in conjunction with the Company Secretary, to identify and quantify the risks that face the Group's businesses and functions, and to assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. This process covers all material controls, including financial, operational and compliance controls. The Audit Committee is responsible for reviewing the risk assessment process for completeness and accuracy.
- In addition to its work on the above, the Audit Committee also receives regular reports about significant risks and associated control and monitoring procedures. The Group's risk register and internal controls and procedures documentation are regular agenda items for the Committee. The Committee also receives regular reports from the external auditors.
- The Audit Committee reports regularly to the Board on these matters, so as to enable the Directors to review the effectiveness of the system of internal control. The Board also receives regular reports from its other Committees and directly from management.
- 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, 2013 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.

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 2013. What is different this year is that, in accordance with new regulations governing the disclosure and approval of directors' remuneration, the 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.

There have been significant changes in our remuneration strategy over the last few months, and I thought it might be helpful to briefly explain the background and put the changes in context.

All four Executive Directors in post at the last AGM have either left the Board or will be doing so at the forthcoming AGM. In October 2013, we recruited in their place a strong team of two Executive Directors, Mr. Treger as CEO, and Mr. Potter, as CIO with a venture capital background and a mission to reinvigorate the Company and achieve a significant increase in total shareholder return over the next five years.

The basic salaries paid to the previous Directors were well below those in companies of comparable size, but this was offset by a relatively high annual bonus opportunity of 150% of salary. To recruit the new Directors we needed to offer basic salaries in line with market rates. Their annual bonuses have, however, been capped at 100%, the bonus criteria are being made more specific, and the increases in basic salary for the following two years have been pre-determined.

The major change, however, is a five year Long-Term Incentive Plan ('LTIP') in the form of a Value Creation Plan ('VCP') which will offer awards of shares (in the form of nil cost share options) at the end of five years to the two Executive Directors (and to a lesser extent to other senior managers) for increases in Total Shareholder Return ('TSR') at rates above 7% per annum. Shareholder approval for the VCP will be sought at our forthcoming AGM and will replace the previous Joint Share Option Plan ('JSOP'), which has not rewarded outperformance.

The VCP offers potentially significant rewards for outperformance, but only to the extent of the increase in TSR actually achieved over the five year period. The Remuneration Committee has worked hard with our remuneration advisers, New Bridge Street ('NBS'), to ensure that the Plan supports the ambitious growth strategy discussed earlier in the Annual Report, and we believe that the incentives offered are strongly aligned with shareholder interests.

I accordingly hope you will feel able to support our new remuneration policy at this year's forthcoming AGM, as well as endorsing the level of remuneration paid during 2013.

Yours sincerely

M.H. Atkinson
Chairman of the Remuneration Committee
March 27, 2014

Introduction

The Remuneration Committee (the 'Committee') determines, on behalf of the Board, the Company's policy on the remuneration of the Chairman and the Executive Directors. It also recommends and monitors the level and structure of remuneration for other senior executives. The Committee's terms of reference are available on the Company's website.

Membership of the Remuneration Committee

Membership of the Committee during 2013 is set out in the table below, together with the attendance record for meetings of the Committee. Since March 2013, all of the Committee's members have been independent Non-Executive Directors, in accordance with the Corporate Governance Code.

Remuneration Committee membership and attendance in 2013

	Number of meetings attended out of a potential maximum
M.H. Atkinson	4 out of 4
W.M. Blyth[1]	4 out of 4
A.H. Yadgaroff[2]	0 out of 0
J.G. Whellock[3]	0 out of 0

1) W.M. Blyth joined the Committee on March, 20 2013.

2) A.H. Yadgaroff stepped off the Committee on March 20, 2013.

3) J.G. Whellock stepped off the Committee on March 20, 2013.

Following Mr. Stan's appointment to the Board on February 19, 2014, the Remuneration Committee is now comprised of Mr. Atkinson, Mr. Blyth and Mr. Stan.

External advisors

The Committee has access to the advice of independent remuneration consultants when required. No such consultants were used during 2013. However, during 2014, the Committee has received advice from NBS. NBS was appointed by the Committee on January 20, 2014. NBS is a signatory to the Remuneration Consultants' Code of Conduct and has no other connection with the Company. The Committee is satisfied that the advice that it receives from NBS is objective and independent.

The remuneration report is in two parts.

The first part constitutes the 'Remuneration Policy Report' and sets out the remuneration strategy that the Company proposes to apply for 2014 onwards. It has been developed taking into account the principles of the UK Corporate Governance Code 2012 and the views of our major shareholders. The Policy Report will be put to a binding shareholder vote at the 2014 AGM and the policy will take formal effect from that date. 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 2013, details the remuneration paid to Directors during 2013 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2014 AGM. It is structured as follows. The information in sections A to G and I to M has been audited.

A. Single figure total remuneration
B. Annual bonus for the year ending December 31, 2013
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. 2014 salary review
M. Fees for the Chairman and Non-Executive Directors
N. Performance targets for the annual bonus and LTIP awards to be granted in 2014 and beyond
O. Statement of shareholder voting

Remuneration policy report

A. Strategic overview and policy drivers

In our 2012 Report we identified three important elements that had historically shaped the Company's remuneration policy. The Company has:

- Long investment horizons (typically there can be an interval of between two and 10 years before a royalty comes on stream and the royalty may continue to flow for 20 years or more). As the business focus has increasingly shifted towards royalty acquisition, we have given greater weighting towards incentivising longer-term performance.
- No comparable peer group, certainly in the UK, for the purposes of benchmarking Director performance. As a result, our incentive plans are based on absolute performance rather than performance relative to other companies.
- A high ratio between its market capitalisation (£204m as at December 31, 2013) and the number of its employees (13 as at March 28, 2014, of whom three were Executive Directors). The risk to the business of losing key employees is correspondingly significant, and we have traditionally regarded retention as an important objective of our remuneration strategy.

These are continuing factors. However, there have been major changes in our remuneration strategy since last year, driven by the decision to rejuvenate and reinvigorate the Board and to sharpen the focus of the executive team on raising total shareholder returns over the next five-year period. It is anticipated that by this year's AGM, all Executive Directors in post at the last AGM will have left the Board. In October 2013 the Company recruited two new Executive Directors Mr. Treger as CEO, and Mr. Potter as CIO on the explicit basis that they would be entitled to a significant share of any increase in shareholder value created from when they joined. The Committee has worked with its remuneration advisers, NBS, on designing a new LTIP in the form of a VCP, the details of which are discussed at section F below.

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

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

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

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

The Committee actively engaged with major shareholders on the proposed remuneration of the new Directors, and was encouraged by the general support shown for the proposals on basic salary and annual bonus. We have made a number of changes to the LTIP in response to the constructive feedback we received. A remuneration framework has now been set for the next three years. If there is a need for a material change to the framework within this period, the Committee Chairman will consult major shareholders in advance.

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

C. The new remuneration policy for Executive Directors

The policy proposed for shareholder approval in respect of basic salary and annual bonus covers the three years 2014-16. The LTIP covers a five year period from the date of its grant (i.e. to mid-2019). The Committee expects to seek shareholder agreement in 2016 to a follow-on policy on basic salary and annual bonus, and probably also to further long-term incentive arrangements covering the period beyond 2018.

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

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

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

D. Reasons for changing the previous remuneration policy

The new remuneration package summarised above represents a significant change to the remuneration policy that has applied up until 2013.

Previously basic salaries were reviewed annually by the Committee, with a view to progressive alignment with lower quartile levels within similar sized FTSE companies through annual increases of around £20-25,000, and with a primary aim of retention. To attract new directors, the Company has had to offer, in addition to stronger long-term incentives, initial basic salaries closer to the median market rate for similar companies.

The annual bonus opportunity was previously capped at 150% of basic salary. It was designed to encourage and reward delivery of the Company's operational objectives and to build Directors' shareholding in the Company (through part payment in shares). The cap has now been reduced to 100%, partly reflecting the higher basic salary, but mainly to reflect the Committee's concern to tilt the remuneration package towards incentivising longer-term TSR performance through a new LTIP. The focus of the annual bonus has also changed. It was previously geared largely to securing a threshold value of new royalty agreements during the year, which meant that Directors' remuneration was not directly exposed to the risk that income from them might be later or lower than expected. Under the new remuneration policy, royalty acquisition is principally rewarded through the LTIP, and those rewards will accordingly reflect any royalty delays and shortfalls to a much greater extent. The annual bonus is now focused on the achievement of in-year corporate business, financial and relationship objectives, together with a greater emphasis on achievement of personal objectives by individual Directors (see section E).

Directors' remuneration report

Under the previous strategy it was normal for part of the annual bonus to be paid in the form of shares. However the rewards available under the new LTIP will be wholly in the form of shares. In addition the Executive Directors have separately agreed to inject substantial new share capital into the Company over time. The Committee accordingly believes it is appropriate that the annual bonus for Executive Directors should be paid wholly in cash.

The Company has previously offered two share-based longer-term share schemes to Executive Directors and certain other employees: a Company Share Option Scheme ('CSOP') and the JSOP. Awards were granted subject to continued employment and satisfaction of performance conditions measured over three years including a TSR performance condition. No grants were made under either plan in 2013, and it is not intended that further grants under either scheme will be made to Executive Directors.

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

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

The corporate objectives will be agreed by the Board at the beginning of each year, together with an assessment of the potential for outperformance and the risk of shortfall. They will cover such areas as business performance, finance, relationships and reputation. These will constitute 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 will be agreed at the beginning of the year by the Chairman of the Board in conjunction with the Committee, who will also agree the personal objectives of the CIO in conjunction with the CEO. The personal objectives will focus on the required contribution of the individual Director to the achievement of the Company's objectives for the year, but also on important but less measurable aspects such as leadership, building personal and team relationships, and the extent to which they personally have 'gone the extra mile'.

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

F. LTIP – Principal terms and conditions and reward scenarios

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

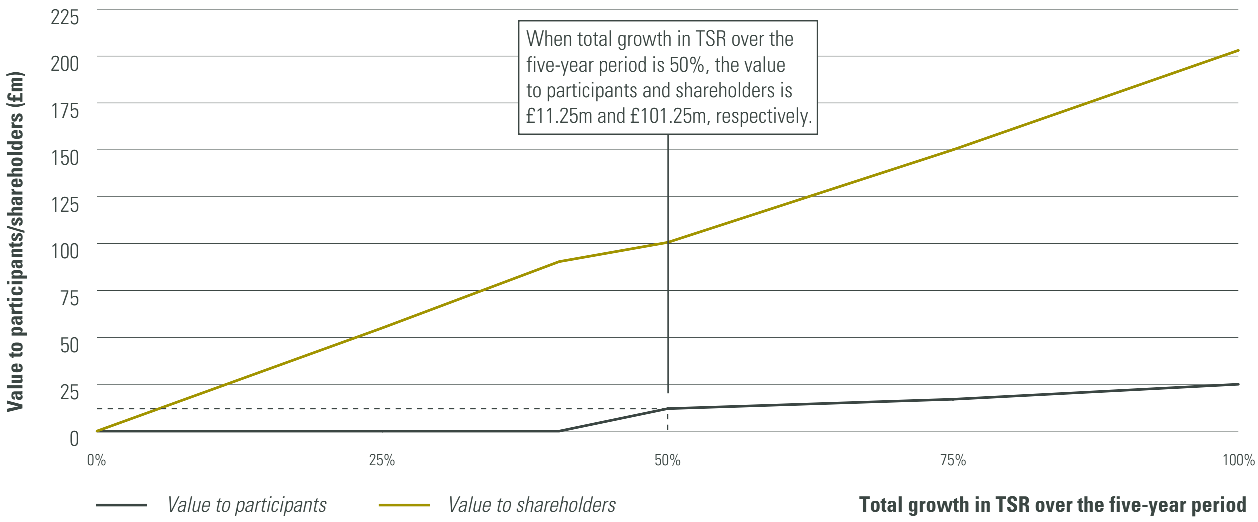
- All employees will be eligible to participate in the VCP; although it is currently expected that initial participation will be limited to the two new Executive Directors together with other non-Board members of the senior management team at the discretion of the Committee acting in consultation with the CEO.
- No value would accrue under the VCP to its participants unless growth in the Company's TSR over a five year performance period is at least equal to 7% growth per annum (or approximately 40% total growth over the period).
- Subject to such threshold growth, participants would 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.
- The maximum number of shares to be awarded under the option grants will not be capable of exceeding such number equating to 7.5% of the Company's issued share capital as at the end of the measurement period. This cap would apply for total growth in TSR above 300%.
- This will mean that, if the total growth in TSR over the five-year period is:
  - below approximately 40%, no value accrues;
  - between approximately 40% and 50%, the value that accrues is equal to 50% of the growth in the Company's TSR over the five-year period in excess of the threshold growth;
  - between 50% and the 300% cap, the value that accrues is equal to 10% of the growth in the Company's TSR over a five-year period; and
  - above the cap, the value that accrues is equal to the value of 7.5% of the Company's issued share capital as at the end of the measurement period.
- Options to which participants become entitled at the end of the five-year period will become exercisable as follows:
  - One-third immediately;
  - One-third after 12 months;
  - One-third after 24 months.
- Awards will be made following shareholder approval of the VCP at the forthcoming AGM, and no other grants to the Executive Directors under the VCP are planned during the five year plan period; although the Committee will have discretion to dilute the pool by an additional 10% for new joiners.
- The Committee intends to allocate the pool as follows:
  - CEO – 56%
  - CIO – 24%
  - Non-Board senior managers – 20%

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

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

* Based on starting market capitalisation of £225m

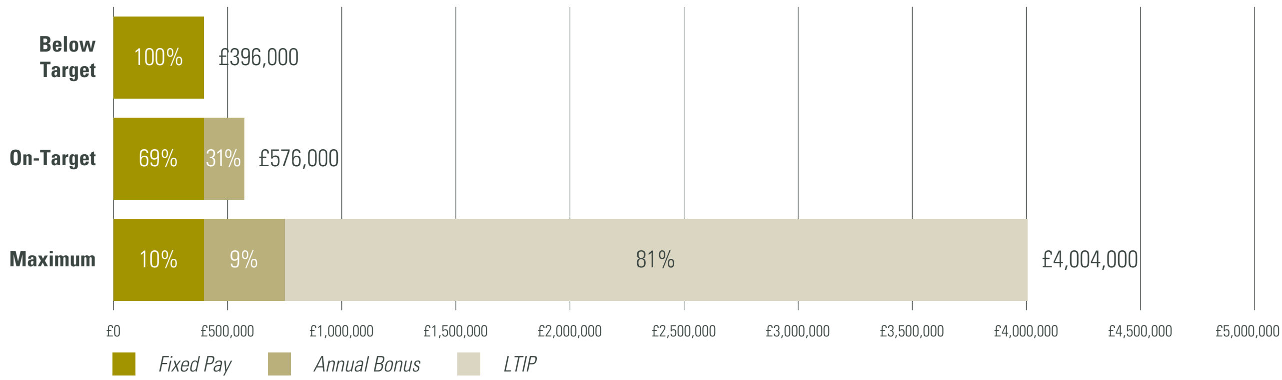
Value to participants at different levels of performance



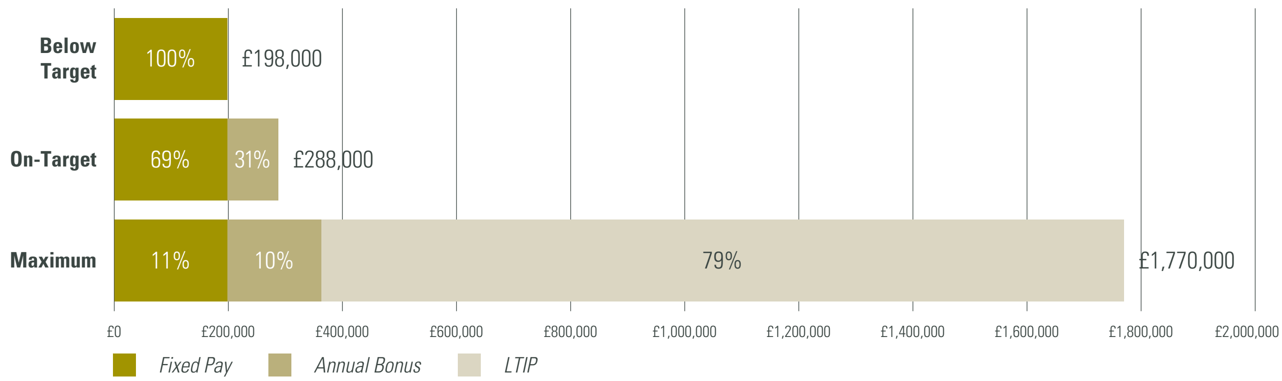
G. Reward scenarios

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

CEO total remuneration at different levels of performance

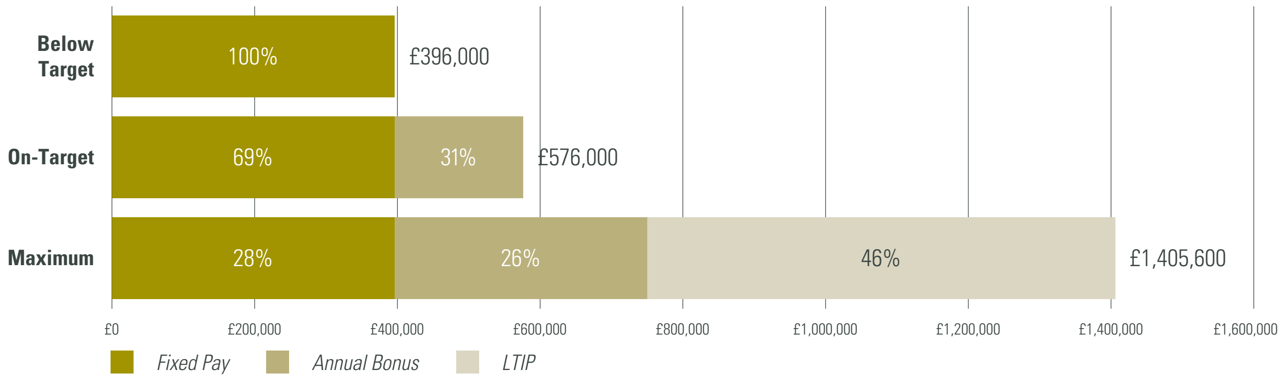


CIO total remuneration at different levels of performance

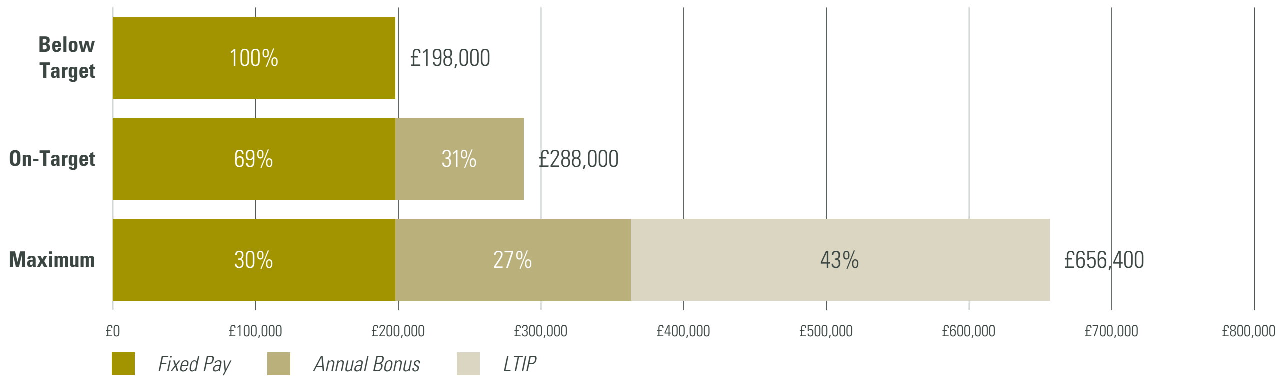


The LTIP, which is subject to approval by shareholders at the forthcoming AGM, is a one-off five-year plan and it is anticipated that no other awards will be made to the CEO and CIO under the LTIP during the performance period. The charts on the previous page illustrate the total pay opportunities if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

CEO total remuneration at different levels of performance



CIO total remuneration at different levels of performance



Assumptions:

- Below Target = fixed pay only (salary + benefits + pension);
- On-target = fixed pay, 50% vesting of the annual bonus and 0% of the LTIP awards (i.e. the value that accrues for threshold performance);
- Maximum = fixed pay and 100% vesting of the annual bonus and LTIP awards;
- Salary levels (on which other elements of the package are calculated) are based on those which applied from January 22, 2014. Salary for the CEO is on a full-time equivalent basis. The Executive Directors do not receive any taxable benefits; and
- The fair value of the LTIP has been calculated using a Black-Scholes model using assumptions that, at grant, the market capitalisation is £209m and that there are 110.9m 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 being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

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 will be reviewed for 2014 and subsequent years in the light of the overall remuneration package shareholders agree for the new Executive Directors. There are likely to be two main differences:

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

J. Approach to appointment of new Executive Directors

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

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

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

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

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

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

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

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

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 total to the equivalent of twelve 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 Chairman and Non-Executive Directors by offering a market competitive fee level.

The Committee's specific policy is as follows:

Element, purpose and link to strategy	Operation	Maximum
Fee Attract, retain and fairly reward high calibre individuals.	Fees are 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. Yadgaroff, Dr. Whellock and Mr. Atkinson have letters of appointment for an indefinite term, although they may be terminated by either party subject to one month's notice. Mr. Cooke , Mr. Blyth and Mr. Stan were appointed on rolling three-year contracts with a one-month notice period and the Board intends that all future Non-Executive Directors appointments will be on similar terms. None of the letters of appointment have provisions that relate to a change of control of the Company.

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

Non-Executive	Date of appointment	Notice period
M.H. Atkinson	February 9, 2006	30 days
W.M. Blyth	March 20, 2013	One month
P.N.R. Cooke	December 17, 2012	One month
R.H. Stan	February 19, 2014	One month
J.G. Whellock	May 19, 2003	30 days
A.H. Yadgaroff	May 19, 2003	30 days

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 2013

This part of the report details the remuneration paid to Directors during 2013 with a comparison to the previous year. It will be put to an advisory shareholder vote at the 2014 AGM. The information in sections A to G and I to M has been audited.

A. Single figure for total remuneration

		Salary/fees £'000	Benefits[7] £'000	Total bonus £'000	Long-term incentives £'000	Pension/ cash allowance[8] £'000	Other £'000	Total remuneration £'000
Executive Directors								
J.A. Treger[1]	2013	39	–	–	–	–	–	39
	2012	–	–	–	–	–	–	–
M.R. Potter[2]	2013	31	–	–	–	–	–	31
	2012	–	–	–	–	–	–	–
P.M. Boycott	2013	130	–	–	–	13	–	143
	2012	129	–	–	–	12	–	141
B.M. Wides	2013	129	–	–	–	12	–	141
	2012	129	–	–	–	12	–	141
Non-Executive Directors								
M.H. Atkinson	2013	42	–	–	–	–	–	42
	2012	37	–	–	–	–	–	37
W.M. Blyth[3]	2013	30	–	–	–	–	–	30
	2012	–	–	–	–	–	–	–
P.N.R. Cooke[4]	2013	36	–	–	–	–	–	36
	2012	–	–	–	–	–	–	–
J.G. Whellock	2013	38	–	–	–	–	–	38
	2012	36	–	–	–	–	–	36
A.H. Yadgaroff	2013	38	–	–	–	–	–	38
	2012	36	–	–	–	–	–	36
Former Directors								
J. Theobald[5]	2013	174	2	–	–	17	–[9]	193
	2012	190	2	–	–	19	–	211
A.C. Orchard[6]	2013	134	2	–	–	14	–[10]	150
	2012	170	2	–	–	17	–	189

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

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

3) W.M. Blyth was appointed to the Board on March 20, 2013.

4) P.N.R. Cooke was appointed to the Board on December 10, 2012.

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

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

7) Benefits include taxable and non-taxable benefits including death in service policy premiums.

8) The Company made direct contributions to J. Theobald's pension plan, all other amounts were cash payments in lieu of pension.

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

10) A.C. Orchard received £70,833 as payment in lieu of notice, £85,000 termination payment (paid in January 2014) and £2,400 for legal advice.

Directors' remuneration report

B. Annual bonus for the year ending December 31, 2013

The bonus award for the year under review was based on performance against the value of new royalties achieved, operating profit and dividends per share. As in 2012, the value of new royalties acquired during the year fell short of the target. Further, although the dividend was maintained, the fall in operating profit and net asset value led the Committee to conclude that no bonus should be paid in respect of 2013.

C. Vesting of long-term incentive awards

Awards granted on May 20, 2010 under the CSOP were subject to a performance condition that the Company's absolute TSR must grow at a rate of 3% per annum (not compounded) in excess of the UK Retail Price Index over the three years from the date of grant. This condition was not met and, consequently, no awards vested.

Awards granted on May 19, 2010 under the JSOP were subject to two performance conditions as follows:

(a) that the Company's share price must reach a hurdle price of 315p during the three years from the date of grant; and

(b) that the Company's absolute total shareholder return must grow at a rate of 3% per annum (not compounded) in excess of the UK Retail Price Index over the three years from the date of grant.

Whilst the first condition was met, the second was not and, consequently, no awards vested.

The following table summarises the awards held by Executive Directors who served during the year and whose performance periods ended during the year.

		Number of shares at grant	Number of shares to vest	Number of shares to lapse	Sub–total	Reinvestment of dividend on vested shares	Total	Value
J. Theobald	CSOP	12,024	–	12,024	–	–	–	–
	JSOP	297,262	–	297,262	–	–	–	–
A.C. Orchard	CSOP	12,024	–	12,024	–	–	–	–
	JSOP	291,991	–	291,991	–	–	–	–

Long-term incentive awards made during the year

There were no awards granted to Executive Directors under either the JSOP or the CSOP in 2013.

Outstanding share awards

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

D. Directors' shareholding and share interests

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

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

			Not subject to performance conditions		Subject to performance conditions	
	Beneficially owned at March 27, 2014	**Beneficially owned at December 31, 2013**	LTIP	Deferred bonus shares	LTIP	Deferred bonus shares
Executive Directors						
J.A. Treger	1,230,768	1,230,768	–	–	–	–
M.R. Potter	51,281	51,281	–	–	–	–
B.M. Wides	2,926,153	2,926,153	–	–	–	–
P.M. Boycott	–[1]	2,691,947				
Non-Executive Directors						
M.H. Atkinson	7,422	7,422	–	–	–	–
W.M. Blyth	10,000	10,000	–	–	–	–
P.N.R. Cooke	8,949,904	8,949,904	–	–	–	–
R.H. Stan	–	–	–	–	–	–
J.G. Whellock	13,084	13,084	–	–	–	–
A.H. Yadgaroff	175,460	175,460	–	–	–	–

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

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

E. Total pension entitlements

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

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

F. Loss of office payments

Mr. Theobald and Mr. Orchard left the Company on October 21, 2013. Mr. Theobald received his annual salary and pension up to November 30, 2013 and Mr. Orchard received his annual salary and pension up to October 31, 2013. Under the terms of their service agreements, the Company then paid them termination payments equivalent to 6 months' salary and payments in lieu of notice as compensation for loss of office as follows:

	J. Theobald	A.C. Orchard
Termination payment (equivalent to six months salary)	£95,000	£85,000
Payment in lieu of notice	£63,333	£70,833
Total	£158,333	£155,833

Mr. Theobald and Mr. Orchard each also received £2,400 as a contribution to legal fees incurred by them in connection with their departures.

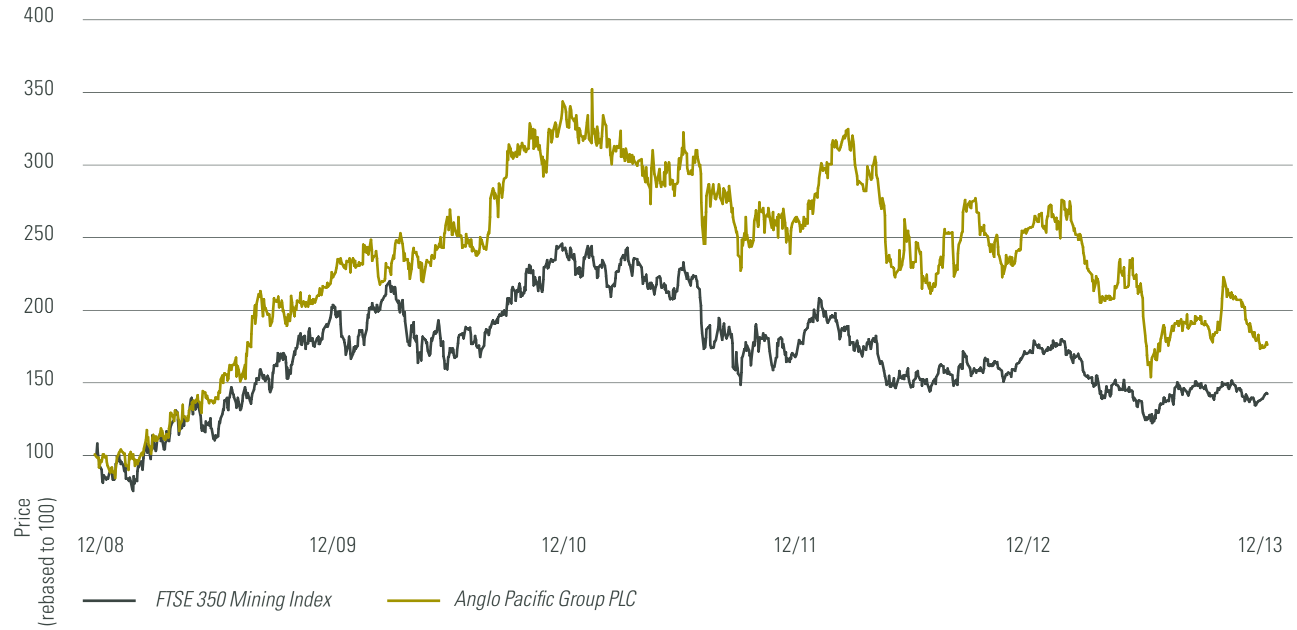
G. Percentage Increase in the remuneration of the CEO

CEO £'000	2013	2012	% change
– salary	213[1]	190	12%
– benefits	2	2	0%
– bonus	–	–	–
Average per employee £000			
– salary	75	74	1%
– benefits	–	–	–
– bonus	13	20	-36%

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

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

H. Total shareholder return



The performance of the Company's ordinary shares compared with the FTSE 350 Mining Index for the five-year period ended on December 31, 2013 is shown in the graph above. Both have been rebased at the start of the period in order to provide a graphical measure of comparative performance.

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

The middle market price of an ordinary share on December 31, 2013 was 184p. During the year the share price ranged from a low of 159p to a high of 293p.

GOVERNANCE

Directors' remuneration report

I. Total remuneration for the CEO over time

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

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

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

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

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

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

J. Relative importance of spend on pay

(£m)	2013	2012	% increase
Staff costs	2.04	1.78	14.6%
Dividends	11.07	10.58	4.6%

K. External directorships

The table below sets out details of the external directorships held by the Executive Directors during the year where the fees were retained by the individual.

	Position	2013
J.A. Treger	Firestone Diamonds Limited, Non-Executive Director	£12,500
J.A. Treger	RM Auctions Inc., Non-Executive Director	US$24,990

L. 2014 Salary Review

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

Current salaries for the Executive Directors

Executive	Salary as at January 22, 2014	Salary as at January 1, 2013	Increase
J.A. Treger	360,000	333,333[1]	8%
M.R. Potter	180,000	160,000[1]	12.5%
B.M. Wides	141,400	141,400	0%

1) Salaries for Mr. Treger and Mr. Potter reflect their salaries as at October 21, 2013, which was the date they were both appointed to the Board

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:

	2014	2013	% Increase
Chairman	95,000	N/A[1]	n/a
Base fee	36,000	36,000	0%
Senior Independent Director	42,000	42,000	0%
Committee Chairman or Member	38,000	38,000	0%

[1] The Chairman during 2013 was an acting Executive Chairman

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 (6 days a month) and the level of fees in similar companies.

Chairmen and members of the main Board Committees are paid an additional amount, currently £2,000 per annum, to reflect extra commitments. The SID also receives a further additional fee, currently £4,000 per annum, to reflect his extra duties.

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

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

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

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

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

O. Statement of shareholder voting

At last year's AGM held on May 22, 2013, 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)	59,969,450	93%
Votes cast against	4,603,806	7%
Total votes cast (excluding votes directed to be withheld)	64,573,256	100%
Votes withheld	927,647	

Approval

This report was approved by the Board on March 27, 2014 and signed on its behalf by

M.H. Atkinson

Chairman of the Remuneration Committee

March 31 2014

Important notices

Third party information

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

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

Cautionary statement on forward-looking statements and related information

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

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

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

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

Statement of Directors' responsibilities

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

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

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

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

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

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

Directors' statement pursuant to the Disclosure and Transparency Rules

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website, www.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

B.M. Wides
Acting Chairman
March 27, 2014

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

We have audited the financial statements of Anglo Pacific Group PLC for the year ended December 31, 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on ➤*page 58*, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Auditor commentary

An overview of the scope of our audit

Our audit scope included a full audit of the consolidated and parent company financial statements of Anglo Pacific Group PLC. The Group is currently organised into three principal operating divisions operating in Australia, the Americas and Europe. The Group financial statements are a consolidation of 25 subsidiaries comprising the Group's operating businesses within these divisions.

In establishing the overall approach to the Group audit, we determined the work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The reporting units vary significantly in size and we identified 19 subsidiaries that, in our view, due to their size or risk characteristics required a complete audit of their financial information, providing 98% coverage of the Group's total assets. Specific audit procedures on certain balances and transactions were performed at a further three reporting units, with the remaining reporting units subject to analytical procedures.

Our audit approach was based on a thorough understanding of the Group's business and is risk-based. The audit approach included obtaining an understanding of and evaluating the Group's internal controls over key financial systems identified as part of our risk assessment, reviewed the accounts production process and addressed critical accounting matters. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risk.

Our audit approach included the use of the work of an auditor's expert to assist with the audit. We used the work of a mining valuations specialist to assist in the audit of investment valuations, in particular challenging the reasonableness of both the valuation models used and the key assumptions made. We have evaluated the adequacy of the work of this expert in respect of our audit.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. For the Group audit, we established materiality for the Group financial statements as a whole to be £2.6 million, which is 1% of total assets. For the financial information of the individual subsidiary undertakings, we set our materiality based on a proportion of Group materiality appropriate to the relative scale of each of the subsidiary undertakings.

We have determined the threshold at which we communicate misstatements to the Audit Committee to be £0.1 million. In addition, we communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the Group financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Financial Reporting Council review

In June 2013 the Financial Reporting Council (FRC) issued a letter to the Company requesting additional information and explanation regarding the accounting treatment of the thresholds applied for significant or prolonged for impairment of financial instruments, the classification of certain royalty instruments and the treatment of available for sale instruments. As a result of the FRC's review, the Directors reconsidered the application of

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

certain accounting policies in the preparation of the financial statements. We therefore identified the FRC's review into certain accounting treatments as a risk requiring special audit consideration.

Our audit work included, but was not restricted to, understanding management's existing and revised accounting policies in respect of the items listed above, and challenging management's judgements and assumptions. Further detail on our audit response is reflected in the reported audit risks; Classification of royalty instruments; Valuation of royalty instruments and Impairment review, below. The Group has revised certain accounting policies and made prior year adjustments as disclosed in note 2.1.4.

Classification of royalty instruments

The Group has significant investments in royalty instruments that are accounted for based on contractual provisions in accordance with IAS 38 'Intangible assets', IAS 39 'Financial instruments: Recognition and measurement' or IAS 40 'Investment property'. The process applied in determining the proper classification of each instrument is highly judgemental. We therefore identified this activity as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, an evaluation of the methodology by which the Directors determine the proper classification for each instrument. We compared management's assessment of the instruments to the relevant accounting standards and challenged management's assumptions on the contractual provisions of the royalty instruments. We also reviewed management's use of a third party expert, with specialist skills, on the classification of these instruments. The Group's accounting policies are outlined in note 2 and relevant disclosures included in notes 15, 16 and 17.

Valuation of royalty instruments

The Group has significant investments in royalty instruments. The determination of fair value of these instruments in accordance with IAS 39 'Financial instruments: Recognition and measurement' or IAS 40 'Investment property', involves significant management judgement. We therefore identified the fair valuation of the royalty instruments as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, understanding the controls put in place over the calculation of fair value of the instruments. We examined and assessed the appropriateness of the models used for the fair value, challenging management's key assumptions and the underlying forecasts. This included using the work of our valuations specialist in respect of the reasonableness of the models and inputs used. The Group's accounting policies are outlined in note 2 and relevant disclosures included in notes 15, 16 and 17.

Impairment review

The Group has significant investments in royalty instruments and mining and exploration interests accounted for under various accounting standards based on their classification. In accordance with IAS 36 'Impairment of assets', non-financial assets are subject to an impairment test when there is an indication that an asset may be impaired. Financial assets are subject to impairment review in accordance with IAS 39 'Financial instruments: Recognition and measurement'. Impairment reviews and calculations performed by management are highly judgemental. We therefore identified the impairment review as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, an assessment of the policy for determining when an instrument was impaired and determined that the Group had recorded any such impairment when the carrying value of any individual investment exceeded its fair market value. We also evaluated and challenged the significant inputs and assumptions used in management's discounted cash flow analyses that supported the carrying values of these investments, including corroboration of those inputs to publicly available data. The Group's accounting policies are outlined in note 2 and relevant disclosures included in notes 15, 16 and 17.

Management override of financial controls

Under ISAs (UK & Ireland), for all our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures relating to this risk as required by ISA 240 'The auditor's responsibilities relating to fraud in an audit of financial statements'. This included tests of journal entries, the evaluation of judgements and assumptions in management's estimates and tests of significant transactions outside the normal course of business.

In particular, our work on fair value calculations and impairment reviews addressed key aspects of ISA 240.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at December 31, 2013 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulation.

Other reporting responsibilities

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

- the information in the Corporate Governance Statement set out on ➤*page 42* with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (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
- is 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 were communicated to the Audit Committee which we consider should have been disclosed.

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

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

Under the Listing Rules, we are required to review:

- the Directors' statement, set out on ➤*page 69*, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review

Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants

Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
London NW1 2EP
March 31, 2014

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

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

We conducted our audits of the Group's financial statements for each of the two years ended December 31, 2013 in accordance with ISAs. If we had been required to conduct the audits of the Group's financial statements for each of the two years ended December 31, 2013 in accordance with Canadian GAAS there would have been no material differences in the form or content of our audit reports.

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

Grant Thornton UK LLP
Statutory Auditor,
Chartered Accountants

Grant Thornton UK LLP
Grant Thornton House
Melton Street, Euston Square
London NW1 2EP
March 31, 2014

Consolidated income statement

for the year ended December 31, 2013

	Notes	2013 £'000	Restated 2012 £'000
Royalty related income	5	14,731	15,157
Finance income	6	789	676
Amortisation of royalties	17	(854)	(1,018)
Operating expenses	7(a)	(3,404)	(3,633)
Operating profit		**11,262**	**11,182**
(Loss)/Gain on sale of mining and exploration interests	5	(6,398)	7,347
Impairment of mining and exploration interests	18	(26,321)	(11,401)
Impairment of royalty intangibles	17	(8,313)	–
Revaluation of coal royalties	15	(13,568)	9,512
Revaluation of royalty instruments	16	(8,689)	(767)
Other income	9	2,012	2,316
Other losses	10	(2,881)	(152)
(Loss)/Profit before tax		**(52,896)**	**18,037**
Current income tax charge	11	(715)	(5,056)
Deferred income tax credit/(charge)	11	11,114	(1,401)
(Loss)/Profit attributable to equity holders		**(42,497)**	**11,580**
Total and continuing earnings per share			
Basic (loss)/earnings per share	12	(39.01p)	10.67p
Diluted (loss)/earnings per share	12	(39.01p)	10.67p

The notes on *pages 69 to 108* 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 £25,506,000 (2012: £1,711,000 (restated)).

Consolidated statement of comprehensive income

for the year ended December 31, 2013

	Notes	2013 £'000	Restated 2012 £'000
(Loss)/Profit for the year		**(42,497)**	**11,580**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of available for sale investments		(3,644)	(237)
Deferred tax relating to items that will not be reclassified	*22*	(371)	(94)
Items that may be subsequently reclassified to profit or loss			
Available for sale investments			
Current year gains/losses		(1,031)	(5,158)
Reclassification to income statement on disposal of available for sale investments		(871)	(4,666)
Reclassification to income statement on impairment		1,587	1,054
Deferred tax relating to items that will be reclassified	*22*	129	4,772
Net exchange (loss)/gain on translation of foreign operations		(28,923)	(3,384)
Other comprehensive income for the year, net of tax		**(33,124)**	**(7,713)**
Total comprehensive (expense)/income for the year		**(75,621)**	**3,867**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

Consolidated balance sheet and Company balance sheet

as at December 31, 2013

		Group			Company		
	Notes	**2013 £'000**	Restated 2012 £'000	Restated 2011 £'000	**2013 £'000**	Restated 2012 £'000	Restated 2011 £'000
Non-current assets							
Property, plant and equipment	14	1,989	2,105	2,152	846	854	875
Coal royalties (investment property)	15	131,434	170,995	165,967	–	–	–
Royalty instruments	16	27,847	41,945	43,127	12,839	24,032	24,736
Intangibles	17	37,288	53,495	50,748	3,050	3,997	3,997
Mining and exploration interests	18	20,072	55,793	64,551	13,975	37,001	56,369
Other receivables	20	8,775	3,141	–	31,100	51,884	42,316
Investments in subsidiaries	19	–	–	–	45,475	33,545	33,545
Deferred tax	22	11,013	5,812	496	8,016	5,758	496
		238,418	333,286	327,041	115,301	157,071	162,334
Current assets							
Trade and other receivables	20	5,332	1,958	12,297	379	292	1,922
Cash and cash equivalents	21	15,706	24,036	32,197	4,106	2,854	10,394
		21,038	25,994	44,494	4,485	3,146	12,316
Total assets		**259,456**	**359,280**	**371,535**	**119,786**	**160,217**	**174,650**
Non-current liabilities							
Deferred tax	22	41,378	54,344	54,736	2,244	3,958	4,897
		41,378	54,344	54,736	2,244	3,958	4,897
Current liabilities							
Income tax liabilities		465	1,801	3,731	465	1,596	413
Trade and other payables	23	762	2,171	6,896	696	721	694
		1,227	3,972	10,627	1,161	2,317	1,107
Total liabilities		**42,605**	**58,316**	**65,363**	**3,405**	**6,275**	**6,004**
Capital and reserves attributable to shareholders							
Share capital	24	2,218	2,192	2,184	2,218	2,192	2,184
Share premium	24	29,328	26,853	25,539	29,328	26,853	25,539
Investment revaluation reserve		5,570	9,771	14,100	5,386	8,949	12,867
Share based payment reserve		158	354	177	158	354	177
Foreign currency translation reserve		8,750	37,673	41,057	82	82	82
Special reserve	26	632	632	632	632	632	632
Investment in own shares		(2,601)	(2,601)	(2,601)	–	–	–
Retained earnings	27	172,796	226,090	225,084	78,577	114,880	127,165
Total equity		**216,851**	**300,964**	**306,172**	**116,381**	**153,942**	**168,646**
Total equity and liabilities		**259,456**	**359,280**	**371,535**	**119,786**	**160,217**	**174,650**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on *pages 62 to 108* were approved by the Board and authorised for issue on March 31, 2014 and are signed on its behalf by:

Brian Wides
Acting Chairman

Julian Treger
Chief Executive Officer

Consolidated statement of changes in equity

for the two years ended December 31, 2013

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2012 (as previously reported – note 2.1.4)	2,184	25,539	80,285	(4,843)	177	41,614	632	(2,601)	163,185	306,172
Impact of restatement	–	–	(80,285)	18,943	–	(557)	–	–	61,899	–
Balance at January 1, 2012 (as restated – note 2.1.4)	2,184	25,539	–	14,100	177	41,057	632	(2,601)	225,084	306,172
Profit for the year (restated)	–	–	–	–	–	–	–	–	11,580	11,580
Other comprehensive income:										
Available-for-sale investments										
Valuation movement taken to equity	–	–	–	(5,395)	–	(375)	–	–	–	(5,770)
Transferred to income statement on disposal	–	–	–	(4,666)	–	–	–	–	–	(4,666)
Transferred to income statement on impairment	–	–	–	1,054	–	–	–	–	–	1,054
Deferred tax	–	–	–	4,678	–	(57)	–	–	–	4,621
Foreign currency translation	–	–	–	–	–	(2,952)	–	–	–	(2,952)
Total comprehensive expense	**–**	**–**	**–**	**(4,329)**	**–**	**(3,384)**	**–**	**–**	**11,580**	**3,867**
Dividends	–	–	–	–	–	–	–	–	(10,579)	(10,579)
Issue of ordinary shares	8	1,314	–	–	–	–	–	–	–	1,322
Issue of share capital under share-based payment	–	–	–	–	177	–	–		5	182
Total transactions with owners of the Company	**8**	**1,314**	**–**	**–**	**177**	**–**	**–**	**–**	**(10,574)**	**(9,075)**
Balance at December 31, 2012 (restated)	**2,192**	**26,853**	**–**	**9,771**	**354**	**37,673**	**632**	**(2,601)**	**226,090**	**300,964**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

for the two years ended December 31, 2013

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2013 (restated)	2,192	26,853	–	9,771	354	37,673	632	(2,601)	226,090	300,964
Loss for the year	–	–	–	–	–	–	–	–	(42,497)	(42,497)
Other comprehensive income:										
Available-for-sale investments										
Valuation movement taken to equity	–	–	–	(4,675)	–	(665)	–	–	–	(5,340)
Transferred to income statement on disposal	–	–	–	(871)	–	–	–	–	–	(871)
Transferred to income statement on impairment	–	–	–	1,587	–	–	–	–	–	1,587
Deferred tax	–	–	–	(242)	–	185	–	–	–	(57)
Foreign currency translation	–	–	–	–	–	(28,443)	–	–	–	(28,443)
Total comprehensive income	**–**	**–**	**–**	**(4,201)**	**–**	**(28,923)**	**–**	**–**	**(42,497)**	**(75,621)**
Dividends	–	–	–	–	–	–	–	–	(11,065)	(11,065)
Issue of ordinary shares	26	2,475	–	–	–	–	–	–	–	2,501
Value of employee services	–	–	–	–	(196)	–	–	–	268	72
Total transactions with owners of the Company	**26**	**2,475**	**–**	**–**	**(196)**	**–**	**–**	**–**	**(10,797)**	**(8,492)**
Balance at December 31, 2013	**2,218**	**29,328**	**–**	**5,570**	**158**	**8,750**	**632**	**(2,601)**	**172,796**	**216,851**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

Company statement of changes in equity

for the two years ended December 31, 2013

	Share capital £'000	Share premium £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2012 (as previously reported – note 2.1.4)	2,184	25,539	(5,268)	177	82	632	145,300	168,646
Impact of restatement	–	–	18,135	–	–	–	(18,135)	–
Balance at January 1, 2012 (as restated – note 2.1.4)	2,184	25,539	12,867	177	82	632	127,165	168,646
Changes in equity for 2012								
Available-for-sale investments:								
Valuation movement taken to equity	–	–	(4,721)	–	–	–	–	(4,721)
Transferred to income statement on disposal	–	–	(4,622)	–	–	–	–	(4,622)
Transferred to income statement on impairment	–	–	973	–	–	–	–	973
Deferred tax	–	–	4,452	–	–	–	–	4,452
Net income recognised direct into equity	–	–	(3,918)	–	–	–	–	(3,918)
Loss for the year	–	–	–	–	–	–	(1,711)	(1,711)
Total recognised income and expenses	–	–	(3,918)	–	–	–	(1,711)	(5,629)
Dividends	–	–	–	–	–	–	(10,579)	(10,579)
Issue of ordinary shares	8	1,314	–	–	–	–	–	1,322
Issue of share capital under share-based payment	–	–	–	177	–	–	5	182
Balance at December 31, 2012	**2,192**	**26,853**	**8,949**	**354**	**82**	**632**	**114,880**	**153,942**
Balance at January 1, 2013 (restated)	2,192	26,853	8,949	354	82	632	114,880	153,942
Changes in equity for 2013								
Available-for-sale investments:								
Valuation movement taken to equity	–	–	(3,657)	–	–	–	–	(3,657)
Transferred to income statement on disposal	–	–	(718)	–	–	–	–	(718)
Transferred to income statement on impairment	–	–	1,229	–	–	–	–	1,229
Deferred tax	–	–	(417)	–	–	–	–	(417)
Net income recognised direct into equity	–	–	(3,563)	–	–	–	–	(3,563)
Loss for the year	–	–	–	–	–	–	(25,506)	(25,506)
Total recognised income and expenses	–	–	(3,563)	–	–	–	(25,506)	(29,069)
Dividends	–	–	–	–	–	–	(11,065)	(11,065)
Issue of ordinary shares	26	2,475	–	–	–	–	–	2,501
Value of employee services	–	–	–	(196)	–	–	268	72
Balance at December 31, 2013	**2,218**	**29,328**	**5,386**	**158**	**82**	**632**	**78,577**	**116,381**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

Consolidated cash flow statement and Company cash flow statement

for the year ended December 31, 2013

	Notes	Group 2013 £'000	Group Restated 2012 £'000	Company 2013 £'000	Company Restated 2012 £'000
Cash flows from operating activities					
(Loss)/Profit before taxation		(52,896)	18,037	(29,441)	(1,016)
Adjustments for:					
Interest received	6,9	(362)	(1,521)	(1,574)	(2,060)
Depreciation of property, plant and equipment	14	22	21	22	21
Amortisation of intangibles – royalties	17	854	1,018	–	–
Loss/(Gain) on disposal of mining and exploration interests		6,398	(7,347)	6,618	(6,974)
Impairment of royalty intangible	17	8,313	–	947	–
Impairment of mining and exploration interests	18	26,321	11,401	16,990	10,842
Revaluation of coal royalties	15	13,568	(9,512)	–	–
Revaluation of royalty instruments	16	8,689	767	8,689	767
Effective interest on royalty instruments	9	(1,140)	(570)	(1,140)	(570)
Forgiveness of loan to subsidiary undertaking		–	–	5,500	–
Intercompany dividends		–	–	(8,600)	–
Share based payment	8(a)	72	183	72	183
		9,839	12,477	(1,917)	1,193
(Increase)/Decrease in trade and other receivables excluding amounts due from subsidiary companies		(9,008)	7,199	(87)	(56)
(Decrease)/Increase in trade and other payables		(1,409)	(4,725)	(25)	27
Cash generated from operations		(578)	14,951	(2,029)	1,164
Income taxes paid		(3,817)	(6,186)	(1,632)	697
Net cash (used in)/generated from operating activities		**(4,395)**	**8,765**	**(3,661)**	**1,861**
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests		5,258	19,280	4,492	18,543
Purchases of mining and exploration interests		(3,118)	(23,781)	(1,032)	(11,182)
Purchases of royalty interests		–	(2,398)	–	–
Purchases of property, plant and equipment		(14)	–	(14)	–
Exploration and evaluation expenditure		(101)	(127)	–	–
Interest received		362	1,110	9	41
Investments in subsidiaries		–	–	(15,772)	–
Loans granted to subsidiary undertakings		–	–	(6,574)	(9,568)
Loan repayments from subsidiary undertakings		–	–	32,368	3,344
Net cash generated from/(used in) investing activities		**2,387**	**(5,916)**	**13,477**	**1,178**
Cash flows from financing activities					
Proceeds from issue of share capital		2,501	–	2,501	–
Dividends paid		(11,065)	(10,579)	(11,065)	(10,579)
Net cash (used in)/generated from financing activities		**(8,564)**	**(10,579)**	**(8,564)**	**(10,579)**
Net (decrease)/increase in cash and cash equivalents		**(10,572)**	**(7,730)**	**1,252**	**(7,540)**
Cash and cash equivalents at beginning of period		**24,036**	**32,197**	**2,854**	**10,394**
Unrealised foreign currency loss/(gain)		2,242	(431)	–	–
Cash and cash equivalents at end of period	21	**15,706**	**24,036**	**4,106**	**2,854**

The notes on *pages 69 to 108* are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

for the year ended December 31, 2013

1 General information

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

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1.1 Going concern

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

2.1.2 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, 2013 and have a material impact on the Group:

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

  The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- IFRS 13, 'Fair Value Measurement'

  Changes in relation to this standard relate to certain disclosures in the fair value hierarchy tables in note 3. This has no impact on the 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, 2013 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not yet effective for annual periods beginning after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9 'Financial Instruments' – effective date pending

  IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the International Accountings Standards Board.

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.

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2.1.3 Financial Reporting Council

The Conduct Committee of the Financial Reporting Council ('FRC') wrote to the Group during 2013 requesting information and explanations about a number of accounting and disclosure matters relating to the Group's 2012 Annual Report and Accounts as part of their annual review of financial statements in the public domain.

The matters included: coking coal royalties (Kestrel), royalty interests (currently accounted under IAS 38), royalty instruments (currently accounted for under IAS 39) and the impairment policy with respect to its mining and exploration interests. Other than Kestrel, which has been restated as an investment property in accordance with IAS 40, correspondence with the FRC is ongoing with respect to the remaining areas.

The Group sought external professional accountancy advice in relation to some of these matters. Once the advice has been shared with the FRC the Group acknowledges that the FRC will need to consider this separately, and that further changes are still possible. Until this process has been concluded, the following is a summary of the matters resolved and those still open.

The Group acknowledged that the coal resources in the Kestrel land are not used in the production or supply of goods and services and concluded that it could be inappropriate to treat them as in the scope of IAS 16 without recognising depreciation. The Group is now applying IAS 40, Investment Property to the land at Kestrel. The effect is that the valuation movements are now reflected in the income statement below operating profit, rather than in other comprehensive income. The balance sheet value is unchanged.

The following three matters remain open:

Royalty interests – intangibles

The FRC noted that the Group applied IAS 38 to some of its royalties (Royalty interests – intangibles) and IAS 39 to others (Royalty instruments). The FRC has asked why IAS 39 is not relevant to all royalty assets.

The Group's accounting policy in relation to Intangible Assets is set out in note 2.7(b).

Royalty instruments – financial assets

The FRC has questioned whether the financial asset accounting complies with the requirements for available for sale assets in IAS 39 and specifically whether the Group believes these assets to be either IAS 39 available for sale debt or equity instruments.

Impairment of mining and exploration interests

The FRC sought information on the criteria applied by the Group in considering whether a decline in the value of its equity instruments was significant or prolonged. Such a decline requires previous reductions in fair value recognised in other comprehensive income to be recognised as impairment charges in the income statement.

The Group acknowledges that, although it has restated its prior year numbers to recognise a change in accounting policy in respect of impairment, it has yet to agree the criteria with the FRC.

Possible impact on the Group's financial statements

Applying the IAS 39 definition of available for sale financial asset to the Group's intangible and financial assets would significantly alter the presentation of the Group's financial statements. At present, the Group's royalty intangibles are carried at cost. An impairment review determines whether this amount is recoverable through future cash flows. Accounting for these intangibles in accordance with IAS 39 would require these assets to be carried at fair value, with interest income recorded at an effective interest rate recognised in the income statement when considered a debt instrument.

2.1.4 Prior period adjustment

As mentioned in note 2.1.3 above, the Group has made certain accounting policy changes at December 31, 2013. The reasons for these changes along with the impact of the changes on what was reported in 2012 are discussed below. There is no impact on the previously reported net asset values.

(a) Coal royalties

The Group's entitlement to its coking coal royalty is a function of its freehold ownership of certain sub-stratum lands in Queensland, Australia. The Group previously accounted for this asset as land in accordance with IAS 16 and adopted the revaluation method of subsequent measurement. It did not, previously, depreciate this land. The Group acknowledges that there are instances whereby it would be appropriate to depreciate land. The Group has decided to change its accounting policy and account for Kestrel as an investment property in accordance with IAS 40. An investment property is defined in IAS 40 as 'property held to earn rentals or for capital appreciation'. The royalty income earned from owning the land is akin to rental income and, as such, IAS 40 is now considered a more appropriate accounting standard to adopt.

Previously under IAS 16 the revaluation movement and deferred tax was recognised in the revaluation reserve. Going forward, this will be reflected in the income statement. The balance sheet value will be the same as would have been derived under IAS 16.

(b) Royalty instruments

Following a thorough review of its royalty instruments during the year, the Group has determined that it has two different types of financial asset, debt and equity, in accordance with IAS 39. These are categorised as available for sale financial assets and the accounting treatment is discussed in further detail in note 2.9(e).

(i) EVBC

The Group's EVBC debenture instrument falls under the classification of an equity financial asset as it differs from other debt assets in that there is no stipulated interest rate, maturity or minimum payment terms. As such, all receipts from this royalty represent a return on investment and are presented in the income statement. Previously, royalty receipts offset the principal balance. Going forward, all receipts will be reflected in the income statement. The value of the royalty on the balance sheet remains unchanged as this is carried at fair value at each reporting date.

(ii) Jogjakarta

The Group's remaining instrument, Jogjakarta, is recognised as a debt financial asset as it displays certain characteristics which are more similar to financing agreements such as interest rates and minimum payments. Although there is a contracted interest rate of 8%, the Group recognises that it should have applied an effective interest rate to the future expected cashflows. Although the valuation remains unchanged, a portion of this should be recognised as interest, the remainder as the valuation movement. Previously, the entire valuation was recognised in other comprehensive income. In accordance with IAS 39, any subsequent valuation movement caused by changes to the estimated future cash profiles (and not to do with changes to the effective interest rate) should be recognised in the income statement. This has retrospectively been applied in the current financial statements and will form the basis for accounting going forward.

(c) Isua

The Group's Isua royalty was previously accounted for in accordance with IAS 38 'Intangibles' and is now accounted for as an available for sale debt instrument in accordance with IAS 39. The Group is entitled to receive its initial investment back should the operator fail to achieve commercial production by a predefined date. This right to receive cash is considered to fall within the definition of an IAS 39 financial asset. Similar to Jogjakarta, the Group will apply an effective interest rate where material. The royalty is still carried at cost as this does not materially differ to its fair value. Should this become material, an effective interest rate will be recognised in the income statement along with any associated valuation movement.

(d) Impairment of mining and exploration interests (held at fair value)

The Group's mining and exploration interests are held at fair value at each reporting date. Any unrealised loss (or gain) is reflected in the revaluation reserve up to the point when the absolute unrealised loss is considered 'significant' or 'prolonged' in accordance with IAS 39 at which point these investments would be deemed impaired and the losses transferred to retained earnings via the income statement.

The Group recognised an impairment charge during the year as it considered that the unrealised losses in its mining and exploration interests were significant in the context of the Group's impairment policy and IAS 39. This policy is explained further in note 2.9(d). One of the considerations is the relative decline in value of the portfolio compared to relevant industry indices, which by definition changes at each reporting date.

As the equities are always carried on the balance sheet in accordance with market price, the change in the trigger point for assessing impairment does not alter the balance sheet value. This is, therefore, not deemed a change in estimate. By default, IAS 8 implies that this must be a change in accounting policy and therefore requires a retrospective assessment. Had the Group's impairment thresholds not changed, an impairment charge of £58.8m would have been recognised in 2013.

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Impact

In accordance with IAS 8, the prior periods financial statements are restated to reflect what the position would have been had these been reflected in the financial statements in previous years. The following tables reconcile the restated position to that previously reported:

Consolidated income statement		Year ended December 31, 2012		
	Adjustment	Restated £'000	Original £'000	Adjustment £'000
Royalty related income	(bi)	15,157	13,267	1,890
Operating profit		**11,182**	**9,292**	**1,890**
Impairment of mining and exploration interests	(d)	(11,401)	(4,013)	(7,388)
Loss on revaluation or royalty instruments	(bii)	(767)	–	(767)
Other income (effective interest income on royalty instruments)	(bii)	570	–	570
Gain on revaluation of coal royalties	(a)	9,512	–	9,512
Profit before tax		**18,037**	**14,220**	**3,817**
Current income tax	(bi)	(5,056)	(4,163)	(893)
Deferred income tax charge	(a), (b), (d)	(1,401)	–	(1,401)
Profit attributable to equity holders		**11,580**	**10,057**	**1,523**
Basic earnings per share		10.67p	9.27p	
Diluted earnings per share		10.67p	9.27p	

Consolidated statement of comprehensive income		Year ended December 31, 2012		
	Adjustment	Restated £'000	Original £'000	Adjustment £'000
Profit for the year		**11,580**	**10,057**	**1,523**
Other comprehensive income				
Net gain on revaluation of coal royalties	(a)	–	9,339	(9,339)
Net (loss) on revaluation of available for sale instruments	(d)	(6,330)	(10,308)	3,978
Net exchange (loss) on translation of foreign operations		(3,327)	(4,482)	1,155
Deferred tax		5,556	3,927	1,629
Net income recognised directly in equity		**7,479**	**8,533**	**(1,054)**
Transferred from income statement on disposal of available for sale investments		(4,666)	(4,666)	–
Transferred to income statement on impairment		1,054	–	1,054
Total comprehensive income for the financial period		**3,867**	**3,867**	**–**

Consolidated balance sheet

		December 31, 2012			December 31, 2011		
	Adjustment	Restated £'000	Original £'000	Adjustment £'000	Restated £'000	Original £'000	Adjustment £'000
Royalty instruments	(c)	41,945	24,032	17,913	43,127	24,736	18,391
Intangibles	(c)	53,495	71,408	(17,913)	50,748	69,138	(18,390)
Deferred tax asset	(d)	5,812	–	5,812	496	–	496
Deferred tax liability	(d)	(54,344)	(48,532)	(5,812)	(54,736)	(54,240)	(496)
Coal royalty revaluation reserve	(a)	–	86,721	(86,721)	–	80,285	(80,285)
Investment revaluation reserve	(bii), (d)	11,828	(14,204)	26,032	16,157	(4,843)	21,000
Foreign currency translation reserve		37,673	38,349	(676)	41,057	41,614	(557)
Retained earnings		224,033	162,668	61,365	223,027	163,185	59,842
Total equity		**300,964**	**300,964**	**–**	**306,172**	**306,172**	**–**

Consolidated statement of cash flows

		Year ended December 31, 2012		
	Adjustment	Restated £'000	Original £'000	Adjustment £'000
Cash flows from operating activities				
Profit before taxation		18,037	14,220	3,817
Receipts from royalty interests	(b)(i)	–	2,898	(2,898)
Interest payments		(1,521)	(1,723)	202
Gain revaluation of coal royalties	(a)	(9,512)	–	(9,512)
Impairment of mining and exploration interests	(d)	11,401	3,207	8,194
Loss on revaluation of royalty instruments	(bii)	767	–	767
Effective interest on royalty instruments	(bii)	(570)	–	(570)

Overall, there is no change to the net asset value of the Group at December 31, 2012 and December 31, 2011.

2.2 Consolidation

Subsidiaries

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

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

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

Notes to the consolidated financial statements

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2.3 Segment reporting

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

2.4 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 (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:

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in 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.

2.5 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 under 'Producing assets' together with any amount transferred from 'Exploration and evaluation costs' (note 2.7(a)).

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

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

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

2.6 Coal royalties (investment property)

The Group owns a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland, Australia, excluding the output from Crown areas by virtue of its ownership of the sub-stratum land, including the right to the minerals contained within. The Group holds this land in order to earn a return which is based on the royalty income received from mining activity carried out within the land. The Group accounts for this land (and royalty) as an investment property in accordance with IAS 40 carrying it at fair value at each reporting date. The coal royalties are valued at fair value based on future discounted royalty cash flows receivable as calculated on a quarterly basis by an independent external consultant (see note 15 for further details). Management consider the valuation on a quarterly basis for any indications of possible impairment considering factors such as pricing and production forecasts.

Any movement in the valuation of the royalties is recognised in the income statement.

2.7 Intangibles

(a) Exploration and evaluation costs

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

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

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

Expenditure on exploration and evaluation activities is capitalised when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the Group. Amortisation of capitalised exploration and evaluation costs does not commence until the underlying project commences commercial production.

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

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

(b) Royalty interests

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

Most of the royalties listed above have been pre-existing royalties acquired by the Group. These royalties mainly exist by way of the sale of land or certain prospecting rights, with the retention of a royalty for any future discoveries of economically viable resources. Upon acquisition, the Group effectively assumes the position of the original holder, who will usually have had an interest in the underlying mineral at some point. These royalties should survive any change in ownership of the asset or bankruptcy of the operator.

These royalties, although entitling the Group to cash upon the commencement of production, are not considered to fall within the definition of financial assets in accordance with IAS 39. The Group considers, amongst the characteristics listed in the above paragraph, that they do not contain an absolute right to receive cash as the Group cannot force the operator to produce and, furthermore, the counterparty can avoid the payment of cash by deciding not to produce. This is in contrast to the Group's royalty interests structured as financing arrangements.

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

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

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2.8 Impairment of non-financial assets

Intangible assets are reviewed for impairment at each reporting date and the assessment includes variables such as the production profiles, commodity prices and management representations.

The Group changed its method of assessing impairment during the year. Although the value in use is still assessed based on discounted net present value of expected future cash flows, using a narrow range of discount rates of between 7 and 10%, the outcome of this calculation is then risk weighted to reflect management's current assessment of the overall likelihood of each project coming into production and royalty income arising. This assessment is impacted by news flow relating to the royalty in the period, in conjunction with management's assessment of the economic viability of the project based on commodity price projections. This is a change in the basis of estimation, had the method been applied previously, it would not have resulted in an impairment charge in prior years.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell or value-in-use.

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2.9 Financial instruments

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

(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 most other receivables fall into this category of financial instruments.

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

(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 either available-for-sale or as assets at fair value through profit or loss, depending on the characteristics of the particular instrument and its purpose.

Interests classified as available-for-sale are measured at subsequent reporting dates at their fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income and accumulated in the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in 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.

For those mining and exploration interests which contain an embedded convertible option, these embedded derivatives are separated and recognised at fair value through profit or loss with gains and losses arising from changes in fair value being recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, commodity prices, production profiles and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using transaction price as the best evidence of fair value at acquisition (see note 18). Options can be carried at cost if they are linked to unquoted equities where fair value cannot be reliably measured.

(d) Impairment of mining and exploration interests

All mining and exploration interests held as available for sale are assessed for impairment at least at each reporting date. The Directors initially compare any absolute decline in the value of the portfolio compared to the decline in relevant junior mining indices for an indication of underperformance against the wider industry. If underperformance exists, the Directors then consider the absolute decline in value for each instrument and this assessment includes variables such as the progress made by the operator in the period to advance its project towards development, the instrument's valuation in active markets, the quality of the Company's underlying assets as well as any potential for economic mineral development within the relevant company's licences.

Impairment charges arise when the outcome of this assessment indicates a 'significant' or 'prolonged' fall in value of the interest in accordance with IAS 39. IAS 39 requires the Directors to use judgement in order to define the parameters of 'significant' and 'prolonged' and there is little available guidance as to what has become best practice. The Directors have been of the view that higher tolerance can be accepted in relation to junior mining instruments, one of the most volatile sectors over the last number of years. The Directors have considerable experience of investing in this sector, over many economic cycles when commodities have both out and underperformed.

At December 31, 2012 the Group's mining and exploration interests when taken as a whole were 43% below cost. The Executive Directors, and the Audit Committee, did not consider this to be 'significant' in the context of investments in the junior mining sector, and these declines were not out of line with what similar companies were experiencing. At this point, a decline in value of 60% would have been considered 'significant'. The further decline in value during 2013 resulted in the absolute decline being considered 'significant'.

In addition to being 'significant', an impairment charge must be made if the decline in value is considered 'prolonged', regardless of how 'significant' the decline is. Again, the Directors have used their considerable experience in order to determine what period of decline would be considered 'prolonged' in the context of investing in the junior mining sector. The ultimate value of the equity is likely to be achieved once the underlying project achieves commercial production. As long as the operator is advancing the project towards production, then the Directors tolerate a longer timeframe. This is usually between three to five years, the time in which an operator should have made sufficient progress with their operations.

Regardless of the judgment exercised by the Directors in defining 'significant' or 'prolonged', the net assets of the Group remain unchanged as the equities are carried at fair value at each reporting date. The point at which an impairment charge is made does not impact net assets as the unrealised loss in the investment revaluation reserve is transferred to retained earnings via the income statement, and interest will only be recognised at the discount rate used to measure the impairment, unless the asset has been fully impaired.

This is one area which remains subject to review by the FRC, particularly the Group's definitions of 'significant' and 'prolonged'.

(e) 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 give the Group a right to future cash flows and are recognised as available-for-sale financial assets in accordance with IAS 39. These royalties are different to the Group's intangible royalties as there is a means to securing future cash flows irrespective of the success of the underlying project. Royalty instruments are classified as either debt or equity instruments depending on the nature of the individual agreement. Considerations such as contractual interest rates, defined repayment terms and the means to recover initial investment distinguish whether the financial asset is debt or equity. Some royalty contracts include clauses relating to the possibility of conversion to equity in the Company granting the royalty. These clauses are treated as embedded derivatives and are classified as fair value through profit or loss.

Similar to the Group's royalty intangibles, these assets are assessed for impairment at each reporting date. For equity financial assets any cumulative loss previously recognised in equity is reclassified in the income statement for the period. For debt financial assets the impairment charge reverses previous gains reflected in the income statement and no further effective interest will be recognised.

(i) EVBC

The Group's royalty instrument relating to the EVBC royalty has been classified as an equity financial asset as it does not have a contracted interest rate, there is no contractual requirement to develop the mine, there are no predefined repayment terms, there is no maturity date (the royalty continues into perpetuity) and the ultimate flow of cash is wholly dependent on the success of the project which then determines royalty payments. The return is related to performance which is a riskier type of return involving more than just credit risk.

The substance of the royalty is similar to that of an ordinary equity instrument as ultimately both can only be of value if the project is successful. Any income received represents a return on investment and is recognised in the income statement. The asset is carried at fair value, determined by discounting the estimated future cash flows. The discount rate applied is 9% reflecting the nature of the asset, quality of resource, track record and the experience of management. The change in estimated future cash flows is determined by reference to the guidance published by the operator, which is considered non-observable market data. Any valuation movement is recognised in the investment revaluation reserve, other than a significant or prolonged fall in value in fair value below cost, which would be accounted for as an impairment.

(ii) Jogjakarta

Jogjakarta is considered to be an available for sale debt financial asset in accordance with IAS 39. The key differential in respect to this royalty instrument is the right to receive cash and the ability to enforce this. Furthermore, Jogjakarta has a contracted interest rate of 8% p.a payable quarterly along with predefined contracted minimum payments which the operator must make, regardless of what the royalty equivalent would be.

At initial recognition an effective interest rate is computed based on the estimated future cash flows. Expected future cash flows are based on non-observable market data, generally management's latest expectation of future royalty income determined based on commodity price forecast and estimated production profiles. The difference between this value and cost is recognised in other comprehensive income. The effective interest is recognised in the income statement in each period. Any subsequent valuation movement caused by changes to the effective interest rate is recognised in other comprehensive income. Valuation movements caused by changes to expected future cash flows are recognised in the income statement.

The recognition of effective interest rate is recorded in the income statement during the period in which the income is earned. The cash receipt of interest would reduce the carrying value of the asset as it is received.

The asset is carried on the balance sheet at fair value, based on a risk weighted net present value of future cash flows at each reporting date. The risk assessment takes into account the probability of the mine coming into production.

The Jogjakarta royalty contains an embedded derivative. This derivative is separated and measured as an asset at fair value through profit or loss with gains and losses arising from changes in fair value recognised directly in the income statement. The fair values of such derivatives are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, production profiles, commodity prices and management representations. These assets are reviewed regularly to ensure that the initial classification remains correct given the asset characteristics and the Group's investment policies. These assets may be initially recognised using transaction price as the best evidence of fair value at acquisition; however, embedded derivatives are valued at acquisition and are recognised separately from the host royalty instrument (see note 16).

(iii) Isua

Isua, although displaying very similar characteristics to the Group's royalty intangibles, allows for the full recovery of the initial investment subject to various predefined milestones prior to the commencement of commercial production. The key remaining milestone is that production has to be achieved by June 20, 2017. Should this not be achieved, the Group has the right to demand full repayment of monies advanced. The operator has the option to settle this by either cash or equivalent equity. If production is achieved, the right to recover the initial investment ceases to be available to the Group and royalty payments are receivable over the life of the mine.

The mechanism to recover the initial investment is considered to be a contractual right to receive cash and falls within the definition of an available for sale debt like financial asset as there is a predefined 'maturity'. Although there is no contractual interest rate, IAS 39 requires an effective interest rate to be calculated and recognised in the income statement when material. As this is a non-cash measure in relation to assets with varying risk profiles, the Group only applies this interest rate when material.

The fair value of Isua is calculated based on the discounted expectation of the receipt in 2017 of the original funds invested discounted by reference to the effective interest rate calculated. The difference between this value and cost has been determined to be immaterial and as such the asset is carried at cost. Any expected future changes in value caused by revisions to future cash flow will be recognised in the income statement along with any effective interest rate.

(f) Financial liabilities and equity instruments

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

(g) Trade payables

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

(h) Equity instruments

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

2.10 Current and deferred income tax

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

2.11 Share-based payments

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

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

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

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

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

2.12 Reserves

Equity comprises the following:

- 'Share capital' represents the nominal value of equity shares in issue.
- 'Share premium' represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- '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 25).
- 'Retained earnings' represents retained profits.

2.13 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. The royalty income becomes receivable on extraction and sale of the relevant minerals, at which point the revenue is recognised.

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

Interest income is accrued on a time basis, by reference to the 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.

2.14 Leases

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

2.15 Dividend distribution

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

3 Financial risk management

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

Liquidity and funding risk

The objective of the Company in managing funding risk is to ensure that it can meet its financial obligations as and when they fall due. At the year end there was no debt outstanding and the Company, with its strong balance sheet, had good access to capital markets, if required. The addition of a twelve-month US$15m revolving credit facility signed in February 2014 adds further flexibility and liquidity to the Group's cash balances.

Credit risk

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

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

The Group's credit risk on royalty instruments held as financial instruments, has been reviewed and the estimated current exposure is as disclosed in note 16 where the future contractual right to cash flow from these instruments is reflected in their fair value.

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

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.

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

	2013						2012					
	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	1	20,385	21,996	4,180	16,371	6	1	37,928	30,514	3,117	3,191	6
Financial liabilities	–	–	–	–	–	–	–	–	–	–	–	–
Short term exposure	1	20,385	21,996	4,180	16,371	6	1	37,928	30,514	3,117	3,191	6

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

It assumes a +/- 10% change of the pound sterling/Australian dollar exchange rate for the year ended December 31, 2013 (2012: 10%). A +/- 10% is considered for the pound sterling/Canadian dollar exchange rate (2012: 10%). The sensitivity analysis is based on the Group's foreign currency financial instruments held at reporting date.

If the pound sterling had weakened against the Australian dollar and the Canadian dollar by 10% this would have had the following impact:

	2013						2012					
	GBP £'000	**AUD £'000**	**CAD £'000**	**USD £'000**	**NOK £'000**	**EUR £'000**	GBP £'000	AUD £'000	CAD £'000	USD £'000	NOK £'000	EUR £'000
Net result for the year	–	720	47	20	(1)	–	–	765	1,267	–	–	–
Equity	–	2,039	2,200	418	1,637	1	–	3,793	3,051	312	319	1

If the pound sterling had strengthened against the Australian dollar and the Canadian dollar by 10% this would have had the following impact:

	2013						2012					
	GBP £'000	**AUD £'000**	**CAD £'000**	**USD £'000**	**NOK £'000**	**EUR £'000**	GBP £'000	AUD £'000	CAD £'000	USD £'000	NOK £'000	EUR £'000
Net result for the year	–	(720)	(47)	(20)	1	–	–	(765)	(1,267)	–	–	–
Equity	–	(2,039)	(2,200)	(418)	(1,637)	(1)	–	(3,793)	(3,051)	(312)	(319)	(1)

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

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Interest rate risk

The Group is exposed to interest rate risk in respect of the cash balances held with banks and other highly rated counterparties. If the interest rates the Group received had increased by 1% during the year, the net result for the year would have been increased by £95,000 (2012: £537,000). If the interest rates the Group received had decreased by 1% during the year, the net result for the year would have been reduced by £95,000 (2012: £387,000). There would have been no impact on equity. Going forward, the Group is exposed to interest rate risk on any portion of its revolving credit facility which is drawn.

	Weighted average effective interest rate	Fixed interest rate £'000	Non-interest bearing £'000	Total £'000
2013				
Assets				
Cash	0.43%	14,957	749	15,706
Trade receivables		–	–	–
Other receivables	7.0%	2,895	8,704	11,599
Total financial assets		17,852	9,453	27,305
Financial liabilities				
Trade payables		–	43	43
Other payables		–	425	425
Total financial liabilities		–	468	468
Net financial assets		17,852	8,985	26,837

	Weighted average effective interest rate	Fixed interest rate £'000	Non-interest bearing £'000	Total £'000
2012				
Assets				
Cash	0.72%	21,463	2,573	24,036
Trade receivables		–	–	–
Other receivables	7.0%	3,141	1,219	4,360
Total financial assets		24,604	3,792	28,396
Financial liabilities				
Trade payables		–	106	106
Other payables		–	1,724	1,724
Total financial liabilities		–	1,830	1,830
Net financial assets		24,604	1,962	26,566

Other price risk

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

A sensitivity analysis based on a 49% increase or decrease in listed equity prices has been performed (2012: 30%). If the quoted stock price for these securities had increased or decreased by this percentage the net result for the year would have been increased/reduced by £2.6m (2012: £5.8m). Equity would have changed by £7.8m (2012: £15.4m).

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.

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.

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 increase the value of the assets of the Group and to enhance shareholder value in the Company and returns to shareholders.

The achievement of these objectives is undertaken by managing the Group's existing portfolio of royalty interests together with its investments mining and exploration interests and indentifying new royalty opportunities. During the year the Group advanced US$10m under an existing royalty financing agreement which is expected to yield royalty revenue in the future. In addition, the Group realised £5.3m in cash from the sale of certain mining and exploration interests where royalty opportunities were no longer identifiable.

Subsequent to year end, the Group entered into a US$15m unsecured twelve-month revolving credit facility, which in addition to the Group's current cash balances, provides further means to finance future royalty acquisitions.

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

The optimal capital structure for the Group is to have no long-term structured debt, unless the income profile of the Group were to change significantly. The Group is currently achieving this objective.

Financial assets

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

	2013		Restated 2012		Restated 2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Available-for-sale						
Royalty instruments	27,847	12,839	41,945	24,032	43,127	24,736
Mining and exploration interests	20,072	13,975	55,545	36,753	64,303	56,121
Fair value through profit or loss						
Royalty instruments	–	–	–	–	–	–
Mining and exploration interests	–	–	248	248	248	248
Trade and other receivables	11,599	31,295	4,360	51,884	10,111	42,316
Cash at bank and in hand	15,706	4,106	24,036	2,854	32,197	10,394

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

Fair value hierarchy

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

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

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

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2013, December 31, 2012 (restated) and December 31, 2011 (restated):

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

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Group	Note	Restated 2012 Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Coal royalties (Investment property)	(a)	–	–	170,995	170,995
Royalty instruments	(b)	–	–	41,945	41,945
Mining and exploration interests – quoted	(c)	51,547	–	–	51,547
Mining and exploration interests – unquoted	(d)	–	3,518	–	3,518
Mining and exploration interests – royalty options	(e)	–	728	–	728
Total		51,547	4,246	212,940	268,733
Net fair value		51,547	4,246	212,940	268,733

Group	Note	Restated 2011 Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Coal royalties (Investment property)	(a)	–	–	165,967	165,967
Royalty instruments	(b)	–	–	43,127	43,127
Mining and exploration interests – quoted	(c)	62,389	–	–	62,389
Mining and exploration interests – unquoted	(d)	–	1,434	–	1,434
Mining and exploration interests – royalty options	(e)	–	728	–	728
Total		62,389	2,162	209,094	273,645
Net fair value		62,389	2,162	209,094	273,645

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2013, December 31, 2012 (restated) and December 31, 2011 (restated):

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

Company	Note	Restated 2012 Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Royalty instruments	(b)	–	–	24,032	24,032
Mining and exploration interests – quoted	(c)	35,102	–	–	35,102
Mining and exploration interests – unquoted	(d)	–	1,171	–	1,171
Mining and exploration interests – royalty options	(e)	–	728	–	728
Total		35,102	1,899	24,032	61,033
Net fair value		35,102	1,899	24,032	61,033

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

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 altered slightly compared to the previous reporting period. The Group 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. Previously, this risk was factored 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 15 for further details. All unobservable inputs are obtained from third parties.

(b) Royalty instruments

The Group's royalty instruments have been classified as available for sale, with value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At the reporting date the royalty streams have been valued on the net present value of the pre-tax cash flows discounted at a rate management considers reflects the risk associated with each of the 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 16 details the discount rates used. This is the only unobservable input determined by management. All other unobservable inputs are obtained from third parties.

The option to convert to shares has been treated as fair value through profit or loss as designated on initial recognition at the date of acquisition and has been valued at December 31, 2013 utilising an option model. The key assumptions, in addition to those utilised in the royalty stream valuations such as mine life and expected cash flows, include the price, volatility of the projects listed equity and where applicable the conversion price and redemption value of redeemable shares.

(c) Mining and exploration interests – quoted

All the quoted mining and exploration interests have been issued by publicly traded companies in Australia, Canada, the UK and Norway. 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 where fair value cannot be reliably determined. The Group notes any trading activity in the unquoted instruments and will value its holding accordingly. At present the Group holds these investments with a view to generating future royalties and there is no present intention to sell. The vast majority of these are in investments which the Group anticipates a realistic possibility of a future listing.

(e) Mining and exploration interests – royalty options

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

Fair value measurements in Level 3

The Group's financial assets classified in Level 3 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, 2013.

Available-for-sale financial assets	£'000
At January 1, 2013 (restated)	212,940
Revaluation gains or losses recognised in:	
Other comprehensive income	(2,458)
Income statement	(22,257)
Foreign currency translation	(28,898)
Receipts from royalty instruments	(46)
At December 31, 2013	159,281

The following table presents the changes in Level 3 instruments for the year ended December 31, 2012.

Available-for-sale financial assets	£'000
At January 1, 2012 (restated)	209,094
Revaluation gains or losses recognised in:	
Other comprehensive income	63
Income statement	8,745
Foreign currency translation	(4,962)
At December 31, 2012 (restated)	212,940

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

Available-for-sale financial assets	£'000
At January 1, 2011 (restated)	205,191
Additions	18,391
Revaluation gains or losses recognised in:	
Other comprehensive income	(4,605)
Income statement	2,398
Impairment of royalty instruments	(1,563)
Foreign currency translation	(10,718)
At December 31, 2011 (restated)	209,094

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.

Management has not undertaken detailed analysis of the impact of using alternative discount rates on the fair value of the royalty streams or the optionality embedded in the royalty instruments, as the risk weighting applied to the discounted present value of expected future cashflows more than offsets any valuation downside by applying higher discount rates.

4 Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 2.9, note 15, note 16, note 17 and note 18.

(b) Recoverability of deferred tax assets – note 2.10 and note 22. The calculation of deferred tax for investment property is on a continuing use basis rather than sale.

4.2 Critical judgements in applying the Group's accounting policies

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

(a) Classification of mining and exploration interests – note 2.9 and note 18.

(b) Classification of royalty instruments and royalty interests.

The Directors review each royalty acquired to determine whether there is a contractual right to receive cash which would meet the definition of a financial asset, or if the royalty receivable for the interest acquired is derived from the rights attached to the underlying asset/mineral resource. In the latter case these are treated as an intangible asset – note 2.7(b) and note 17.

Key differing characteristics between intangible and financial assets

(i) Primary or secondary royalties

Generally speaking, any secondary royalties which the Group acquires are likely to be intangible assets which have historically originated from the sale of land to a developer whilst the seller has retained an interest to benefit from any reserve expansion. The Group, in this instance, has not provided finance to the operator but has acquired an indirect interest in the underlying mineral.

Primary royalties tend to be negotiated as financing agreements between the Group and the operator directly and are much more likely to fall within the definition of IAS 39.

(ii) Interest in the underlying mineral

Quite often, the Group will have a registered interest in the underlying mineral. The nature of secondary royalties is often such that they are considered interests in the underlying land as the Group effectively assumes the role of the original counterparty.

With financial assets, although there may be security in place over the assets of the counterparty, this does not constitute an interest in the underlying mineral.

(iii) Limited rights to enforce the receipt of cash

Intangible royalties are structured such that there is no means for the royalty holder to force the operator to produce. Therefore there is no contractual right to receive cash as the operator can avoid this obligation by refusing to produce. Cash is payable upon the successful commercial production at the underlying mine. There is no recourse to amounts invested, nor any production milestones. The receipt of future cash flow is solely dependent on production commencing at the mine.

With financial assets, there is usually a contracted interest rate, maturity date (or milestones which need to be achieved), conditions of default and security. These are all characteristics of debt instruments and ensure the contractual right, or means of recourse where breaches occur, to future cash. A key differential is that there is a right to receive cash regardless of the success of the underlying operation.

(iv) Bankruptcy/change in control

Generally, a royalty may often survive any change in control of the mine or bankruptcy of the developer. In the latter, there is no recourse to funds invested.

Where there is a sale of a mine which the Group has financed it would be expected that the Group would have the right to carry its royalty across. If this is not possible, then the financial asset will be repaid. In events of bankruptcy, the Group will seek to recover its financial asset through the courts.

Key differing characteristics between available for sale debt versus equity financial assets

Upon determining that a royalty interest is a financial asset, the next step is to determine whether it is a debt instrument or an equity interest.

Debt financial asset:	**Equity financial asset:**
Time-based interest charge on outstanding principal payable quarterly	No interest rate
Defined maturity date	No maturity date, continues into perpetuity
Minimum payment terms, irrespective of the development of the mine	Payment is not dependent upon the successful development of the mine
Enforceable security	No provision for the return of principal

Equity instruments can sometimes display characteristics similar to debt. However, their return is related solely to performance which is a riskier type of return involving more than just credit risk.

Other judgements in relation to royalty interests

Where a royalty agreement contains a convertible option within it, the contracts are reviewed to determine whether the assets should be classified as a derivative at fair value through profit or loss or can be classified as an available for sale financial asset with an embedded derivative – note 2.9 and note 16.

Judgement is also applied in conducting a review for impairment at each reporting date. In many cases there will not have been any updates in the period in relation to production scheduling or reserve estimates. In the absence of such observable market data and an active secondary market for the Group's royalties, the Directors risk weight the expected future cash flows in order to apply a probability based approach to the value of each the royalty. This applies a much higher weighting to the probability of the operator achieving commercial production.

(c) Review of assumptions underlying the independent coal industry advisors' valuation of the Kestrel and Crinum coal royalty – note 15.

(d) Review of assumptions underlying the valuation of royalty instruments and their associated embedded derivatives – note 16.

The Directors review the latest available mine plans and obtain independent foreign exchange and commodity price forecasts to determine each of the royalty instruments carrying value at reporting date. In the absence of any published production guidance, the Directors use a probability risk weighted method to the expected discounted future cash flows as described in (b) above.

(e) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 2.9, note 15, note 16, note 17 and note 18.

(f) Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 2.10, note 11 and note 22. The Group has deferred tax assets in relation to unrealised revaluation losses. The availability of these assets will depend of the recovery of value of similar assets in future periods or the realisation of gains on similar assets. The Directors consider there to be opportunities to acquire warrants as part of future royalty financing, which should result in profits which can utilise any losses currently unrealised.

(g) Treatment of unrealised losses on mining and exploration interests – note 18.

As noted in note 2.9, considerable judgement is used by the Directors in determining the meaning of 'significant' and 'prolonged' in the context of the impairment of mining and exploration interests in accordance with IAS 39. Although this has no impact on net asset value, as the mining and exploration interests are carried at fair value, it does impact the point at which the unrealised losses are extracted from the investment revaluation reserve and recognised in the income statement.

5 Segment information

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

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

The royalties segment encompasses all Group activities relating directly to the royalties received from mining operations. The mining and exploration interests segment encompasses all Group activities relating directly to the acquisition, disposal and continued monitoring of the Group's investments in listed and unlisted entities operating in mining and mineral exploration. The segment information provided to the Executive Committee for the reportable segments for the year ended December 31, 2013 is as follows:

	Australia		Americas		Europe			
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	All other segments £'000	Total £'000
Royalty income	9,941	–	749	–	4,041	–	–	14,731
Finance income	–	–	–	–	–	–	789	789
Loss on sale of mining and exploration interests	–	(337)	–	(1,424)	–	(4,637)	–	(6,398)
Other income	–	441	–	–	–	267	1,304	2,012
Total segment income	9,941	104	749	(1,424)	4,041	(4,370)	2,093	11,134
Profit before tax	(6,766)	(10,469)	(3,478)	(5,832)	3,094	(15,710)	(13,735)	(52,896)
Amortisation	–	–	(854)	–	–	–	–	(854)
Impairment of non-financial assets	(3,139)	(10,573)	(4,227)	(4,408)	(947)	(11,340)	–	(34,634)
Income tax expense	5,995	–	(133)	–	–	–	4,537	10,399
Total assets	147,577	10,227	22,827	5,025	28,692	3,498	41,610	259,456
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	–	–	–	–	–	–	–
Total liabilities	35,676	–	–	–	2,244	–	4,685	42,605

The segment information for the year ended December 31, 2012 is as follows:

	Australia		Americas		Europe			
	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	Royalty £'000	Mining interests £'000	All other segments £'000	Total £'000
Royalty income (restated)	11,038	–	2,229	–	1,890	–	–	15,157
Finance income	–	–	–	–	–	–	676	676
Gain on sale of mining and exploration interests	–	7,021	–	337	–	(11)	–	7,347
Other income	–	678	–	–	–	1,047	591	2,316
Total segment income	11,038	7,699	2,229	337	1,890	1,036	1,267	25,496
Profit before tax (restated)	20,549	3,237	2,229	(4,227)	1,890	(1,339)	(4,302)	18,037
Amortisation	–	–	(1,018)	–	–	–	–	(1,018)
Impairment of non-financial assets	–	(4,462)	–	(4,564)	–	(2,375)	–	(11,401)
Income tax expense	(4,564)	–	(310)	(28)	–	–	(1,555)	(6,457)
Total assets	191,410	24,550	30,100	10,804	35,993	9,076	57,347	359,280
Total assets include:								
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,720	–	–	–	–	–	–	3,720
Total liabilities	50,395	–	–	–	2,745	–	5,176	58,316

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

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

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

The royalty income in Australia of £9,941,000 (2012: £11,038,000) is derived from a single coal royalty.

6 Finance income

	2013 £'000	2012 £'000
Group		
Interest on bank deposits	94	387
Interest on royalty instruments	474	202
Interest on long-term receivables	221	87
	789	676

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for the year ended December 31, 2013

7a Expense by nature

	2013 £'000	2012 £'000
Group		
Employee benefit expense (note 8a)	2,044	1,783
Listing fees	153	178
Operating lease payments	167	164
Other expenses	1,040	1,508
	3,404	3,633

7b Auditor's remuneration

	2013 £'000	2012 £'000
Group		
Fees payable to Company's auditor for the audit of parent Company and consolidated financial statements	77	73
Fees payable to the Company's auditor and its associates for other services:		
The audit of Company's subsidiaries pursuant to legislation	9	6
Other services pursuant to legislation	17	18
	103	97

8a Employee benefits expense

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Wages and salaries	1,763	1,404	1,680	1,312
Share-based awards to directors and employees	72	183	72	183
Social security costs	174	155	172	153
Other pension costs	35	41	35	41
	2,044	1,783	1,959	1,689

8b Retirement benefits plans

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

The total cost charged to income of £35,000 (2012: £41,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2013, contributions of £5,000 (2012: £5,000) due in respect of the current reporting period had not been paid over to the schemes.

8c Average number of people employed

	2013	2012
Group		
Number of employees	13	11

	2013	2012
Group		
Average number of people (including executive directors) employed:		
Executive directors	4	4
Administration	9	7
	13	11

Company

The average number of administration staff employed by the Company during the year, including Executive Directors was 13 (2012: 11).

Directors' salaries are shown in the Directors' Remuneration Report on ➤*pages 51 to 55*, including the highest paid director.

9 Other income

	2013 £'000	Restated 2012 £'000
Group		
Dividends received from mining and exploration interests	441	678
Fixed income from mining and exploration interests	267	1,047
Effective interest income on royalty instruments	1,140	570
Other income	164	21
	2,012	2,316

Other income includes a credit for the non-cash effective interest associated with the Group's available for sale debt financial assets in accordance with IAS 39.

10 Other (losses)/gains – net

	2013 £'000	Restated 2012 £'000
Group		
Net foreign exchange (loss)/gain	(2,835)	(958)
(Loss)/Recovery on impairment of royalty instruments (note 16)	(46)	806
	(2,881)	(152)

11 Income tax expense

	2013 £'000	Restated 2012 £'000
Group		
Total corporation tax charge	(715)	(5,056)
Deferred tax credit/(charge) to income – current year (note 22)	11,114	(1,401)
Tax credit/(charge) on (loss)/profit on ordinary activities	10,399	(6,457)

	2013 £'000	Restated 2012 £'000
Group		
Factors affecting the tax charge for the year:		
(Loss)/Profit on activities before tax	(52,896)	18,037
Prima facie tax credit/(payable) at UK rate of 23.5% (2012: 24.5%) and Australian rate of 30% (2012: 30%)	10,943	(5,508)
Adjustment for tax exempt income	1,013	712
Utilisation of losses brought forward	49	(78)
Capital losses carried forward	(1,555)	–
Non-deductible expenses	(51)	(55)
Reassessment of 2010 income tax return	–	(1,060)
Foreign controlled profits	–	(468)
Total income tax expense	10,399	(6,457)

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

Notes to the consolidated financial statements

for the year ended December 31, 2013

12 (Loss)/Earnings per share

(Loss)/Earnings per ordinary share is calculated on the Group's loss after tax of £42,497,000 (2012: profit £11,580,000 (restated)) and the weighted average number of shares in issue during the year of 108,932,340 (2012: 108,540,723).

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

	2013 £'000	Restated 2012 £'000
Net profit attributable to shareholders		
Earnings – basic	(42,497)	11,580
Earnings – diluted	(42,497)	11,580

	2013	2012
Weighted average number of shares in issue		
Ordinary shares in issue	108,932,340	108,540,723
Employee share option scheme	–	4,160
	108,932,340	108,544,883

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

	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net profit attributable to shareholders			
Earnings – basic and diluted for the year ended December 31, 2013	(42,497)	(39.01p)	(39.01p)
Adjustment for:			
Impairment of mining and exploration interests	26,321		
Loss on sale of mining and exploration interests	6,398		
Revaluation of coal royalties	13,568		
Impairment of intangibles – royalties	8,313		
Amortisation of intangibles – royalties	854		
Revaluation of royalty instruments	8,689		
Effective interest income on royalty instruments	(1,140)		
Tax effect of the adjustments above	(11,370)		
Adjusted earnings – basic and diluted for the year ended December 31, 2013	9,136	8.39p	8.39p

	Earnings £'000	Earnings per share p	Diluted earnings per share p
Net profit attributable to shareholders			
Earnings – basic and diluted for the year ended December 31, 2012 (restated)	11,580	10.67p	10.67p
Adjustment for:			
Impairment of mining and exploration interests	11,401		
Profit on sale of mining and exploration interests	(7,347)		
Revaluation of coal royalties	(9,512)		
Impairment of intangibles – royalties	–		
Amortisation of intangibles – royalties	1,018		
Revaluation of royalty instruments	767		
Effective interest income on royalty instruments	(570)		
Tax effect of the adjustments above	2,096		
Adjusted earnings – basic and diluted for the year ended December 31, 2012 (restated)	9,433	8.69p	8.69p

13 Dividends

On February 5, 2013 an interim dividend of 4.45p per share was paid to shareholders in respect of the year ended December 31, 2012. On August 7, 2013 a final dividend of 5.75p per share was paid to shareholders to make a total dividend for the year of 10.2p per share. Total dividends, paid during the year were £11.07m (2012: £10.58m).

On February 4, 2014 an interim dividend of 4.45p per share was paid to shareholders in respect of the year ended December 31, 2013. This dividend has not been included as a liability in these financial statements. The Directors propose that a final dividend of 5.75p per share be paid to shareholders on August 7, 2014, to make a total dividend for the year of 10.2p 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 2013 is payable to all shareholders on the Register of Members on June 6, 2014. The total estimated dividend to be paid is £6.3m. At the present time the Board has resolved not to offer a scrip dividend alternative.

14 Property, plant and equipment

Group	**Producing assets £'000**	**Coal tenures £'000**	**Equipment and fixtures £'000**	**Total £'000**
Gross carrying amount				
At January 1, 2013	821	1,251	175	2,247
Additions	–	–	14	14
Disposals	–	–	(60)	(60)
Foreign currency translation	–	(108)	–	(108)
At December 31, 2013	821	1,143	129	2,093
Depreciation and impairment				
At January 1, 2013	(2)	–	(140)	(142)
Disposals	–	–	60	60
Depreciation	(2)	–	(20)	(22)
At December 31, 2013	(4)	–	(100)	(104)
Carrying amount December 31, 2013	**817**	**1,143**	**29**	**1,989**

Group	Producing assets £'000	Coal tenures £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount				
At January 1, 2012	821	1,277	175	2,273
Foreign currency translation	–	(26)	–	(26)
At December 31, 2012	821	1,251	175	2,247
Depreciation and impairment				
At January 1, 2012	(2)	–	(119)	(121)
Depreciation	–	–	(21)	(21)
At December 31, 2012	(2)	–	(140)	(142)
Carrying amount December 31, 2012	**819**	**1,251**	**35**	**2,105**

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

Notes to the consolidated financial statements

for the year ended December 31, 2013

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

Company	Producing assets £'000	Equipment and fixtures £'000	Total £'000
Gross carrying amount			
At January 1, 2012	821	175	996
At December 31, 2012	821	175	996
Depreciation and impairment			
At January 1, 2012	(2)	(119)	(121)
Depreciation	–	(21)	(21)
At December 31, 2012	(2)	(140)	(142)
Carrying amount December 31, 2012	**819**	**35**	**854**

The Group's property plant and equipment are carried at cost less depreciation with the exception of leases relating to the talc deposit on Shetland, Scotland held by the parent Company. The producing asset on Shetland is included at a directors' valuation of £0.8m (2012: £0.8m) plus additions which are carried at cost. An external valuation was carried out on March 26, 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

15 Coal royalties (investment property)

	Group £'000
At January 1, 2011 (restated)	169,304
Foreign currency translation (restated)	711
Revaluation of coal royalties (restated)	(4,048)
At December 31, 2011 (restated)	165,967
Foreign currency translation (restated)	(4,484)
Revaluation of coal royalties (restated)	9,512
At December 31, 2012 (restated)	170,995
Foreign currency translation	(25,993)
Revaluation of coal royalties	(13,568)
At December 31, 2013	131,434

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.

As discussed in note 2.6, the Group had previously accounted for this as land in accordance with IAS 16 and elected to revalue the land at each reporting date. The Group now accounts for this land as freehold investment property in accordance with IAS 40. Although the balance sheet value remains unchanged, applying IAS 40 results in the valuation movement previously recognised in the revaluation reserve now being recognised in the income statement.

The coal royalty was valued during December 2013 at £131.4m (A$244.4m) (2012: £171.0m and A$266.6m) by Resource Management International Pty Ltd, independent coal industry advisors, on a net present value of the pre-tax cash flow discounted at a rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation adjustment represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes.

The Group reviews the independent valuation carefully and reconciles it against its own estimates of future cash flow. As there is some uncertainty with regard to production forecasts in the valuation model, the Group carefully monitors the estimated future cashflow reported by its independent consultant against actual cash flows received. Where the results differ, the Audit Committee seeks detailed explanations from the consultant. The other key variable is coking coal price, and the prices used by the independent consultant are compared against those of other forward consensus models. The Audit Committee is satisfied that the price used is relatively conservative. Finally, the future cash flows are discounted at a rate of 7%. Bearing in mind that this is a high quality coking coal mine with an impressive track record by a world class operator, who have recently invested heavily in the mine's expansion, the Audit Committee considers this to be an appropriate discount rate which should ensure the asset is represented fairly on the balance sheet.

Were the coal royalty to be realised at the revalued amount there are £2.0m (A$3.1m) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 22). Were the coal royalty to be carried at cost the carrying value would be £0.2m (2012: £0.2m). The Directors do not presently have any intention to dispose of the coal royalty.

Notes to the consolidated financial statements

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16 Royalty instruments

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

Project	Commodity	Cost '000	Royalty Rate[2]	Escalation	Option Price	Discount Rate	Royalty Valuation £'000	Option Valuation £›000
Engenho[1]	Gold	A$4,000	2.5%	–	A$0.35	–	–	–
EVBC	Gold	C$7,500	2.5%	3% >US$1,100/oz	C$0.958	9%	10,439	–
Isua	Iron ore	A$28,000	1%	–	–	10%	15,008	–
Jogjakarta	Iron sands	A$5,000	2%	–	A$0.10-A$0.50	10%	2,400	–
							27,847	–

[1] Engenho royalty instrument was fully provided for as at December 31, 2011.

[2] See page 21 and 28 for further details on the royalty rate.

(a) Available for sale

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. When the financial asset is considered to be an equity instrument, changes in valuation are reflected in the investment revaluation reserve and any income is treated as a return on investment and recognised in the income statement. For financial assets which are considered debt instruments, any initial valuation movement caused as a result of the difference between an effective interest rate and actual interest is reflected in other comprehensive income, when material. Any subsequent valuation adjustment caused by changes in estimated cash flow is reflected in the income statement when considered material. Any effective interest credit is recognised in the income statement. Should the valuation fall beneath cost an impairment charge will be recognised in the income statement. See note 2.9 for further details.

	Group £'000	Company £'000
Fair value		
At January 1, 2011	28,061	28,061
Additions	18,391	–
Impairment of royalty instruments	(1,563)	(1,563)
Gain on revaluation of royalty instruments recognised in the income statement	2,843	2,843
Loss on revaluation of royalty instruments recognised in equity	(4,605)	(4,605)
At December 31, 2011	43,127	24,736
Foreign currency translation	(478)	–
Loss on revaluation of royalty instruments recognised in the income statement	(767)	(767)
Gain on revaluation of royalty instruments recognised in equity	63	63
At December 31, 2012	41,945	24,032
Foreign currency translation	(2,905)	–
Impairment of royalty instruments	(46)	(46)
Loss on revaluation of royalty instruments recognised in the income statement	(8,689)	(8,689)
Loss on revaluation of royalty instruments recognised in equity	(2,458)	(2,458)
At December 31, 2013	27,847	12,839

(b) Fair value through profit and loss

The Group's option to convert the outstanding balance of the debentures into common shares of the grantors is an embedded derivative requiring a separate valuation to the NSR royalty. As at December 31, 2012 and December 31, 2013 the Directors considered the likelihood of the options being exercised to be remote and therefore, assessed the fair value of the options to be nil. The options are classified as fair value through profit and loss, with gains and losses arising from changes in fair value directly recognised in the income statement as detailed below:

	Group £'000	Company £'000
Fair Value		
At December 31, 2011, December 31, 2012 and December 31, 2013	–	–

	2013		2012		2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Total royalty instruments	27,847	12,839	41,945	24,032	43,127	24,736

17 Intangibles

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

Group	Exploration and evaluation costs £'000	Royalty interests £'000	Total £'000
Gross carrying amount			
At January 1, 2012 (restated)	804	52,135	52,939
Additions	127	3,720	3,847
Acquisition costs returned	–	(82)	(82)
At December 31, 2012 (restated)	931	55,773	56,704
Amortisation and impairment			
At January 1, 2012	–	(2,191)	(2,191)
Amortisation charge	–	(1,018)	(1,018)
At December 31, 2012	–	(3,209)	(3,209)
Carrying amount December 31, 2012 (restated)	931	52,564	53,495

Notes to the consolidated financial statements

for the year ended December 31, 2013

Group	Exploration and Evaluation Costs £'000	Royalty Interests £'000	Total £'000
Gross carrying amount			
At January 1, 2011 (restated)	696	42,130	42,826
Additions	108	10,715	10,823
Acquisition costs returned	–	(710)	(710)
At December 31, 2011 (restated)	804	52,135	52,939
Amortisation and impairment			
At January 1, 2011	–	(85)	(85)
Impairment charge	–	(1,088)	(1,088)
Amortisation charge	–	(1,018)	(1,018)
At December 31, 2011	–	(2,191)	(2,191)
Carrying amount December 31, 2011 (restated)	804	49,944	50,748

Company	**2013 £'000**	2012 £'000
Royalty interests		
At January 1	3,997	3,997
Impairment charge	(947)	–
At December 31	3,050	3,997

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

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

The NSR on the exploration licences in the Athabasca Basin region of Canada remain impaired as a result of the inherent uncertainty of these licences entering commercial production and have a carrying value of nil (2012: nil). The Group will continue to review the development of these licences on an annual basis. See note 2.7(b) and 4.2(b) for further information.

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

As described in note 2.7 and 2.8, an annual impairment review is carried out to determine whether the future expected cashflows exceed cost. This has resulted in the Directors determining that three of the Group's intangible royalties were impaired at December 31, 2013 as outlined below. See note 2.8 for the impairment methodology applied.

Ring of Fire

The operator, Cliffs Natural Resources Inc, announced the placing of its chromite asset on indefinite care and maintenance. Although the Group believes that this is too important a project to all stakeholders, in the absence of any other publically available information, it has deferred the estimated production profile and applied a risk weighted probability measure accordingly. The combination of both has resulted in the estimated future royalty income being less than the acquisition cost of the royalty. Should the impasse resolve and production commence, this impairment would be reversed in the income statement. This has resulted in an impairment charge of £4.0m in the year.

Bulqiza

The Directors have taken a view that this project is no longer the principal focus of the owner of the licences. In the absence of a sale during the year, the Directors have changed the probability of future production such that the estimated future cashflows is less than the acquisition cost. This was a relatively small investment made by the Group in 2010. This has resulted in an impairment charge of £0.9m in the year.

Mount Ida

The Group acquired the Mount Ida royalty in 2012. Due to the significant infrastructure required to bring the project into production, including the construction of port and rail facilities, the owner has placed this project on care and maintenance. Although this is a large, relatively high grade deposit which, with a recovery in iron ore prices could become economic, in the meantime the Directors are of the view that it is unlikely that production will happen in a time frame such that the future cash flows will exceed cost. This has resulted in an impairment charge of £3.3m in the year.

The remaining royalties were assessed for impairment on the same basis. No further impairment charges were made.

18 Mining and exploration interests

(a) Available for sale

	Group £'000	Company £'000
Fair value		
At January 1, 2011	128,231	107,865
Additions	28,101	27,488
Disposals	(41,458)	(30,406)
Impairment taken directly to the income statement	(25,120)	(24,753)
Revaluation adjustment	(25,214)	(24,073)
Foreign currency translation	(237)	–
At January 1, 2012	64,303	56,121
Additions	23,781	11,182
Disposals	(16,659)	(16,195)
Impairment taken directly to the income statement	(10,346)	(9,869)
Revaluation adjustment	(5,159)	(4,486)
Foreign currency translation	(375)	–
At December 31, 2012	55,545	36,753
Additions	3,118	4,575
Disposals	(8,452)	(7,859)
Impairment taken directly to the income statement	(24,734)	(15,761)
Revaluation adjustment	(4,694)	(3,733)
Foreign currency translation	(711)	–
At December 31, 2013	20,072	13,975

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

The Group's impairment policy is outlined in note 2.9. In line with this policy, the absolute decline in value in the Group's mining and exploration interests is now considered significant in the context of IAS 39. As such, all unrealised losses recognised in the revaluation reserve are transferred to retained earnings via the income statement in the period. Any recovery of value will not reverse this impairment charge, instead will be reflected in the revaluation reserve.

Notes to the consolidated financial statements

for the year ended December 31, 2013

(b) Fair value through profit and loss

	Group £'000	Company £'000
At January 1, 2011	248	248
Additions	–	–
Disposals	–	–
At December 31, 2011	248	248
Additions	–	–
Disposals	–	–
At December 31, 2012	248	248
Conversion to intangible – royalty	(248)	(248)
At December 31, 2013	–	–

A non-repayable convertible instrument was acquired by the Group in 2007. The convertible instrument was designated as fair value through profit or loss. This convertible instrument was created to provide finance to a listed mining development company and is convertible into equity in the Company or royalties over the Company's properties at the Group's option for a period of up to five years. The instrument was initially recognised using cost as fair value could not be reliably determined. Prior to the instrument's expiration in November 2012, the Group notified the underlying company of its intention to convert the instrument to royalties. The conversion was completed in the first quarter of 2013.

	2013		2012		2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Total mining and exploration interests	20,072	13,975	55,793	37,001	64,551	56,369

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

	2013		2012		2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	16,018	13,646	51,547	35,102	62,389	54,656
Unquoted investments	3,896	171	3,518	1,171	1,434	985
Royalty Options	158	158	728	728	728	728
	20,072	13,975	55,793	37,001	64,551	56,369
Number of investments	29	26	37	31	42	33

19 Investments in subsidiaries

	£'000
Company	
Cost:	
At January 1, 2012 and December 31, 2012	33,890
Capital injection into existing subsidiaries	15,772
At December 31, 2013	49,662
Impairment of investment in subsidiary	
At January 1, 2012 and December 31, 2012	(345)
Impairment of investment in subsidiary	(3,842)
At December 31, 2013	(4,187)
Net book value:	
At January 1, 2012 and December 31, 2012	33,545
At December 31, 2013	45,475

The Group's full listing of subsidiaries is provided in note 31.

20 Trade and other receivables

	2013		Restated 2012		Restated 2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Current						
Income tax receivable	2,292	–	–	–	–	–
Prepayments and accrued income	100	87	136	123	158	146
Royalty receivables	2,824	195	1,219	–	10,111	–
Other receivables	116	97	603	169	2,737	2,485
Provision for non-recovery of interest receivable	–	–	–	–	(709)	(709)
	5,332	379	1,958	292	12,297	1,922

Trade and other receivables principally comprise amounts relating to royalties receivable for the final quarter in each year. The Directors consider that the carrying amount of trade and other receivables is approximately their fair value.

	2013		Restated 2012		Restated 2011	
	Group £'000	**Company £'000**	Group £'000	Company £'000	Group £'000	Company £'000
Non-current						
Other receivables	8,775	–	3,141	–	–	–
Amounts due from subsidiaries	–	31,100	–	51,884	–	42,316
	8,775	31,100	3,141	51,884	–	42,316

On August 13, 2012, the Group provided Laramide Resources Ltd with an interest bearing facility of C$5m, which is repayable in December 2015. In return Laramide Resources Ltd granted Anglo Pacific an option to acquire a 5% gross revenue royalty for an exercise price of US$15m. The facility bears interest at a rate of 7% per annum payable quarterly in arrears.

On December 18, 2012 the Group entered into a royalty financing agreement with Hummingbird Resources PLC, under which the Group was to provide a non-interesting bearing advance of US$15m in three tranches of US$5m subject to the satisfaction of various conditions precedents. During the year, the Group advanced two of the three tranches.

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, 2013

21 Cash and cash equivalents

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

	2013		Restated 2012		Restated 2011	
	Group £'000	Company £'000	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	15,501	3,902	23,083	1,903	31,116	9,317
Trading deposits with brokers	205	204	953	951	1,081	1,077
Cash and cash equivalents	15,706	4,106	24,036	2,854	32,197	10,394

22 Deferred tax

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

	2013		2012		2011	
	Group £'000	Company £'000	Group £'000	Company £'000	Group £'000	Company £'000
At January 1	48,532	(1,800)	54,240	4,401	59,824	9,479
Released to income for the year	(10,744)	(2,216)	591	(1,416)	(2,411)	(1,416)
(Credit)/Charge to equity for the year	234	(1,756)	(5,003)	(4,785)	(3,397)	(3,662)
Foreign currency translation	(7,657)	–	(1,296)	–	224	–
At December 31	30,365	(5,772)	48,532	(1,800)	54,240	4,401

The following are the major deferred tax liabilities/(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	Total £'000
At January 1, 2011	50,277	(945)	4,895	4,849	–	748	59,824
Released to income for the year (note 11)	(1,218)	–	–	(1,514)	–	321	(2,411)
(Credit)/Charge to equity for the year	–	225	2	(3,624)	–	–	(3,397)
Foreign currency translation	213	(4)	–	(13)	–	28	224
At December 31, 2011	49,272	(724)	4,897	(302)	–	1,097	54,240
Released to income for the year (note 11)	2,854	–	–	(1,402)	–	(861)	591
(Credit)/Charge to equity for the year	–	101	(939)	(4,165)	–	–	(5,003)
Foreign currency translation	(1,345)	19	–	57	–	(27)	(1,296)
At December 31, 2012	50,781	(604)	3,958	(5,812)	–	209	48,532
Released to income for the year (note 11)	(4,071)	–	(2,220)	(2,845)	(2,249)	641	(10,744)
Charge/(Credit) to equity for the year	–	(8)	371	(129)	–	–	234
Foreign currency translation	(7,798)	99	–	158	–	(116)	(7,657)
At December 31, 2013	38,912	(513)	2,109	(8,628)	(2,249)	734	30,365

This provision represents the Group's full potential liability to deferred taxation. This may be reduced by tax losses available to the Group. Australian capital losses are disclosed in note 15. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

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

Company	Available-for sale investments: Revaluation of royalty instruments £'000	Available-for sale investments: Revaluation of mining interests £'000	Total £'000
At January 1, 2012	4,897	(496)	4,401
Released to income for the year	–	(1,416)	(1,416)
Charge to equity for the year	(939)	(3,846)	(4,785)
At December 31, 2012	3,958	(5,758)	(1,800)
Released to income for the year	–	(2,216)	(2,216)
Charge to equity for the year	(1,714)	(42)	(1,756)
At December 31, 2013	2,244	(8,016)	(5,772)

23 Trade and other payables

	2013		2012	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Other taxation and social security payable	147	99	121	117
Trade payables	43	40	106	103
Other payables	425	424	1,724	291
Accruals and deferred income	146	133	220	210
	762	696	2,171	721

The average credit period taken for trade purchases is 26 days (2012: 22 days). The Directors consider that the carrying amount of trade and other payables is approximately their fair value. All amounts are considered short-term and none are past due.

24 Share capital and share premium

Group and Company	Number of Ordinary 2p shares	Share capital £'000	Share premium £'000	Total £'000
At January 1, 2012	109,189,215	2,184	25,539	27,723
Issue of share capital under share-based payment	416,161	8	1,314	1,322
At December 31, 2012	109,605,376	2,192	26,853	29,045
Issue of share capital under private placing	1,282,049	26	2,475	2,501
At December 31, 2013	110,887,425	2,218	29,328	31,546

25 Share based-payments

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

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

(a) Company Share Ownership Plan

Under the CSOP, share options are granted to Directors and to selected employees. The exercise price of the granted options is equal to the average mid market closing price of an ordinary share for the three days before the grant. The options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from the grant date, subject to the Group achieving its target growth in absolute 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.

Notes to the consolidated financial statements

for the year ended December 31, 2013

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

		2013		2012
	Options	**price (£)**	Options	price (£)
Outstanding at January 1	76,928	2.7406	67,463	2.6681
Granted during the year	–	–	19,622	2.9446
Exercised during the year	–	–	–	–
Surrendered during the year	–	–	–	–
Forfeited during the year	(24,048)	2.4950	(10,157)	2.9535
Outstanding at December 31	52,880	2.7406	76,928	2.7406

Out of the 52,880 outstanding options (2012: 76,928), nil options (2012: nil) were exercisable.

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

		Shares	
Expiry date	Exercise price in £ per share	**2013**	2012
2019	2.4950	24,048	48,096
2021	3.2570	9,210	9,210
2022	3.3043	9,079	9,079
2022	2.8454	10,543	10,543
		52,880	76,928

There were no grants made during 2013. The weighted average fair value of options granted during 2012 determined using the Black-Scholes valuation model was £1.649 per option granted in March 2012 and £1.318 per option granted in September 2012. The significant inputs into the model were weighted average share price of £3.286 and £2.668 at the grant date in March and September 2012 respectively, exercise price shown above, volatility of 40%, expected option life of three years and an annual risk-free interest rate of 1.1% and 0.8% for the options granted in March and September 2012 respectively. See note 8(a) for the total expense recognised in the income statement for share options granted to Directors and employees.

In accordance with the rules of the CSOP, Mr. Theobald and Mr. Orchard forfeited all their outstanding options at the time of their resignation on October 21, 2013.

(b) Joint Share Ownership Plan

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

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

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

JSOP awards made during the year were as follows:

	Grant price in £ per share	Hurdle price in £ per share	Shares 2013	Shares 2012	Expiry Date
Outstanding at January 1	2.480	3.150	866,610	678,746	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	–	205,420	2016
Awarded in September 2012	2.668	3.692	–	71,227	2016
Surrendered during the year			(338,700)	–	
Forfeited during the year			(250,553)	(88,783)	
Outstanding at December 31			277,357	866,610	

No shares were awarded under the JSOP during 2013. The weighted average fair value of shares awarded during 2012 determined using the Monte Carlo valuation model was £0.75 per share granted in March 2012 and £0.57 per share granted in September 2012. The significant inputs into the model were weighted average share price of £3.32 and £2.67 at the grant date in March and September 2012 respectively, share price hurdle shown above, volatility of 40%, expected option life of four years and an annual risk-free interest rate of 1.1% and 0.8% for the shares granted in March and September 2012.

In accordance with the terms of the JSOP, Mr. Theobald and Mr. Orchard surrendered their awards upon their resignation on October 21, 2013. See note 8a for the total expense recognised in the income statement for share options granted to Directors and employees.

26 Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended June 30, 2002. At December 31, 2013, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At January 1, 2013 and December 31, 2013	632	632

27 Retained earnings

	Group £'000	Company £'000
Balance at January 1, 2011 (restated)	223,111	120,608
Surrender of options from share-based payment	19	19
Dividends paid	(8,978)	(8,978)
Profit for the financial year (restated)	10,932	15,516
Balance at December 31, 2011 (restated)	225,084	127,165
Surrender of options from share-based payment	5	5
Dividends paid	(10,579)	(10,579)
Profit for the financial year (restated)	11,580	(1,711)
Balance at December 31, 2012 (restated)	226,090	114,880
Surrender of options from share-based payment	268	268
Dividends paid	(11,065)	(11,065)
Profit for the financial year	(42,497)	(25,506)
Balance at December 31, 2013	172,796	78,577

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28 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:

	2013 £'000	2012 £'000
Group		
Within one year	168	168
In the second to fifth years inclusive	100	218
After five years	75	171
	343	557

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

Capital commitments

At the year end the Group had capital commitments of £nil (2012: £nil) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2012: £nil).

Subsidiary undertakings have commitments as detailed below:

Shetland Talc Limited

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

29 Related party transactions

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

	Subsidiaries	
	2013 £'000	Restated 2012 £'000
Net financing of related entities	31,294	(6,224)
Management fee	2,166	2,176
Amounts owed by related parties at year end	31,100	51,884

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 on ➤*pages 51 to 55*.

	2013 £'000	2012 £'000
Short-term employee benefits	1,098	841
Post-employment benefits	17	22
Share-based payment	–	120
	1,115	983

Directors' transactions

During the year the Directors received dividends as ordinary shareholders of the Company totalling:

	2013 **£**	2012 £
P.M. Boycott[1]	119,792	263,102
A.C. Orchard[2]	11,226	10,731
M.R. Potter[3]	–	–
J. Theobald[4]	4,117	3,935
J.A. Treger[5]	–	–
B.M. Wides	298,468	285,300
M.H. Atkinson	757	724
W.M. Blyth[6]	403	–
P.N.R. Cooke[7]	912,890	–
R.H. Stan[8]	–	–
J.G. Whellock	1,335	1,276
A.H. Yadgaroff	17,897	16,788
	1,366,885	581,856

[1] Mr. P.M. Boycott ceased to be a Director on January 7, 2014.

[2] Mr. A.C. Orchard resigned as a Director on October 21, 2013.

[3] Mr. M.R. Potter was appointed as a Director on October 21, 2013.

[4] Mr. J. Theobald resigned as a Director on October 21, 2013.

[5] Mr. J.A. Treger was appointed as a Director on October 21, 2013.

[6] Mr. W.M. Blyth was appointed as a Director on March 20, 2013.

[7] Mr. P.N.R. Cooke was appointed as a Director on December 10, 2012 after the payment of the interim and final dividend in 2012.

[8] Mr. R.H. Stan was appointed as a Director on February 19, 2014.

30 Events occurring after year end

On March 13, 2014, the Group made its final advance of US$5m in relation to the royalty financing agreement, entered into with Hummingbird Resources PLC in December 2012.

Notes to the consolidated financial statements

for the year ended December 31, 2013

31 Principal subsidiaries

	Country of registration and operation	Principal activity	Proportion of shares held at December 31, 2012
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100%^
Alkormy Pty Ltd	Australia	Investments	100%^
Argo Royalties Pty Ltd	Australia	Investments	100%^
Starmont Ventures Pty Ltd	Australia	Investments	100%^
Gordon Resources Pty Ltd	Australia	Owner of coal royalty	100%^
APG Aus No 1 Pty Ltd	Australia	Investments	100%
APG Aus No 2 Pty Ltd	Australia	Investments	100%
APG Aus No 3 Pty Ltd	Australia	Investments	100%
APG Aus No 4 Pty Ltd	Australia	Investments	100%
APG Aus No 5 Pty Ltd	Australia	Investments	100%
APG Aus No 6 Pty Ltd	Australia	Investments	100%
Anglo Pacific Finance Ltd	Ireland	Treasury	100%
Anglo Pacific Group Employee Benefit Trust	Guernsey	Administering Group incentive plans	100%
Centaurus Royalties Ltd	England	Owner of iron ore royalties	100%
Southern Cross Royalties Ltd	England	Owner of iron ore and uranium royalties	100%
Shetland Talc Ltd	Scotland	Mineral exploration	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%^
Panorama Coal Corporation	Canada	Owner of coal tenures	100%
Trefi Coal Corporation	Canada	Owner of coal tenures	100%
Polaris Royalty Corporation	Canada	Intermediate holding company	100%^
Albany River Royalty Corporation	Canada	Owner of chromite royalty	100%^

^Denotes held by a subsidiary company

Shareholder statistics

(a) Size of Holding (at March 24, 2014)

Category UK and Canada	Number of Shareholders	%	Number of Shares	%
1 – 1,000	716	30.93	390,211	0.35
1,001 – 5,000	977	42.20	2,445,253	2.20
5,001 – 10,000	231	9.98	1,726,762	1.56
10,001 – and over	391	16.89	106,325,199	95.89
	2,315	100.00	110,887,425	100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at March 24, 2014 was 57.44%.

Directors and advisers

Directors

Executive

B.M. Wides
Acting Chairman

J.A. Treger
Chief Executive Officer

M.R. Potter
Chief Investment Officer

Non-Executive

M.H. Atkinson
Senior Independent Director

W.M. Blyth

P.N.R. Cooke

R.H. Stan

J.G. Whellock

A.H. Yadgaroff

Secretary

P.T.J. Mason

Head office

17 Hill Street
London W1J 5LJ

Registered office

17 Hill Street
London W1J 5LJ

Registered in England
No. 897608

Auditors

Grant Thornton UK LLP

Grant Thornton House
Melton Street
London NW1 2EP

Bankers

Barclays Bank PLC

Business Banking Larger Business
27th Floor
Churchill Place
London E14 5HP

Registrars

Equiniti Registrars Limited

Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Transfer Agent

Equity Transfer & Trust Company

Suite 400
200 University Avenue
Toronto
Ontario M5H 4H1

Stockbrokers

Liberum Capital Limited

Ropemaker Place
12th Floor
25 Ropemaker Street
London EC2Y 9LY

BMO Capital Markets Limited

1st Floor
95 Queen Victoria Street
London EC4V 4HG

Listings

London Stock Exchange
Full Listing
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Symbol APY

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www.boonedesign.com

ANGLO PACIFIC GROUP PLC

17 Hill Street
Mayfair
London W1J 5LJ
United Kingdom

T +44 (0)20 3435 7400
F +44 (0)20 7629 0370

e info@anglopacificgroup.com
w www.anglopacificgroup.com