



# Annual Report & Accounts 2010

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Investing in royalties

### Executive Directors

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

### Non-Executive Directors

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

### Secretary

M.J. Tack

### Head office

17 Hill Street, London W1J 5NZ

### Registered office

17 Hill Street, London W1J 5NZ  
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

### Stockbrokers

Liberum Capital Limited  
Ropemaker Place  
12th Floor  
25 Ropemaker Street  
London EC2Y 9LY

### Listings

London Stock Exchange  
Full Listing  
Symbol APF

Toronto Stock Exchange  
Secondary Listing  
Symbol APY

### Website

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

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

The descriptions of the royalties in this Annual Report have been simplified for presentation purposes. This Annual Report contains forward-looking information, which is subject to change and risk and should not be relied upon. This Annual Report should be considered along with the additional supporting detail, assumptions and risks regarding the use of forward-looking information outlined on page [16] of this Annual Report and in the Anglo Pacific Group PLC (the "Group") Annual Information Form, which is available on [www.sedar.com](http://www.sedar.com) and on the website at [www.anglo-pacific-group.com](http://www.anglo-pacific-group.com). As a royalty holder, the Group often has limited, if any, access to technical information or is subject to confidentiality provisions. For this Annual Report and the Annual Information Form, the Group has generally relied on the public disclosure of the owners and operators of the royalty properties. More current information may be available in subsequent disclosure and on the Group website. The Group's royalties often cover less than 100% and sometimes only a portion of the publicly reported reserves, resources and production of the property. This Annual Report also contains references to past prices of and/or yields on the Group's shares. Readers are reminded that past performance cannot be relied on as a guide to future performance.

## What's inside?

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## A quick read

# Who we are

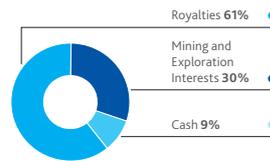
We are a royalty company specialising in royalties derived from the mining of natural resources. Within this sector we have a diverse portfolio that spans different commodities including coal and a variety of metals.

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

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

Combined Group Assets

## £415m



“During the year the Group has substantially expanded its royalty portfolio and further increased its total assets to record levels.”

**Peter Boycott**  
Chairman

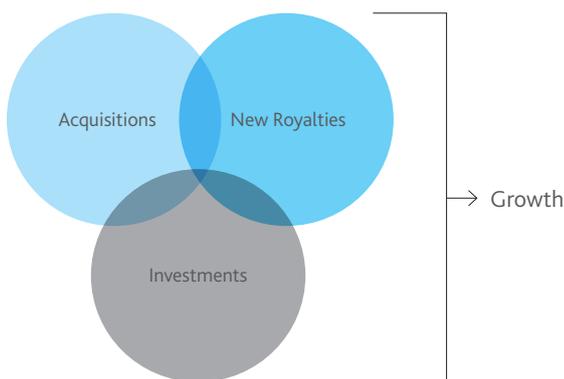
How we performed **page 4**

Chairman’s review **page 6**

### Our strategy for growth

We are developing our portfolio through three primary routes:

- 1 Acquiring existing royalty agreements
- 2 Creating new royalties by financing development
- 3 Developing royalty opportunities through equity investments



Read more in Operational review **page 10**

### Royalties explained

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

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

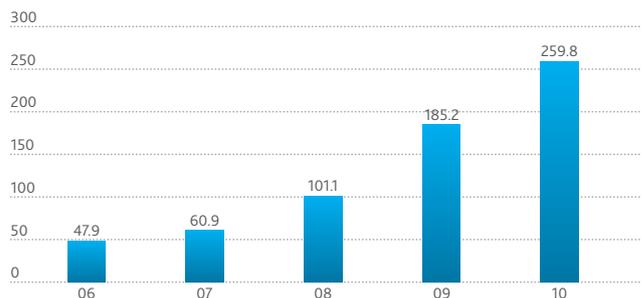
#### Creating new royalties

Our new royalty agreements tend to come from providing financing to mining operations, usually to help them progress a mine into production. We also make equity investments, which provide opportunities to create new royalty agreements.

#### Acquiring existing royalties

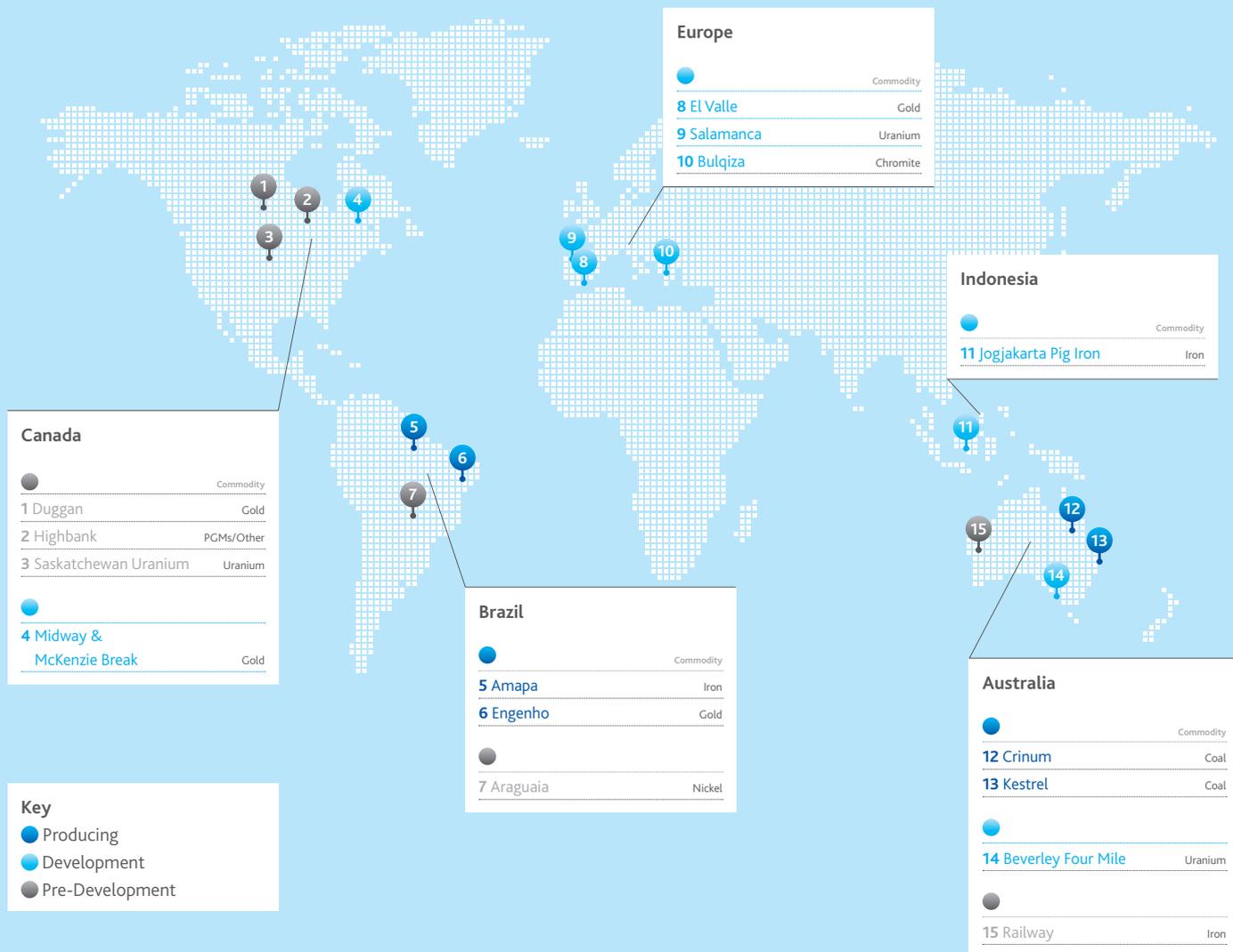
In this case we buy existing royalty agreements, such as those owned by exploration companies who may have retained an interest in a mine they helped discover. Once acquired, royalty companies rarely sell their agreements.

### Value of Royalties (£m)

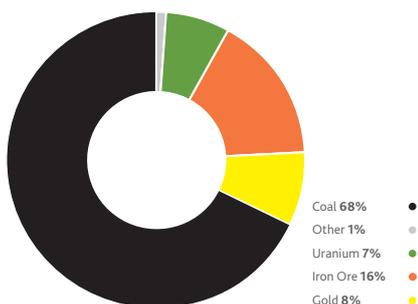


# A quick read

## Where do we operate?



## What commodities are we in?



## Our key achievements in 2010

- ✓ 2 substantial iron ore royalties
- ✓ Toronto Stock Exchange (TSX) listing of the Group's ordinary shares
- ✓ Record Group asset value

For more details go to Operational review page 10

### KEY ROYALTY

## Kestrel Mine, Australia

Kestrel Mine, located 40 km north east of Emerald in central Queensland, is an underground operation supplying world markets with up to 4.2 million tonnes of coking and thermal coal per annum.

The mine is currently constructing the US\$1.1 billion Kestrel Mine extension, a project to access the mine's existing resources more efficiently. The extension is due for completion in 2012.

## A quick read

### How we performed

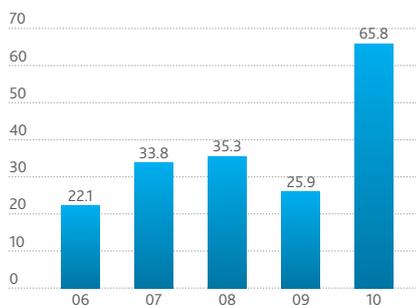
During 2010, the efforts made by our team have resulted in record results and the addition of significant new royalties.

Profit before tax (£m)

**£65.8m**

+154%

4 year growth 198%

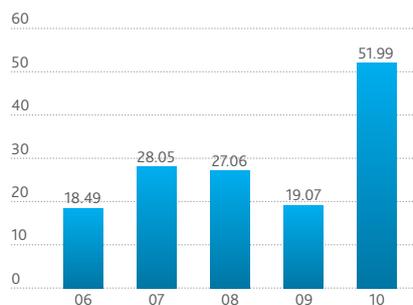


Earnings per share (p)

**51.99p**

+173%

4 year growth 181%

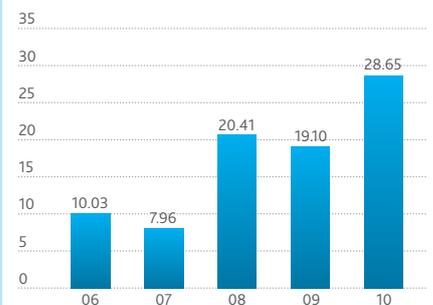


Royalty cash flow per share (p)

**28.65p**

+50%

4 year growth 186%



Share price performance (p)

2006 – 2010

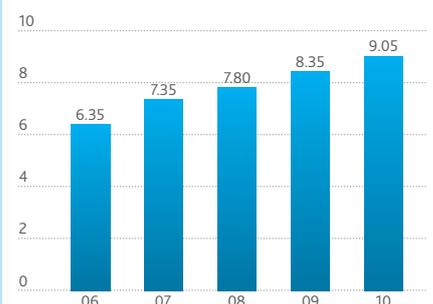


Total dividend per share (p)

**9.05p**

+8.4%

4 year growth 42.5%



## A quick read

### Key performance indicators

We have identified four key performance indicators:

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

Objective	Progress	
	2010	2009
<p>▶ Value of new royalties</p> <p>To expand, strengthen and diversify the royalty portfolio with royalties from long-life, low cost projects.</p>	£35.6m	 189% £18.8m
<p>▶ Net asset value</p> <p>To consistently grow the Group's net asset value.</p>	£345.9m	 133% £260.0m
<p>▶ Earnings per share</p> <p>To maximise returns to shareholders.</p>	51.99p	 173% 19.07p
<p>▶ Dividends per share</p> <p>To maintain a progressive dividend policy.</p>	9.05p	 18.4% 8.35p

## Chairman's review

### Operational highlights

Diversification of the Group's royalties portfolio continues

Acquisition of two substantial iron ore royalties

Market demand for mining finance continues to be strong

Initial NI 43-101 and JORC compliant resource announced for the Panorama Coal Project in British Columbia, Canada.

Increase in value of quoted and unquoted strategic interests

Group's ordinary shares listed on the Toronto Stock Exchange (TSX) from July 9, 2010 under symbol APY

“During the year the Group has substantially expanded its royalty portfolio and further increased its total assets to record levels.”

In the year under review, I am pleased to report that the Group has substantially expanded its royalty portfolio and further increased its total assets to record levels. After realising substantial profits from the sale of non-core mining interests and receiving record royalty cash flows, the Board will again be recommending an increased final dividend.

### A year in review

During the year, continuing demand for raw materials from the emerging Asian economies has led to substantially higher commodity prices. The increase in economic activity has resulted in greater demand for key commodities, which produced firmer metallurgical coal, iron ore and uranium prices. This has been beneficial for the Group's royalty and mining interests in these sectors. Furthermore, due to the ongoing efforts to counter sluggish growth rates and an uncertain outlook for Western economies, concerns over inflation and currency stability have persisted during the year. This led to stronger gold and precious metal markets where the Group has substantial exposure.

These price rises have been further accentuated by a number of natural disasters and production setbacks which have themselves produced buoyant conditions throughout the mining sector. Strong junior quoted mining markets have enabled the Group to dispose of a number of mature equity interests where opportunities for the acquisition of royalties were no longer possible. Together with strong coking coal royalty receipts this has produced record earnings for the Group.

The Group's strategy remains focused on securing new royalties by acquisition and through investment in its mining interests in order to generate strong cash flows and continue to pay dividends to its shareholders. Anglo Pacific Group remains committed to a progressive dividend policy.

### Royalties

During 2010 the Group acquired a number of new royalties including two major iron ore royalties and a smaller chrome royalty. In addition, the Group obtained an option to acquire a substantial nickel royalty. Together with the Group's active management of its mining interests this has produced a further substantial rise in the value of the Group's total assets. The Group now owns a total of fifteen royalty interests of which three are currently in production.

The new royalties announced during the year were:

- **Iron Ore (Australia):** On June 30, 2010 the Group completed the purchase of the DFD Rhodes Group 1.5% gross revenue royalty (“GRR”) covering three exploration licences in the central Pilbara region of Western Australia, for a sum of A\$23 million in cash. The Group is pleased to have acquired such a high quality royalty and anticipates that these iron ore deposits will be mined by BHP Billiton Limited in years to come as part of its planned expansion of iron ore output in the Pilbara region.
- **Iron Ore (Brazil):** On December 3, 2010 the Group completed the purchase from Beadell Resources Limited of the 1% iron ore GRR covering the Anglo American PLC operated Amapá Iron Ore System as well as Beadell Resources Limited's mining concessions and exploration tenements in the Amapá region of northern Brazil for a sum of A\$31.25million in cash. The Amapá project is currently in production.
- **Chromite (Albania):** On December 20, 2010 the Group announced that it had completed the acquisition for C\$3.1 million from Empire Mining Corporation of a 3% GRR on the Bulqiza

## Chairman's review

chromite project in Albania. These funds will enable Empire Mining Corporation to advance project exploration and development with the aim of moving towards production.

- **Nickel (Brazil):** In May 2010 the Group agreed, subject to contract and due diligence, to pay to Horizonte Minerals PLC the sum of US\$0.5 million in exchange for an option to acquire for US\$12.5 million a 1.5% net smelter return royalty on all revenue from the Araguaia nickel project in Brazil. Horizonte Minerals PLC acquired this nickel laterite project from Teck Resources Limited of Canada in exchange for a 50% equity stake in Horizonte Minerals PLC. The Group completed the purchase of this option on January 12, 2011.

These acquisitions have broadened and diversified the Group's portfolio of royalties, and when combined with the record earnings and balance sheet valuations represent an outstanding outcome for the year. Once again the Group's management of its balance sheet and its conservative approach to the evaluation of mining projects have produced strong results.

### Equity interests

During the year the Group continued its strategy of taking equity stakes in strategic opportunities with the prospect of potential royalties. This has allowed the Group to develop a detailed understanding of project risks and form working relationships with management. Where royalties cease to be a financing option the Group will seek to dispose of the particular equity investment in a manner that is profitable to the Group, while minimising disruption to the investee company. This approach has proven extremely successful over the last five years with the Group realising significant gains for shareholders while generating numerous royalty opportunities. This remains an integral part of the Group's strategy.

### Overseas listing

On July 9, 2010 the Group's ordinary shares were listed and posted for trading on the Toronto Stock Exchange ("TSX") under the symbol APY. In the last few months the Board has been exploring ways of expanding the Canadian share register and increasing its reach within the North American investing community. The TSX listing increases the profile of the Group in a market where royalty financing is well established and has a high profile with investors.

### Management

On October 6, 2010 Mr John Theobald was appointed Chief Executive Officer of the Group replacing Mr Brian Wides who, on the same day, became Director of International Business Development. I welcome John's transition to Chief Executive and am confident that he will continue to drive the Group's growth in future years. Mr Brian Wides has been integral to the growth of the Group over many years, and it is encouraging for both the Board and shareholders that Brian will continue to be involved in the Group's future business development.

During the year the Group recruited a legal counsel to coordinate the contractual and due-diligence processes involved in royalty acquisitions and also to assist the Group on compliance issues. The management team has increased to eight people in recent years, primarily to reflect the number of new royalty and investment opportunities being seen by the Group, but also to reduce the cost and number of external consultants required on any given acquisition. The Group remains a small organisation with a flat management structure. This allows management to use their experience and multi-disciplinary skills to implement the Group's growth strategy.

### Outlook

With recent strong mining equity markets, the raising of mining finance from conventional lenders or equity issues has become more accessible for junior mining companies. Despite this the Group continues to identify royalty opportunities. With its cash resources, strong royalty revenues and pro-active management, the Group will continue to make the acquisition of new royalties its principal strategic focus.

Finally I would like to thank my Board colleagues and staff for their application and hard work in achieving these record results.



P.M. Boycott  
Chairman  
February 23, 2011

### Royalties

Australian Coal  
Royalty Valuation

**£177.1m** +18%

Total Value of Other Royalties

**£82.6m** +134%

Royalty Income

**£30.1m** +48%

### Assets

Total Assets

**£415.6m** +33%

Total Mining and Exploration  
Interests

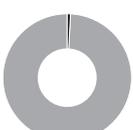
**£128.4m** +17%

Cash and Receivables

**£37.0m** +92%

## Principal activities

The activities of the Group are summarised below:-

<p>Coal royalties</p>  <p><b>68%</b> of Group Royalties</p>	<p>Status</p> <p>The Group holds half of the private royalty entitlement on the Kestrel and Crinum underground mines in Queensland, Australia, operated by Rio Tinto Limited and BHP Billiton Limited respectively. The royalty is calculated on a two tier royalty rate of 7% of the invoiced value of coal sold below A\$100 per tonne and 10% of the invoiced value of coal above A\$100 per tonne.</p>	<p>Operator</p> <p><a href="#">Rio Tinto Limited</a> <a href="#">BHP Billiton Limited</a></p>
<p>Iron ore royalties</p>  <p><b>16%</b> of Group Royalties</p>	<p>Status</p> <p>1% Gross Revenue Royalty ("GRR") on the Amapa Iron Ore System in Brazil, operated by Anglo American PLC. 2% Net Smelter Return Royalty ("NSR") on the Jogjakarta Iron Sands project in Indonesia, operated by Indo Mines Limited. 1.5% GRR on the Railway project exploration licences in the Pilbara region of Western Australia, owned by BHP Billiton Limited.</p>	<p>Operator</p> <p><a href="#">Anglo American PLC</a> <a href="#">Indo Mines Limited</a> <a href="#">BHP Billiton Limited</a></p>
<p>Uranium royalties</p>  <p><b>7%</b> of Group Royalties</p>	<p>Status</p> <p>1% NSR over the Beverley Four Mile uranium project in South Australia. 1% NSR over the Salamanca uranium project in Spain, operated by Berkeley Resources Limited. The royalty rights to several mineral exploration tenures in the Athabasca Basin region of Canada.</p>	<p>Operator</p> <p><a href="#">Quasar Resources / Alliance Resources JV</a> <a href="#">Berkeley Resources Limited</a></p>
<p>Gold royalties</p>  <p><b>8%</b> of Group Royalties</p>	<p>Status</p> <p>2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain, being developed by Orvana Minerals Corp. 2.5% NSR on the Engenho gold project in Brazil, operated by Mundo Minerals Limited. 2.5% NSR, escalating to 2.75% for gold prices in excess of US\$1,250 per ounce, on the Midway-McKenzie Break properties in Quebec, Canada. An option to acquire a 2% NSR on Creso Exploration Inc's Duggan gold property in Ontario, Canada.</p>	<p>Operator</p> <p><a href="#">Orvana Minerals</a> <a href="#">Mundo Minerals Limited</a> <a href="#">Creso Exploration Inc</a></p>
<p>Other royalties</p>  <p><b>1%</b> of Group Royalties</p>	<p>Status</p> <p>3% GRR on the Bulqiza chromite project in Albania, operated by Empire Mining Corp. An option to acquire a 1.5% NSR on the Araguaia nickel project in Brazil, owned by Horizonte Minerals PLC. An option to acquire a 1% NSR on the Highbank Lake and Eastbank properties in Ontario, Canada, owned by Northern Shield Resources Inc.</p>	<p>Operator</p> <p><a href="#">Empire Mining Corporation</a> <a href="#">Horizonte Minerals PLC</a> <a href="#">Northern Shield Resources Inc</a></p>
<p>Private coal interests</p>  <p><b>£2m</b> (at cost)</p>	<p>Status</p> <p>Mineral licences in the Groundhog (Panorama and Discovery) and Peace River (Trefi) coal deposits in British Columbia, Canada.</p>	<p>Operator</p> <p><a href="#">Anglo Pacific Group PLC</a></p>
<p>Mining and exploration interests</p>  <ul style="list-style-type: none"> <li>Coal 7%</li> <li>Copper 12%</li> <li>Gold 24%</li> <li>Iron Ore 12%</li> <li>Zinc 5%</li> <li>Uranium 25%</li> <li>Platinum Group Metals 8%</li> <li>Other 7%</li> </ul>	<p>Status</p> <p>At December 31, 2010 the Group owned a number of strategic mining and exploration interests held for the purpose of generating additional royalty opportunities including a number of quoted and unquoted coal, uranium, gold, base metals and platinum mining projects.</p>	<p>Selected Investments</p> <p><a href="#">Berkeley Resources Limited</a> <a href="#">Mantra Resources Limited</a> <a href="#">Maudore Minerals Limited</a> <a href="#">Indo Mines Limited</a> <a href="#">African Eagle Resources PLC</a></p>

## Directors' report

# The Group's strategy remains focused on securing new royalties.

The directors submit their report and the financial statements of Anglo Pacific Group PLC for the year ended December 31, 2010.

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

### Strategy

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

### Principal activities

The activities of the Group are summarised below: -

#### Coal royalties

The Group holds half of the private royalty entitlement on the Kestrel and Crinum underground mines in Queensland, Australia, operated by Rio Tinto Limited and BHP Billiton Limited respectively. The royalty is calculated on a two tier royalty rate of 7% of the invoiced value of coal sold below A\$100 per tonne and 10% of the invoiced value of coal above A\$100 per tonne.

#### Iron ore royalties

1% Gross Revenue Royalty ("GRR") on the Amapa Iron Ore System in Brazil, operated by Anglo American PLC.

2% Net Smelter Royalty ("NSR") on the Jogjakarta Iron Sands project in Indonesia, operated by Indo Mines Limited.

1.5% GRR on the Railway project exploration licences in the Pilbara region of Western Australia, owned by BHP Billiton Limited.

#### Uranium royalties

1% NSR over the Beverley Four Mile uranium project in South Australia.

1% NSR over the Salamanca uranium project in Spain, operated by Berkeley Resources Limited.

The royalty rights to several mineral exploration tenures in the Athabasca Basin region of Canada.

#### Gold royalties

2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain, being developed by Orvana Minerals Corp.

2.5% NSR on the Engenho gold project in Brazil, operated by Mundo Minerals Limited.

2.5% NSR, escalating to 2.75% for gold prices in excess of US\$1,250 per ounce, on the Midway-McKenzie Break properties in Quebec, Canada.

An option to acquire a 2% NSR on Creso Exploration Inc's Duggan gold property in Ontario, Canada.

#### Other royalties

3% GRR on the Bulqiza chromite project in Albania, operated by Empire Mining Corp.

An option to acquire a 1.5% NSR on the Araguaia nickel project in Brazil, owned by Horizonte Minerals PLC.

An option to acquire a 1% NSR on the Highbank Lake and Eastbank properties in Ontario, Canada, owned by Northern Shield Resources Inc.

#### Coal interests

Mineral licences in the Groundhog (Panorama and Discovery) and Peace River (Trefi) coal deposits in British Columbia, Canada.

#### Mining and exploration interests

At December 31, 2010 the Group owned a number of strategic mining and exploration interests held for the purpose of generating additional royalty opportunities including a number of quoted and unquoted coal, uranium, gold, base metals and platinum mining projects

### Results and dividends

The consolidated income statement is set out on [page 28](#) of the financial statements.

The Group profit after tax increased by 173% to £56.3 million (2009: £20.6 million).

The Directors recommend a final dividend of 5.10p per share for the year ended December 31, 2010 which, with the interim dividend of 3.95p per share paid on January 12, 2011, will make total dividends for 2010 of 9.05p per share (2009: 8.35p per share). The final dividend is subject to shareholder approval at the Annual General Meeting to be held on April 13, 2011. The Board proposes to pay the final dividend on July 6, 2011 to shareholders on the Company's share register at the close of business on May 6, 2011. As with previous dividends, depending on the share price at the time the Board will consider whether shareholders will be given the opportunity to elect to receive new shares instead of cash.

### Review of the business

This business review comprises the sections on [pages 2 to 4](#), entitled "Who we are", "Where we operate", "How we performed", together with the Chairman's Review on [pages 6 to 7](#) and the Financial and Operational Reviews set out below. The Key Performance Indicators on [pages 5 and 12](#) and the Principal Risks and Uncertainties laid out on [page 12](#) also form part of this review.

### Financial review

Group royalty revenue for the year ended December 31, 2010 was £30.1 million compared to £20.3 million for the previous year. When this is combined with cash flows from royalty debentures during the year of £0.9 million (2009: £0.3 million) total royalty cash flow per share increased by 50% to 28.65p from 19.10p in 2009.

Realised gains on disposal of mining and exploration interests were £41.0 million (2009: £6.4 million). These substantial gains were the result of the disposal in strong equity markets of some of the Group's mature mining interests where the acquisition of royalties was unlikely. Overall the Group's profit before tax for the year increased by 154% to £65.8 million (2009: £25.9 million) and Group earnings per share for the year increased by 173% to 51.99p (2009: 19.07p).

Group administrative expenses increased from £2.8 million to £3.3 million during the year, largely as a result of expenses associated with the Group's Toronto Stock Exchange listing and increased employee costs of £1.9 million (2009: £1.5 million).

## Directors' report

At December 31, 2010 the Group's Australian coal royalty interests have been independently valued at £177.1 million (2009: £149.9 million). The Group's royalty instruments following fair value adjustments were valued at £28.1 million at the December 31, 2010 (2009: £22.0 million). The change in valuation of the embedded derivatives associated with these royalty instruments of £0.8 million has been debited to Group profits (2009: £0.1 million credited).

The total cost of royalties treated as intangibles has increased to £42.1 million at December 31, 2010 (2009: £5.3 million). As part of the annual impairment review a directors' valuation of these royalties has been undertaken using a discounted cash flow valuation model which uses forecast commodity prices and management's best estimate of an appropriate discount rate taking into account project-specific risk factors. At December 31, 2010 the directors' valuation of these assets was £54.2 million (2009: £12.2 million).

	Coal royalties £'000	Royalty Instruments £'000	Royalty Intangibles £'000	Royalty Options £'000	Total £'000
<b>2010</b>					
Number	2	4	6	2	14
Cost	166	12,493	42,130	406	55,195
Valuation	177,130	28,061	54,155	406	259,752
<b>2009</b>					
Number	2	4	2	2	10
Cost	145	12,493	5,326	1,168	19,132
Valuation	149,896	21,979	12,159	1,168	185,202

The Group's quoted and unquoted equity investments, including royalty options and any investments in associates, were valued at £128.5 million at December 31, 2010 (2009: £113.5 million). The private equity interests and royalty options remain accounted for at cost.

The Group's work on the Trefi and Panorama coal projects in British Columbia, Canada continues to be included in the accounts at cost, and the cost of property acquisition, tenure maintenance and deferred exploration totalled £2.0 million at December 31, 2010 (2009: £1.6 million).

At December 31, 2010 the Group had cash of £28.3 million compared to £14.2 million at December 31, 2009, with no borrowings or hedging. When combined with royalty and trade receivables, total cash and receivables at December 31, 2010 was £37.1 million (2009: £19.3 million). The Group has limited capital expenditure requirements other than for the acquisition of additional royalties. Management believe that the Group's current cash resources and future cash flows will be sufficient to cover the cost of general and administrative expenses, income taxes and dividend payments. The Group remains debt free and its liquid resources are held in a spread of currencies and financial institutions. The Group's mining interests and royalty revenues are mainly denominated in Australian and Canadian dollars.

The Group's total assets at December 31, 2010 were £415.6 million, a 33% increase from £312.5 million at December 31, 2009. This does not include any increase in value over cost that may be attributable to the Group's royalty intangibles or the Panorama and Trefi coal projects.

### Operational review

#### Coal royalties

In Australia, coal royalty receipts from the Kestrel and Crinum coal mines, operated by Rio Tinto Limited and BHP Billiton Limited respectively, were £29.9 million (2009: £20.3 million). This increase was due to a steady rise in the prices of Australian thermal and

metallurgical coal in 2010 as a result of continuing Asian demand for seaborne coal. For most of the year the price of coking coal was approximately US\$200 per tonne.

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

The independent valuation of these interests at December 31, 2010 was £177.1 million (A\$270.3 million) compared to £149.9 million (A\$269.7 million) at December 31, 2009. The valuation is based on the net present value of the pre-tax cash flows discounted at a rate of 7% and the net royalty income is taxed in Australia at a rate of 30%.

#### Iron ore royalties

During the year the Group acquired a 1% GRR covering iron ore within the Amapá Iron Ore System, operated by Anglo American PLC, in the Amapá region of northern Brazil. The Amapá Iron Ore System is majority owned by Anglo American PLC (70%), with Cliff Natural Resources Inc. owning the remaining 30%. Based on Anglo American PLC's public disclosure the Amapá Iron Ore System commenced initial production in 2008 and started commercial production on January 1, 2010. Anglo American PLC expects to produce 4.0 million tonnes ("Mt") of sinter feed and pellet feed in 2010 from the Amapá Iron Ore System and could increase production to 6.5Mt per annum with further capital investment. The Group also acquired a 1% GRR on iron ore on Beadell Resources Limited's adjacent mining concessions and exploration tenements which cover approximately 2,500 square kilometers and are considered prospective by the Group for iron ore.

In 2010 the Group also acquired a 1.5% GRR covering three exploration licences in the central Pilbara region of Western Australia. The tenements, covering 263 square kilometres, are owned by a wholly owned subsidiary of BHP Billiton Limited and host a number of known iron occurrences, the most significant being the Railway deposit. The tenements are supported by extensive rail infrastructure including the rail lines from Rio Tinto Limited's West Angelas and Yandicoogina mines and BHP Billiton Limited's rail line serving its current operations at Mining Area C, which lies immediately to the east of the Railway deposit. United Minerals Corporation NL explored the tenements during the period between 2007 to 2010 and subsequent to the announcement of a resource was acquired by BHP Billiton Limited.

The Group owns a 2% NSR interest in the developmental Jogjakarta Iron Sands project, located in Indonesia and operated by Indo Mines Limited. On March 23, 2009 Indo Mines Limited announced the results of a scoping study conducted by ProMet Engineers Proprietary Limited and announced that a feasibility study had been commenced. On January 11, 2011 the company announced that it had received the Government Environmental and Social Approval required to complete the feasibility study.

#### Uranium royalties

The Group owns a 1% NSR interest in the developmental Salamanca uranium project located in Spain and operated by Berkeley Resources Limited. This company released a resource statement for the deposits on February 26, 2010 and confirmed that a scoping study had shown the project to be technically and economically viable. Berkeley Resources Limited has reported that a definitive feasibility study is currently underway.

The Group owns a 1% NSR interest in the developing Four Mile uranium project located in South Australia and operated by a joint venture between Quasar Resources Proprietary Limited (75% owner)

## Directors' report

and Alliance Resources Limited (25% owner). Approval for the mine was granted by the Australian government in July 2009; however, the joint venture parties are currently in dispute over a number of matters and development of the mine has been placed on hold until these are resolved. On July 28, 2010 Alliance Resources Limited reported that a scoping study indicated that the Four Mile project offers a significantly greater return if developed as a standalone project with a production rate of approximately 5 million pounds per annum. This contrasts with the initial proposed production rate of 3 million pounds per annum.

In addition, the Group holds the royalty rights to a number of mineral exploration tenures in the Athabasca Basin region of Canada. The Athabasca Basin region is considered by management of the Group to be highly prospective for uranium exploration and production and currently hosts large, high grade uranium mines and deposits. The properties covered by the royalty interests are operated by Magnum Uranium Corp. and Bayswater Ventures Corp.

### Gold royalties

The Group owns a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle and Carles gold and copper mines located in Spain and operated by Orvana Minerals Corp. Orvana Minerals Corp. recently announced that production is currently scheduled to commence at El Valle during spring of 2011 and that the mine is expected to have a life of seven years with average production of 105,000 ounces of gold and 3,900 tonnes of copper per annum.

The Group holds a 2.5% NSR on the Engenho gold project in Brazil, operated by Mundo Minerals Limited. During the year receipts relating to the NSR on the Engenho gold project totalled £0.4 million (2009: £0.3 million). These receipts consisted of repayments of the debenture instrument and also included £0.1 million interest (2009: £0.2 million).

The Group owns a 2.5% escalating NSR on the Midway-McKenzie Break project. The project is located in Quebec, Canada, and was recently operated by Northern Star Mining Corp. Northern Star Mining Corp announced their first gold pour from the project on February 5, 2010, however, on January 25, 2011 the company announced that it had been deemed to have filed assignments in bankruptcy. The Group has registered its royalty interests against the Midway-McKenzie Break tenures and will pursue its rights with the receiver to ensure that the royalty remains attached to the property in the event of any disposal. In the interim the Group has created a full provision against the royalty instrument.

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

### Other royalties

During the year the Group acquired a 3% GRR over the output from Empire Mining Corp's Bulqiza chromite project in Albania. Empire Mining Corp's Bulqiza licence surrounds and extends from the past producing Bulqiza and Batra Mines and includes the eastern and western extensions of the Bulqiza-Batra chromite deposit. Empire Mining Corp recently announced that it intends to convert exploration licences to mining licences as soon as practical with the aim of accelerating development within chromite mineralisation, utilising a plan to increase production incrementally in conjunction with exploration and development from existing infrastructure where possible.

During 2010 the Group also purchased an option to acquire for US\$12.5 million a 1.5% NSR on the Araguaia nickel project which is located in the Carajas Mineral District of Northern Brazil and is owned by Horizonte Minerals PLC. Horizonte Minerals PLC acquired the Araguaia nickel project from Teck Resources Limited, which resulted in Teck Resources Limited controlling approximately 50% of the Horizonte Mineral PLC's outstanding share capital. The Araguaia nickel

project comprises 11 licence applications across 73,000 hectares with eight significant mineralised zones.

The Group also owns an option to acquire a 1% NSR on the Highbank Lake and Eastbank properties in Ontario, Canada, owned by Northern Shield Resources Inc. A planned drill program for Highbank Lake was recently announced by this company.

### Coal interests

During the year the Group progressed work on both the Panorama and Discovery coal projects in the Groundhog Coalfield, northern British Columbia, Canada and the Trefi coal project in the Peace River Coalfield, northwest British Columbia, Canada.

At the Trefi coal project, the Group commissioned a drilling programme and announced the following mineral resources, each of which is compliant with National Instrument 43-101 – *Standards of Disclosure for Minerals Projects* of the Canadian Securities Administrators ("NI 43-101") and the standards prescribed by the Australasian Joint Ore Reserves Committee ("JORC"): a measured and indicated mineral resource of 39.35 Mt of weak coking coal (comprised of a measured mineral resource of 14.25 Mt of weak coking coal and an indicated mineral resource of 25.1 Mt of weak coking coal) and an inferred mineral resource of 51.6 Mt of weak coking coal.

A scoping study on this project has been completed and the permitting process for additional drilling is in progress. The Group is currently reviewing options for development that could result in a royalty.

At the Panorama coal project the Group announced the following mineral resources, each of which is compliant with the NI 43-101 and JORC: an indicated mineral resource of 13.7 Mt of semi-anthracite to anthracite coal and an inferred mineral resource 24.1 Mt of semi-anthracite to anthracite coal. The Group is now examining possible methods of monetising its interest in Panorama while retaining a royalty.

### Mining and exploration interests

The Group's equity investments in both listed and unlisted mineral exploration and development companies continued to generate opportunities for royalty acquisitions during the year. The Group's equity investments remained focused on precious metals and uranium at December 31, 2010; however, opportunities also arose in coal and iron ore during the year. Some royalty opportunities were no longer identifiable within investee companies and as a result the Group disposed of these investments. Given the strong equity market conditions during the year the majority of these disposals resulted in significant realised profits for the Group. The Group's shareholding in Mantra Resources Limited was significantly reduced during the year; although, the Group still retained an equity interest at December 31, 2010 and awaits the completion of the recently announced agreed takeover bid.

### Outlook

Pricing mechanisms for most bulk commodities, including metallurgical coal, are moving from fixed annual contracts to more variable, shorter-term pricing arrangements. During the year spot coking coal prices were approximately US\$200 per tonne.

Due to the floods in Queensland in January 2011 output at both the Kestrel and Crinum mines was disrupted and spot coking coal prices moved above US\$300 per tonne. Neither mine was flooded but infrastructure road and rail links to and from the mines were affected. In the short term therefore disruption of production will have an impact on Group cash flows although, when full production resumes, the Group expects to benefit from the higher prices achieved for both coking and thermal coal. Some production still continues from the private ground at Crinum.

## Directors' report

With recent strong mining equity markets, the raising of mining finance from conventional lenders or equity issues has become more accessible for junior mining companies. Despite this the Group continues to identify royalty opportunities.

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

### Key performance indicators

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

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

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

### Risks and uncertainties

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

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

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

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

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

### Financial instruments

The Company'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 Company operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Company are met as they evolve. The impact of the risks required to be discussed in accordance with IFRS 7 are summarised below, while detailed discussion and sensitivity analysis relating to these risks is contained in note 3 to these accounts.

#### Liquidity and funding risk

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

#### Credit risk

The Group's principal financial assets are bank balances, 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. There are no doubtful receivables in this period. In relation to the three royalties acquired during the year, in the event of non-payment the Group have registered its interests against mining title where possible. 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 credit risk on cash at bank is limited because the counterparties are banks with 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 counterparties and customers.

In 2007 the Group created a derivative financial instrument to provide finance to an unlisted mining development company, which has subsequently listed (note 18). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for a period of up to five years. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group on a regular basis.

#### Foreign exchange risk

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

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

	Net Foreign currency monetary asset				
	AUD	CAD	USD	Euro	Total
Functional currency of operation	£'000	£'000	£'000	£'000	£'000
<b>2010</b>					
Sterling	61,321	37,273	350	12	98,956
<b>2009</b>					
Sterling	55,628	46,294	29	18	101,969

#### Interest rate risk

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

#### Other price risk

The Group's mining and exploration interests are held for the purposes of generating additional royalties and are considered long-term, strategic investments. This strategy is unaffected by fluctuations in prices for mining and exploration equities; however, changes in market conditions may affect the value and recoverability of the amounts

## Directors' report

invested. The Group has detailed investment review processes in place to manage this risk to the greatest extent possible.

The royalties acquired during the year expose the Group to other price risk through fluctuations in commodity prices, particularly the price of iron ore, which may affect the future cash flows received from these royalties.

### Management

#### Directors

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

The following directors have held office since January 1, 2010:

#### Executive:

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

#### Non Executive:

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

On October 6, 2010 Mr John Theobald was appointed Chief Executive Officer of the Group replacing Mr Brian Wides who, on the same day, became Director of International Business Development.

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

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

Matthew J. Tack joined the Group as Company Secretary in 2004 and was appointed to the Board as Finance Director in July 2006. He has Bachelors degrees in Commerce and Economics from the University of Queensland, is a Chartered Accountant (Australia) and a Member of the Institute of Directors. Prior to joining the Group he worked for a number of companies in Australia and the UK including PricewaterhouseCoopers.

John Theobald joined the Group as Chief Operating Officer in April 2008, joined the Board in June 2009 and was appointed Chief Executive Officer on October 6, 2010. He is a Chartered Engineer with a BSc Honours in Geology from the University of Nottingham.

He is a Fellow of the Geological Society and Member of the Institute of Materials, Minerals and Mining, Australasian Institute of Mining and Metallurgy and Canadian Institute of Mining, Metallurgy and Petroleum. Prior to joining the Group he held senior operational and new business positions with the major industrial minerals group SCR-Sibelco; he has also worked in the junior resource sector and for major companies such as Anglo American, Phelps Dodge and Iscor covering a wide range of metals, coal and industrial minerals. He has been a director of several public companies quoted in Canada.

Brian M. Wides joined the Board in June 1997 and was appointed Finance Director in September 1997. In July 2006 he was appointed Chief Executive Officer and on October 6, 2010 was appointed Director of International Business Development after standing down as Chief Executive Officer. He has a Bachelor of Commerce from the University of 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.

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

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

Anthony H. Yadgaroff was appointed director in March 2003 and currently chairs the Group's Remuneration Committee. He is a Member of the Chartered Institute for Securities and Investment, and has specialised in investment research and management consultancy during a forty year City career. Allenbridge Group, which he founded in 1984 to provide advisory services to private and institutional investors, was acquired by Close Brothers in February 2011. He is Chairman of AllenbridgeEpic Ltd, which advises major UK pension funds with assets exceeding £25 billion. He serves on the boards of several charities and non-profit organisations.

The directors who are due to retire by rotation at the next Annual General Meeting are Mr M.H. Atkinson, Mr J.G. Whellock and Mr A.H. Yadgaroff, each of whom, being eligible, offer themselves for re-election.

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

## Directors' report

### Directors' interests

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

	Ordinary shares of £0.02 each		
	February 15, 2011	December 31, 2010	December 31, 2009
P.M. Boycott (Executive Chairman)	2,736,947	2,736,947	2,676,983
A.C. Orchard (Executive Director)	264,202	264,202	64,634
M.J. Tack (Executive Director)	281,931	281,931	54,126
J. Theobald (Executive Director)	204,919	204,919	17,134
B.M. Wides (Executive Director)	2,926,153	2,926,153	2,903,295
M.H. Atkinson (Non-Executive Director)	3,922	3,922	3,803
J.G. Whellock (Non-Executive Director)	13,084	13,084	13,084
A.H. Yadgaroff (Non-Executive Director)	161,198	161,198	180,372

### Remuneration of directors

The Remuneration Report on [pages 21 to 23](#) forms part of the Directors' report and includes details of the nature and amount of each element of the remuneration (including share options) of each of the directors.

The 2010 Remuneration Report will be proposed for approval at the Annual General Meeting to be held on April 13, 2011. In accordance with the Companies Act 2006 (United Kingdom) no entitlement of a person to remuneration is conditional upon the passing of the resolution.

The 2009 Remuneration Report was approved by shareholders at the Group's prior annual general meeting in April 2010.

### Corporate governance

A full report on corporate governance can be found on [pages 18 to 20](#) and forms part of this Directors' report.

### Internal monitoring

The Group has a policy whereby any employee may contact the Chairman of the Board or the members of the Audit Committee at any time in relation to any concerns regarding conduct that is contrary to the values of the Group. Such matters may include unethical practices in accounting, internal accounting controls, financial reporting or auditing matters, or any other legal or ethical concern. By virtue of the size of the Group all employees are in regular contact with the members of the Board, and any concerns are treated in the strictest confidence.

### Corporate social responsibility

#### Donations

It is a continuing policy of the Group not to make political or charitable donations. The Group's directors and employees support philanthropic efforts generally using their own personal resources. The Group's philosophy is that charity is a decision best made by shareholders with their own resources, rather than management using the Group's resources to make this decision on their behalf. The Group aims to increase dividends and the value of the Group's shares so that shareholders can make their own charitable decisions. In addition, employees are encouraged to support their chosen charities utilising the Give As You Earn payroll contribution scheme.

No donations were made to charities during the year (2009: nil).

No political donations were made during the year (2009: nil).

#### Policy on payment of creditors

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

- agree terms of payment at the start of business with each supplier;

- ensure that suppliers are made aware of the terms of payment; and
- pay suppliers in accordance with contractual and legal obligations.

During the year to December 31, 2010 the Company took an average of 23 days to settle its bills with suppliers (2009: 33 days). The Company acknowledges the importance of paying invoices promptly, especially those of small businesses.

### The environment

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

The Group acknowledges that it has the ability to positively influence the environmental practices and policies of companies it conducts business with. Management discussions necessarily address common environmental policy ideals, and the Board remains committed to working with its fellow mining companies to ensure that the environmental impact of mineral exploration and development activities is minimised as much as possible. The Board has access to consultants with requisite mining and environmental expertise to ensure the Group's partners meet their covenants in this regard.

### Employees

The Group has 8 employees, 5 of whom are executive directors. More information regarding the Group's employees can be found on [pages 13 to 14](#).

### Social and community issues

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

### Essential contracts

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

### Capital structure

The structure of the Company's ordinary capital at March 8, 2011 is as follows:

	Issued No.	Nominal value per share £	Total £	% of total capital
Ordinary shares	108,771,332	0.02	2,175,427	100%

## Directors' report

### 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 restrictions on the transfer of the Company's shares. There are no known agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or voting rights.

#### Special control rights

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

#### Treasury

No shares are currently held in treasury by the Company.

### Substantial shareholdings

The Company has been notified of the following interests of 3% or more in the share capital of the Company at February 15, 2011.

	Ordinary Shares of 2p each	Representing
Ransomes Dock Ltd	8,949,904	8.23%
Legal and General Group PLC	5,109,104	4.70%
AXA Investment Managers UK	4,844,190	4.45%
Rathbones Brothers PLC	3,693,110	3.40%

### Statement as to disclosure of information to auditors

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

### Auditors

Grant Thornton UK LLP, have expressed willingness to continue in office. In accordance with section 489(4) of the Companies Act 2006 (United Kingdom) a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on April 13, 2011.

### Annual General Meeting

The notice of the Annual General Meeting (refer to [page 68](#)) contains ordinary and special resolutions detailed below.

#### Scrip dividend authority

Resolution 8 seeks to renew the authority taken at last year's Annual General Meeting to offer shareholders the option to take dividends in ordinary shares instead of cash.

#### Authority to allot shares

Resolution 9 seeks a new authority, to replace the present authority and be effective until the earlier of April 13, 2016 and the conclusion of the annual general meeting held in 2016, to authorise the directors to allot relevant securities up to a maximum nominal amount of £725,142 representing about 33.33 per cent of the issued ordinary share capital at the date of this report. The directors have no present intention of exercising this authority.

#### Authority to allot shares and partial disapplication of pre-emption rights

Resolution 10 seeks a waiver of the pre-emption rights of existing shareholders, but only for new securities or shares (if any) held in treasury up to a maximum aggregate nominal value of £217,542 (10% of the issued share capital at the date of this report) or, if less, 10% of the Company's issued share capital from time to time.

The directors also seek authority to make appropriate exclusions from any rights issue, because it may not be possible to issue new shares to some shareholders (for example, those resident in foreign jurisdictions where regulatory difficulties might arise). The directors will be able to use this authority, if granted, to allot new securities or issue shares held in treasury without further reference to shareholders. However, the directors have no plans at present to make such an allotment and the proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or on June 30, 2012. No shares are currently held in treasury by the Company.

The authority sought under this resolution provides the Group with the ability to continue to make acquisitions of royalties on low-cost, long-life mining assets.

#### Authority to purchase own shares

Resolution 11 gives authority for the Company to purchase its own shares and specifies the maximum number of shares which may be acquired (10,877,133, being approximately 10% of the Company's issued ordinary share capital as at the date of this report) and the maximum (the higher of 105% of the 5 day average middle market price and the last independent trade or bid) and minimum (the nominal value) prices at which shares may be bought. The directors intend to exercise this power only if, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share. They will also have regard to whether, at the time, this represents the best use of the Company's resources and is in the best interests of the shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account in reaching such a decision. Any shares purchased in this way will either be cancelled and the number of shares in issue reduced accordingly, or else held in treasury. In total there are options outstanding over 60,120 ordinary shares; they represent 0.06% of the current issued share capital and would represent 0.06% of the issued share capital if the full buy back authority was used and the shares so acquired cancelled. The proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or eighteen months from the date of passing of the resolution. At December 31, 2010 the Company still had authority to acquire 10,743,946 shares under Resolution 15 passed at the last Annual General Meeting.

#### Adoption of new Articles of Association

The Articles of Association of the Company were previously amended in 2008 in order to reflect the implementation of the initial provisions of the Companies Act 2006 (United Kingdom). Since then, the final provisions of the Companies Act 2006 (United Kingdom) have come into force, as have the Companies (Shareholders' Rights) Regulations 2009. These provisions continue the developments relating to the constitutional documents of UK companies and best practice for UK listed companies. Accordingly, the Board considers it prudent to replace the Company's existing Articles of Association with new Articles (the "New Articles"), which take account of those developments, and to put Resolution 12 to the meeting in order to effect the changes. A summary of the material changes brought about by the proposed adoption of the New Articles is set out in the Appendix to the Notice of Annual General Meeting on [pages 68 to 72](#) of this document.

## Directors' report

### Recommendation

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

### Designated Foreign Issuer status

The ordinary shares of the Company were listed and posted for trading on the TSX on July 9, 2010, at which time the Company became a "reporting issuer" in the Province of Ontario, Canada. However, in accordance with National Instrument 71-102 – *Continuous Disclosure and Other Exemptions Relating to Foreign Issuers* of the Canadian Securities Administrators ("NI 71-102"), the Company is a "designated foreign issuer" (as is defined in NI 71-102). As such, the Company is not subject to the same ongoing reporting requirements as most other reporting issuers in Canada. Generally, the Company will be in compliance with Canadian ongoing reporting requirements if it complies with the UK Financial Services Authority in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (United Kingdom), as amended from time to time, and the applicable laws of England and Wales (the UK Rules) and files on its SEDAR profile at [www.sedar.com](http://www.sedar.com) any documents required to be filed or furnished pursuant to the UK Rules.

### Technical reports

The scientific and technical information in this Annual Report relating to the Kestrel mine was derived from the technical report entitled "A 43-101 Technical Report on the Kestrel Coal Mine Royalty, Queensland, Commonwealth of Australia" dated March 31, 2010 (the "Kestrel Report"), which was prepared by Dr Iestyn Humphreys, Corporate Consultant, and Mr Paul Bright, Corporate Consultant, of SRK Consulting (UK) Limited. Each of Messrs Humphreys and Bright is a "qualified person" for the purposes of NI 43-101 and is independent of the Company. The Kestrel Report is available on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

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

### 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 the reader in understanding the Group's financial position and results of operations as at and for the periods ended on certain dates, and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such forward-looking statements may not be appropriate for other purposes than outlined in this Annual Report. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, cash flow,

requirement for and terms of additional financing, performance, prospects, opportunities, priorities, targets, goals, objectives, strategies, growth and outlook of the Group including the outlook for the markets and economies in which the Group operates, costs and timing of acquiring new royalties, mineral reserve and resources estimates, estimates of future production, production costs and revenue, future demand for and prices of precious and base metals and other commodities, for the current fiscal year and subsequent periods. In addition, statements relating to "reserves" or "resources" are forward looking statements, as they involve implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts", or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could". Forward-looking statements are based upon certain material factors that were applied in drawing a conclusion or making a forecast or projection, including assumptions and analyses made by the Group in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances. The material factors and assumptions upon which such forward-looking statements are based include: the general economy is stable; local governments are stable; interest rates are relatively stable; equity and debt markets continue to provide access to capital; the 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 reserve and resource estimates, grades, mine life and cash cost estimates; the accuracy of public statements and disclosures made by the owners or operators of such underlying properties; no material adverse change in the market price of the commodities that underlie the Group's portfolio of royalties and investment interests; no adverse development in respect of any significant property in which the Group holds a royalty or other interest; the successful completion of new development projects; the accuracy of publicly disclosed expectations for the development of underlying properties that are not yet in production; planned expansions or other projects within the timelines anticipated and at anticipated production levels; and title to mineral properties. 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, commodity hedging, royalty portfolio and associated risk, adverse development risk, financial viability and operational effectiveness of owners and operators of the relevant royalty portfolio properties, royalties subject to other rights, contractual terms may not be honoured and the other risks noted under the heading "Risk Factors" in the Annual Information Form. If any such risks actually occur, they could materially adversely affect the Group's business, financial condition or results of operations.

## Directors' report

The reader is cautioned that the list of factors noted in the section herein entitled "Risk and uncertainties" is not exhaustive of the factors that may affect the Group's forward-looking statements. The reader is 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.

### Going concern

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### *Registered Office*

17 Hill Street  
London  
W1J 5NZ

#### By Order of the Board

M.J. Tack C.A.  
Company Secretary  
March 8, 2011

## Corporate governance report

### Principles of Corporate Governance

The Group's Board appreciates the value of good corporate governance not only in the areas of accountability and risk management but also as a positive contribution to business prosperity. The Board believes that corporate governance involves more than a simple "box ticking" approach to establish whether the Group has met the requirements of a number of specific rules and regulations. Rather the issue is one of applying corporate governance principles (including those set out in Section 1 of the Principles of Good Governance and Code of Best Practice ("the Combined Code") published by the Financial Reporting Council) in a sensible and pragmatic fashion having regard to the individual circumstances of the Group's business. The key objective is to enhance and protect shareholder value.

### Board structure

The Board currently comprises the Executive Chairman, the Chief Executive Officer, the Finance Director, two executive directors and three independent non executive directors. A statement of directors' responsibilities in respect of the financial statements is set out on [page 24](#). Non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. The day to day management of the Group is delegated to the executive directors including the Chairman, save for certain matters reserved for consideration by the Board. There is a specific list of matters reserved for the Board's consideration which is provided to the Board as guidance. However it is the policy of the Group for the executive directors to report and refer to the Board at regular intervals on all matters relating to the running of the Group. The Board meets at least six times a year. Prior to each meeting, directors are sent an agenda and backup papers on individual agenda items where applicable. Directors may request additional Board papers on any topic.

The Group's directors have a wide range of expertise as well as experience in financial, commercial and mining activities. Individual directors, in conjunction with other Board members, may take training tailored to their own requirements. During the year directors attended, inter alia, workshops and briefings on mining industry developments, changes in taxation rules and updates to accounting standards. To enable the Board to discharge its duties, directors are able to take both independent professional advice and appropriate training at the Group's expense.

New director appointments are considered formally by the Board following recommendations from the Nomination Committee. All directors are subject to election by shareholders at the first opportunity after their appointment. Under the terms of the Company's Memorandum and Articles of Association, all directors are required to retire and seek re-appointment by shareholders at an annual general meeting on the third anniversary of their appointment. Non-executive directors are not subject to specified terms as all directors are subject to the three year re-election requirement. The Board considers this appropriate but will review the situation at regular intervals.

The Board has eight directors, three of whom are non-executive. While the Group is a "smaller company" as defined by the Combined Code and is not required to have an equal split of non-executive and executive directors, the Group recognises that such a split is considered good practice. It should be noted that the Board considers the current ratio of executive directors to non-executive directors to be transitional in nature and expects that additional non-executive directors will be appointed at the appropriate time to create a balance that reflects best practice.

The Company notes that the UK Corporate Governance Code recommends that the directors of FTSE 350 companies be subjected

to annual re-election by shareholders. Following consultation with shareholders on this matter, and in response to concerns as to the potential risks of such an approach to the continuity and stability of the ongoing management of the Group, the Board has decided not to adopt the recommendation at this time.

### Committees of the Board

The following committees, which have written terms of reference, deal with specific aspects of the Group's affairs.

#### Executive Committee

The Executive Committee, comprising the executive directors of the Group, is responsible for reaching and implementing decisions on matters not reserved for the full Board. The committee is chaired by Mr P.M. Boycott. Minutes of Executive Committee meetings are presented at the next full Board meeting for approval.

#### Remuneration Committee

The Remuneration Committee, comprising solely the independent non-executive directors, is responsible for making recommendations to the Board on the Group's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including performance related bonus schemes, pension rights and compensation payments. It is chaired by Mr A.H. Yadgaroff and has access to recruitment consultants when required. The Board itself determines the remuneration of the non-executive directors. The Directors' Remuneration Report is set out on [pages 21 to 23](#).

#### Audit Committee

The Audit Committee comprises solely the independent non-executive directors and is chaired by Dr J.G. Whellock. Its prime tasks are to review the scope of internal and external audit, to receive regular reports from Grant Thornton UK LLP and to review the half-yearly and annual accounts before they are presented to the Board, focusing in particular on accounting policies and areas of management judgment and estimation. The committee is responsible for monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The committee acts as a forum for discussion of internal control issues and contributes to the Board's review of the effectiveness of the Group's internal control and risk management systems and processes. The committee also considers whether a need for an internal audit function is present. It advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature and scope of the audit with the external auditors. The committee reviews annually the objectivity and independence of the external auditors.

The committee, which meets at least twice a year, provides a forum for reporting by the Group's external auditors. Meetings may also be attended, by invitation, by the Executive Chairman, the Chief Executive and the Finance Director.

The Audit Committee has considered the Group's circumstances and due to the close involvement of the executive directors in operational, financial and risk management and control, and in view of the Group's size, it believes that shareholders would not benefit from the implementation of an internal audit function at this time. This will continue to be reviewed annually.

#### Nomination Committee

The Nomination Committee comprises solely the independent non-executive directors and is responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies as they arise. The committee also reviews the structure, size and composition required of the Board compared to its current position and makes recommendations to the Board with regard to any changes. It is

## Corporate governance report

chaired by Mr M.H. Atkinson and is authorised to utilise external legal or professional services when required. Meetings are held as and when required for the purposes of filling Board vacancies and considering Board structure. The committee held one meeting during the period.

### Executive Chairman

The post of Chairman continues to remain an executive role. The Board believes that, with eight directors (three of whom are non-executive) and only three non-director employees, the appointment of a separate non-executive Chairman would not enhance either the performance or the effectiveness of the Group in creating value for shareholders. The Board feels that, with three independent non-executive directors on the Board and annual strategy meetings involving all Group employees, the Corporate Governance of the Group is not adversely affected by the combination of these roles. The executive Chairman and the Chief Executive Officer have distinct roles with a clear and documented division of responsibilities agreed by the Board.

### Senior Independent Director

Mr M.H. Atkinson is the Group's Senior Independent Director ("SID"). The role of the SID is to be available to shareholders to discuss any concerns they may have about the running of the Group where the normal channels of communication are not appropriate. The SID is not required to seek meetings with shareholders; however, he is available to do so if required in order to understand shareholder concerns and take them to the Board for discussion. The SID is also required to lead discussions at meetings of non-executive directors.

### Evaluation and Appraisal

The Board does not currently have a formal system in place for evaluating the performance of individual directors and committees. The presence of an open environment where feedback is continually sought provides an informal process that enables the continual improvement of directors and committees. The Board believes that this system is effective given the current size of the Board and the increasing executive requirements placed upon the Group's limited resources. The Board will consider the implementation of a formal evaluation process each year as appropriate.

### Attendance

Directors' attendance at Board and Committee meetings during 2010 was as follows:

	General	Executive	Audit	Remuneration	Nomination
Total meetings held:	13	1	6	2	1
Attendance:					
P.M. Boycott	13	1	–	1	
A.C. Orchard	13	–	–	–	
M.J. Tack	9	–	5	1	1
J. Theobald	12	–	–	–	
B.M. Wides	12	1	–	–	
M.H. Atkinson	11	–	6	2	1
J.G. Whellock	12	–	6	2	1
A.H. Yadgaroff	12	–	6	2	1

### Internal control

The directors are responsible for the Group's system of internal control and reviewing its effectiveness.

The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and

that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

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 defined and with appropriate delegation of authority;
- There are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against budgets and forecasts;
- The Finance Director is required annually to undertake a full assessment process to identify and quantify the risks that face the Group's businesses and functions, and assess the adequacy of the prevention, monitoring and mitigation practices in place for those risks. In addition, regular reports about significant risks and associated control and monitoring procedures are made to the Audit Committee. They are responsible for reviewing the risk assessment for completeness and accuracy. The consolidated results of these reviews are reported to the Board to enable the directors to review the effectiveness of the system of internal control. The process adopted by the Group accords with the guidance contained in the document "Internal Control Guidance for Directors on the Combined Code" issued by the Institute of Chartered Accountants in England and Wales.

The Audit Committee receives reports from external auditors on a regular basis and from the executive directors of the Group. During the period, the Audit Committee has reviewed the effectiveness of the system of internal control as described above. The Board receives periodic reports from all committees.

There are no significant issues disclosed in the report and financial statements for the year ended December 31, 2010 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.

### Relations with shareholders

The Group values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, institutional investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year the directors had a number of meetings with institutional investors whose combined shareholdings represented over 50% of the total issued share capital of the Company.

In the last few months the Board has been exploring ways of expanding the Canadian share register and increasing its reach within the North American investing community.

Private investors are encouraged to participate in the Annual General Meeting at which the Board will present a review of the Group's results for 2010 and comments on current business activity. It is anticipated that the chairmen of the Audit, Remuneration and Nomination Committees will be available at the Annual General Meeting to answer any shareholder questions.

This year's Annual General Meeting will be held on April 13, 2011.

The Notice of the Annual General Meeting may be found on [page 68](#).

## Corporate governance report

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### Capital structure

The Group's capital structure is disclosed in the Directors' Report on [page 14](#).

### Statement by the directors on compliance with the provisions of the Combined Code

The Company confirms that it complies with the provisions set out in Section 1 of the Combined Code, except where disclosed below:

- Principle A6: Absence of a formal process to evaluate the performance of directors and committees; and
- Provision A7.2: Non-executives not appointed for specific terms.

## Directors' remuneration report

### The Remuneration Committee comprises:

A.H. Yadgaroff (Chairman)

M.H. Atkinson

J.G. Whellock

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

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

### Advice to the Remuneration Committee

During the year, Kepler Associates were appointed by the Remuneration Committee to provide advice that materially assisted the Remuneration Committee. Kepler Associates provided no other services to the Group.

### The policy and objectives

The Remuneration Committee's policy is to attract, retain and motivate full-time high quality executive directors with a competitive salary package which comprises a fixed monthly basic salary and a significant performance-related bonus award that is strongly aligned with the interests of shareholders.

In determining remuneration, consideration will be given to reward levels throughout the Group as well as in the external employment market. The remuneration committee aim to reward all employees fairly based on their role, their performance and salary levels in the wider market.

### Executive directors' remuneration

#### (i) Basic salary

The basic salary component is low relative to that paid by companies of a similar size and nature, and the Committee's aim over time is to achieve an appropriate balance between basic salary and performance-related pay which provides a strong incentive for high performance.

#### (ii) Performance-Related Bonus

A performance-related bonus scheme has been established which creates a pool divisible between all executive directors at the discretion of the Committee from time to time. The Committee consider the performance of the directors against a number of criteria, including the movement in the Group's share price and the four main key performance indicators outlined on [page 12](#). A proportion of this bonus is payable in shares to align the directors' interests with shareholders.

#### (iii) Share schemes

##### Company Share Option Plan

The Group operates a HMRC approved Company Share Option Plan (the "CSOP").

The options of the directors at December 31, 2010 under the CSOP were as undernoted for which nil has been paid.

	No. of Options	Exercisable between	Exercise price
<b>A.C. Orchard</b>			
As at January 1, 2010	18,250	07/04/11 – 07/04/18	164.375p
– Surrendered	18,250	07/04/11 – 07/04/18	164.375p
– Granted	12,024	20/05/13 – 20/05/20	249.50p
As at December 31, 2010	12,024	20/05/13 – 20/05/20	249.50p
<b>M.J. Tack</b>			
As at January 1, 2010	36,923	04/10/07 – 04/10/14	81.25p
– Exercised	36,923	04/10/07 – 04/10/14	81.25p
– Granted	12,024	20/05/13 – 20/05/20	249.50p
As at December 31, 2010	12,024	20/05/13 – 20/05/20	249.50p
<b>J. Theobald</b>			
As at January 1, 2010	16,194	15/07/11 – 15/07/18	185.25p
– Surrendered	16,194	15/07/11 – 15/07/18	185.25p
– Granted	12,024	20/05/13 – 20/05/20	249.50p
As at December 31, 2010	12,024	20/05/13 – 20/05/20	249.50p

There was no difference in the market price and the exercise price on the date the share options were granted.

The vesting period for the option plan is three years and, if an option remains unexercised after a period of 10 years from the date of grant, the option will lapse. The exercise condition of the option plan stipulates that the Group's Earnings per Share (EPS) must grow at a rate of 3% in excess of the UK Retail Price Index (RPI) over the vesting period.

The market price of the shares at December 31, 2010 was 360p and the range during the year was 223p to 360p.

The market price when Mr M.J. Tack exercised his share options was 251.5p.

##### Joint Share Ownership Plan

Under the Company's Joint Share Ownership Plan (the "JSOP"), the Remuneration Committee invites selected 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 employees maintain a beneficial interest in these shares.

The beneficial interests of the directors at December 31, 2010 under the JSOP were as undernoted for which nil has been paid.

## Directors' remuneration report

	No. of Shares	Exercisable between	Grant price	Hurdle price
<b>A.C. Orchard</b>				
As at January 1, 2010	–	–	–	–
– Granted	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Settled	–	–	–	–
As at December 31, 2010	169,350	20/05/13 – 20/05/14	248.00p	315.00p
<b>M.J. Tack</b>				
As at January 1, 2010	–	–	–	–
– Granted	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Settled	–	–	–	–
As at December 31, 2010	169,350	20/05/13 – 20/05/14	248.00p	315.00p
<b>J. Theobald</b>				
As at January 1, 2010	–	–	–	–
– Granted	169,350	20/05/13 – 20/05/14	248.00p	315.00p
– Settled	–	–	–	–
As at December 31, 2010	169,350	20/05/13 – 20/05/14	248.00p	315.00p

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

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

#### (iv) Pension rights

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

	2010 £	2009 £
A.C. Orchard	10,500	3,500
M.J. Tack	10,500	5,583
J. Theobald	8,000	3,500

#### (v) Early termination

In the event of early termination, the executive directors' service contracts provide for compensation of payment in lieu of notice plus a termination payment equivalent to six months' basic salary. There are no agreements between the Group and its directors

resulting in compensation for loss of office or employment that may occur as a result of a takeover bid. The Board considers that this provision is appropriate in a competitive market place.

#### Non-executive directors' remuneration

The fees of non-executive directors are determined by the Board having regard to the commitment of time required and the level of fees in similar companies. Non-executive directors are not eligible to participate in the Company's bonus plan, share option schemes or pension scheme.

#### External appointments

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

#### Directors' service contracts

It is the Group's policy that executive directors' service contracts have a notice period of not more than one year.

The Group's non executive directors are employed on rolling contracts with a 30 day notice period by either party.

The details of the service contracts of the directors in office at December 31, 2010 are as follows:

	Contract date	Notice period
<i>Executive directors</i>		
P.M. Boycott	November 1, 2010	6 months
A.C. Orchard	March 26, 2010	6 months
M.J. Tack	March 9, 2009	6 months
J. Theobald	March 26, 2010	6 months
B.M. Wides	October 1, 2010	6 months
<i>Non-executive directors</i>		
M.H. Atkinson	February 9, 2006	30 days
J.G. Whellock	May 19, 2003	30 days
A.H. Yadgaroff	May 19, 2003	30 days

## Directors' remuneration report

### Share price performance



This graph plots the movement for the ordinary share price of Anglo Pacific Group PLC for the last five years against the FTSE Small Cap Index and the FTSE 250 Index, which have been rebased to Anglo Pacific Group PLC's share price at the start of the period in order to provide a graphical measure of comparative performance. The FTSE Small Cap Index has been selected as a comparable index because it is the nearest relevant index appropriate to the Group. The Group was admitted to the FTSE Small Cap Index in December 2004.

### Directors' emoluments and compensation

	2010 £	2009 £
Salaries and benefits	502,317	471,500
Performance-Related Bonus	690,375	447,000
Fees	210,750	148,000
	1,403,442	1,066,500

The remuneration of the directors was as follows:-

	Performance-related			2010	2009
	Salary £	Bonus £	Fees £	Total £	Total £
P.M. Boycott	142,317	120,000	–	262,317	222,333
A.C. Orchard	120,000	185,625	–	305,625	169,000
M.J. Tack	120,000	120,000	–	240,000	210,667
J. Theobald	120,000	164,750	–	284,750	169,000
B.M. Wides	–	–	202,750	202,750	196,500
M.H. Atkinson	–	–	36,000	36,000	33,000
J.G. Whellock	–	–	36,000	36,000	33,000
A.H. Yadgaroff	–	–	36,000	36,000	33,000
	502,317	590,375 <sup>1</sup>	310,750	1,403,442	1,066,500 <sup>2</sup>

1. An aggregate of £120,000 was paid in shares, see note 25.

2. Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on June 22, 2009.

### Audit

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

### Approval

This report was approved by the Board of Directors and authorised for issue on February 21, 2011 and signed on its behalf by:

M.J. Tack C.A.  
Company Secretary

March 8, 2011

## Directors' responsibilities in the preparation of financial statements

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

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

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

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

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditor 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 auditor are aware of that information.

The directors are responsible for the maintenance and integrity of the Group's website, [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### 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.

By order of the Board

M.J. Tack C.A.

Company Secretary

March 8, 2011



## 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, 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on [page 24](#), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at December 31, 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on [pages 18 to 20](#) with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

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

We have nothing to report in respect of the following:

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

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

Under the Listing Rules, we are required to review:

- the directors' statement, set out on [page 17](#), 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 June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

### Christopher Smith

Senior Statutory Auditor  
for and on behalf of

Grant Thornton UK LLP  
Statutory Auditor,  
Chartered Accountants

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

March 8, 2011

## 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, 2010 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, 2010 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 8, 2011

## Consolidated income statement

for the year ended December 31, 2010

	Notes	2010 £'000	2009 £'000
Royalty income	5	30,133	20,334
Gain on sale of mining and exploration interests	5	41,025	6,367
Finance income	8	1,170	796
Other operating income		33	13
<b>Total income</b>		<b>72,361</b>	<b>27,510</b>
Share of profit of associates	19b	265	515
Other (losses)/gains – net	9	(3,416)	614
Amortisation	17	(85)	–
Administrative expenses	6a	(3,276)	(2,756)
<b>Profit before tax</b>		<b>65,849</b>	<b>25,883</b>
Income tax expense	10	(9,566)	(5,252)
<b>Profit attributable to equity holders</b>		<b>56,283</b>	<b>20,631</b>
<b>Total and continuing earnings per share</b>			
Basic earnings per share	11	51.99p	19.07p
Diluted earnings per share	11	51.99p	19.07p

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

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

The profit for the parent company for the year was £43,527,000 (2009: £37,813,000).

## Consolidated statement of comprehensive income

for the year ended December 31, 2010

	Notes	2010 £'000	2009 £'000
<b>Profit for the year</b>		<b>56,283</b>	<b>20,631</b>
<b>Other comprehensive income:</b>			
Net gain on revaluation to coal royalties	15	355	42,916
Net gain on revaluation of available for sale investments		48,227	63,737
Net exchange gain on translation of foreign operations		28,873	15,585
Share of other comprehensive income of associates	19b	(40)	(65)
Deferred tax	22	(14,651)	(21,770)
<b>Net income recognised directly in equity</b>		<b>119,047</b>	<b>121,034</b>
Transferred to income statement disposal of available for sale investments		(26,651)	322
<b>Total transferred from equity</b>		<b>(26,651)</b>	<b>322</b>
<b>Total comprehensive income for the year</b>		<b>92,396</b>	<b>121,356</b>

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

## Consolidated balance sheet and company balance sheet as at December 31, 2010

	Notes	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Non-current assets</b>					
Property plant and equipment	14	2,144	1,742	882	896
Coal royalties	15	177,130	149,896	–	–
Royalty instruments	16	28,061	21,979	28,061	21,979
Intangibles	17	42,741	6,095	3,997	2,296
Mining and exploration interests	18	128,479	109,695	108,113	102,910
Investments in subsidiaries	19a	–	–	18,312	5,665
Investments in associates	19b	–	3,771	–	–
Other receivables	20	–	–	41,284	5,018
		378,555	293,178	200,649	138,764
<b>Current assets</b>					
Trade and other receivables	20	8,813	5,082	522	1,347
Cash at bank	21	28,258	14,195	3,986	6,624
		37,071	19,277	4,508	7,971
<b>Total assets</b>		<b>415,626</b>	<b>312,455</b>	<b>205,157</b>	<b>146,735</b>
<b>Non-current liabilities</b>					
Deferred tax	22	63,838	47,883	9,479	3,189
		63,838	47,883	9,479	3,189
<b>Current liabilities</b>					
Taxation	23	5,351	4,146	364	226
Trade and other payables	23	549	390	495	337
		5,900	4,536	859	563
<b>Total liabilities</b>		<b>69,738</b>	<b>52,419</b>	<b>10,338</b>	<b>3,752</b>
<b>Capital and reserves attributable to shareholders</b>					
Share capital	24	2,175	2,149	2,175	2,149
Share premium	24	24,207	20,718	24,207	20,718
Coal royalty revaluation reserve		88,883	88,582	–	–
Investment revaluation reserve		51,780	36,850	50,403	36,845
Share based payment reserve		65	78	65	78
Foreign currency translation reserve		39,686	18,804	82	82
Special reserve	26	632	632	632	632
Investment in own shares		(1,295)	–	–	–
Retained Earnings	27	139,755	92,223	117,254	82,479
		345,888	260,036	194,818	142,983
<b>Total equity and liabilities</b>		<b>415,626</b>	<b>312,455</b>	<b>205,156</b>	<b>146,735</b>

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on pages 28 to 66 were approved by the Board of Directors and authorised for issue on February 28, 2011 and are signed on its behalf by:

Peter Boycott Chairman John Theobald Chief Executive Officer Matthew Tack Finance Director

## Consolidated statement of changes in equity

for the two years ended December 31, 2010

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in Own Shares £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2009</b>	2,123	18,604	58,430	(22,149)	78	7,230	632	–	80,894	145,842
Profit for the year	–	–	–	–	–	–	–	–	20,631	20,631
<i>Other comprehensive income:</i>										
<i>Coal Royalties:</i>										
Royalties valuation movement taken to equity	–	–	42,916	–	–	13,633	–	–	–	56,549
Deferred tax on valuation	–	–	(12,764)	–	–	(4,007)	–	–	–	(16,771)
<i>Available-for-sale investments:</i>										
Valuation movement taken to equity	–	–	–	63,791	–	8	–	–	–	63,799
Deferred tax on valuation	–	–	–	(5,060)	–	61	–	–	–	(4,999)
Transferred to income statement on disposal	–	–	–	322	–	–	–	–	–	322
Reclassification as investment in associate	–	–	–	(54)	–	–	–	–	–	(54)
Share of comprehensive income of associates	–	–	–	–	–	(65)	–	–	–	(65)
Foreign currency translation	–	–	–	–	–	1,944	–	–	–	1,944
<b>Other comprehensive income</b>	–	–	<b>30,152</b>	<b>58,999</b>	–	<b>11,574</b>	–	–	–	<b>100,725</b>
<b>Total comprehensive income</b>	–	–	<b>30,152</b>	<b>58,999</b>	–	<b>11,574</b>	–	–	<b>20,631</b>	<b>121,356</b>
Dividends paid	–	–	–	–	–	–	–	–	(7,312)	(7,312)
Scrip Dividend	24	1,966	–	–	–	–	–	–	(1,990)	–
Issue of share capital under share-based payment	2	148	–	–	–	–	–	–	–	150
<b>Transactions with owners</b>	<b>26</b>	<b>2,114</b>	–	–	–	–	–	–	<b>(9,302)</b>	<b>(7,162)</b>
<b>Balance at December 31, 2009</b>	<b>2,149</b>	<b>20,718</b>	<b>88,582</b>	<b>36,850</b>	<b>78</b>	<b>18,804</b>	<b>632</b>	–	<b>92,223</b>	<b>260,036</b>

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

for the two years ended December 31, 2010

	Share capital £'000	Share premium £'000	Coal royalty revaluation reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in Own Shares £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2010</b>	2,149	20,718	88,582	36,850	78	18,804	632	–	92,223	260,036
Profit for the period	–	–	–	–	–	–	–	–	56,283	56,283
<i>Other comprehensive income:</i>										
Coal Royalties:										
Royalties valuation movement taken to equity	–	–	355	–	–	26,879	–	–	–	27,234
Deferred tax on valuation	–	–	(54)	–	–	(7,928)	–	–	–	(7,982)
Available-for-sale investments:										
Valuation movement taken to equity	–	–	–	48,227	–	524	–	–	–	48,751
Deferred tax on valuation	–	–	–	(6,646)	–	(24)	–	–	–	(6,670)
Transferred to income statement on disposal	–	–	–	(26,651)	–	–	–	–	–	(26,651)
Reclassification as investment in associate	–	–	–	–	–	–	–	–	–	–
Share of comprehensive income of associates	–	–	–	–	–	(40)	–	–	–	(40)
Foreign currency translation	–	–	–	–	–	1,471	–	–	–	1,471
<b>Other comprehensive income</b>	–	–	301	14,930	–	20,882	–	–	–	36,113
<b>Total comprehensive income</b>	–	–	301	14,930	–	20,882	–	–	56,283	92,396
Dividends paid	–	–	–	–	–	–	–	–	(6,725)	(6,725)
Scrip Dividend	14	2,025	–	–	–	–	–	–	(2,039)	–
Issue of share capital under share-based payment	12	1,464	–	–	(13)	–	–	(1,295)	13	181
<b>Transactions with owners</b>	26	3,489	–	–	(13)	–	–	(1,295)	(8,751)	(6,544)
<b>Balance at December 31, 2010</b>	2,175	24,207	88,883	51,780	65	39,686	632	(1,295)	139,755	345,888

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

## Company statement of changes in equity

for the two years ended December 31, 2010

	Share capital £'000	Share premium £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at January 1, 2009</b>	2,123	18,604	(21,733)	78	82	632	53,968	53,754
<i>Changes in equity for 2009</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	63,168	-	-	-	-	63,168
Deferred tax on valuation	-	-	(4,792)	-	-	-	-	(4,792)
Transferred to income statement on disposal	-	-	202	-	-	-	-	202
Net income recognised direct into equity	-	-	58,578	-	-	-	-	58,578
Profit for the period	-	-	-	-	-	-	37,813	37,813
Total recognised income and expenses	-	-	58,578	-	-	-	37,813	96,391
Dividends paid	-	-	-	-	-	-	(7,312)	(7,312)
Scrip Dividend	24	1,966	-	-	-	-	(1,990)	-
Issue of share capital	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	2	148	-	-	-	-	-	150
<b>Balance at December 31, 2009</b>	2,149	20,718	36,845	78	82	632	82,479	142,983
<i>Changes in equity for 2010</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	46,569	-	-	-	-	46,569
Deferred tax on valuation	-	-	(6,290)	-	-	-	-	(6,290)
Transferred to income statement on disposal	-	-	(26,721)	-	-	-	-	(26,721)
Net income recognised direct into equity	-	-	13,558	-	-	-	-	13,558
Profit for the period	-	-	-	-	-	-	43,527	43,527
Total recognised income and expenses	-	-	13,558	-	-	-	43,527	57,085
Dividends paid	-	-	-	-	-	-	(6,725)	(6,725)
Scrip Dividend	14	2,025	-	-	-	-	(2,039)	-
Issue of share capital	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	12	1,464	-	(13)	-	-	13	1,476
<b>Balance at December 31, 2010</b>	2,175	24,207	50,403	65	82	632	117,255	194,819

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

## Consolidated cash flow statement and company cash flow statement

for the year ended December 31, 2010

	Notes	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
<b>Cash flows from operating activities</b>					
Profit before taxation		65,849	25,883	45,290	37,903
Adjustments for:					
Interest received	8	(1,170)	(796)	(1,787)	(593)
Unrealised foreign currency loss		980	1,562	–	–
Depreciation of property, plant and equipment	14	19	12	19	12
Amortisation of Intangibles – royalties	17	85	–	–	–
Gain on disposal of mining and exploration interests		(41,025)	(6,367)	(41,185)	(6,701)
Loss/(Gain) on revaluation of assets held as fair value through profit or loss	16	810	(130)	810	(130)
Royalty instrument provision	16	4,194	–	4,194	–
Loss on writedown of assets		–	410	–	410
Inter-company dividends		–	–	(7,500)	(30,500)
Share of associates profit	19b	(265)	(515)	–	–
Gain on derecognition of associate	19b	(539)	–	–	–
Share based payments	25	185	150	185	150
		29,123	20,209	26	551
(Increase)/Decrease in trade and other receivables excluding amounts due from subsidiary companies		(3,731)	6,493	1,093	(1,071)
Increase/(Decrease) in trade and other payables		159	(459)	296	115
Receipts from royalty instruments		881	–	881	–
Cash generated from operations		26,432	26,243	2,296	(405)
Income taxes paid		(7,058)	(4,727)	(2,031)	553
<b>Net cash flows from operating activities</b>		<b>19,374</b>	<b>21,516</b>	<b>265</b>	<b>148</b>
<b>Cash flows from investing activities</b>					
Proceeds on disposal of mining and exploration interests		85,664	25,391	84,414	22,384
Purchases of mining and exploration interests		(47,665)	(29,195)	(35,564)	(26,511)
Purchases of royalty interests		(36,804)	(12,245)	(1,701)	(9,215)
Purchases of property, plant and equipment		(329)	(80)	(5)	(80)
Exploration and evaluation expenditure		(19)	(513)	–	–
Interest received		525	796	1,142	593
Acquisition of associates		–	(1,331)	–	–
Investment in subsidiaries		–	–	(17,000)	–
<b>Net cash flows from investing activities</b>		<b>1,372</b>	<b>(17,177)</b>	<b>31,286</b>	<b>(12,829)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		–	–	1,260	–
Dividends paid		(6,683)	(7,280)	(6,683)	(7,280)
Net financing of related entities		–	–	(28,766)	26,484
<b>Net cash flows from financing activities</b>		<b>(6,683)</b>	<b>(7,280)</b>	<b>(34,189)</b>	<b>19,204</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>14,063</b>	<b>(2,941)</b>	<b>(2,638)</b>	<b>6,523</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>14,195</b>	<b>17,136</b>	<b>6,624</b>	<b>101</b>
<b>Cash and cash equivalents at end of period</b>	21	<b>28,258</b>	<b>14,195</b>	<b>3,986</b>	<b>6,624</b>

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

for the year ended December 31, 2010

## 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 5NZ, United Kingdom (registered number: 897608).

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

#### 2.1.1 Changes in accounting policies and disclosures

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

The Group has adopted the following new and amended IFRSs as of January 1, 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009.
- The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The Group has not made any acquisitions during the year requiring the application of the revised standard.
- The consequential amendments to IAS 27 and IAS 28 were applied when accounting for the Group's loss of significant influence over associates, which require any remaining interest in the associate to be re-measured to fair value, and the resulting gain or loss being recognised in profit or loss. The application of IAS 27 (revised) and IAS 28 (revised) resulted in a gain on the derecognition of Royalco Resources Limited as an associate of £539,000 being credited to profit or loss during the year. See note 19b for further details on the derecognition of Royalco Resources Limited as an associate.

##### (b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning January 1, 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2010 or later periods, but the Group has not early adopted them.

- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments Recognition and measurement', effective July 1, 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.
- IFRS 2 (amendments), 'Group cash-settled share-based payment transaction', effective from January 1, 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of Group arrangements that were not covered by that interpretation.

##### (c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2011 or later periods, but the Group has not early adopted them:

- 'Classification of rights issues' (amendment to IAS 32) – effective annual periods beginning on or after February 1, 2010. The Group will apply the amended standard from January 1, 2011.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – effective July 1, 2010.
- IFRIC 14 (amendments) 'Prepayments of a Minimum Funding Requirement' – effective January 1, 2011.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

- IAS 24 (revised 2009) 'Related Party Disclosures' – effective January 1, 2011.
- IFRS 9 'Financial Instruments' – effective 1st January 2013.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group. The Group does not intend to apply any of these pronouncements early.

### 2.2 Consolidation

#### (a) Subsidiaries

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

Investments in subsidiaries are accounted for in the parent company at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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

#### (b) Associates

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

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

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

Dilution gains and losses arising in investments in associates are recognised in the income statement.

#### (c) Joint ventures

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

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

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

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

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

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

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

### Changes in accounting policy

The Group has changed its accounting policy for the accounting for loss of control or significant influence from January 1, 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interest in joint ventures'.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date of control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after January 1, 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 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 and Investment committees who combined make the strategic decisions for the Group.

### 2.4 Foreign currencies

#### (a) Function and presentation currency

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

#### (b) Transactions and balances

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

#### (c) Group companies

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

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates; and
- (c) all resulting exchange difference 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, and of borrowings are taken to the currency translation reserve in equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

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

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price, 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'.

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 income.

### 2.6 Coal royalties

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

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

### 2.7 Intangibles

#### (a) Exploration and evaluation costs

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

- researching and analysing exploration data;
- conducting geological studies, exploratory drilling and sampling;

## Notes to the consolidated financial statements

for the year ended December 31, 2010

- examining and testing extraction and treatment methods; and/or
- compiling prefeasibility and feasibility studies.

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

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

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

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any related impairment provisions are written off.

### *(b) Royalty interests*

Royalty interests represent the net smelter royalties acquired on the Four Mile Project in South Australia, the Salamanca Uranium Project in Spain and a number of tenements in the Athabasca Basin in Canada, together with the gross revenue royalties on the DFD Rhodes Group iron ore deposits in Western Australia, and the Amapá iron ore deposits in Brazil.

The Group does not own the physical rights to the minerals contained within these deposits, rather it is entitled to the royalty payments from these projects arising from contractual rights. It is probable that future economic benefits will flow to the Group, however, such benefits can not be reliably measured and as there is no active market for royalties for the determination of fair value the royalty interests are recorded at cost less accumulated amortisation.

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 amortised on a systematic basis over this useful life once the asset is available for use. Amortisation rates are adjusted on a prospective basis for all changes to estimates of the life of mine. Acquisition costs of royalty interests on feasibility stage projects are not amortised. Amortisation will stop when the royalty is classified as held for sale or derecognised.

### **2.8 Impairment of non-financial assets**

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

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

### **2.9 Financial instruments**

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

#### *Cash and cash equivalents*

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

#### *Loans and receivables*

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

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

#### *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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

Interests classified as available-for-sale are measured at subsequent reporting dates at their fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity within the investment revaluation reserve, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Unquoted investments are initially recognised using cost as the best evidence of fair value.

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. When a market price can be established the investments are revalued accordingly.

For mining and exploration interests classified as assets at fair value through profit or loss, gains and losses arising from changes in fair value are recognised directly in the income statement. The fair values of such instruments are assessed with reference to the relevant factors, which include, inter alia, equity prices in active markets, 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 cost as the best evidence of fair value at acquisition (see note 18).

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

### *Royalty instruments*

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

Royalty instruments are classified upon initial recognition as available-for-sale or as assets at fair value through profit or loss, depending on the characteristics of the particular instrument and its purpose. The Group assesses each royalty with reference to whether it would meet the applicable criteria for a derivative, and if the entire royalty contract meets the criteria it is classified as fair value through profit or loss. 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.

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

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

All royalty instruments are assessed for impairment at least at each reporting date and the assessment includes variables such as the instrument's valuation in active markets, production profiles, commodity prices and management representations.

### *Financial liabilities and equity*

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

### *Trade payables*

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

### *Equity instruments*

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

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

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

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

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

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

### 2.13 Revenue recognition

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

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

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

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

### 2.14 Leases

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

### 2.15 Dividend distribution

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

## 3 Financial risk management

The Group's principal treasury objective is to provide sufficient liquidity to meet operational cash flow 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, price risk and interest rate risk. The Group manages these risks by operating controlled treasury policies which are monitored by the Board 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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### Liquidity and funding risk

The objective of the Group 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. The Group has a strong credit rating and has good access to capital markets, if required.

### Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments, which 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. 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. There are no doubtful receivables this period.

The credit risk on liquid funds is limited because the counterparties are banks with 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 counterparties and customers.

The Group acquired three royalties and one royalty option during the year. In the event of non-payment of royalties, the Group has registered its interests against mining title where possible. 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.

A derivative financial instrument to provide finance to a listed mining development company is currently held by the Group (note 18). This instrument is convertible into equity in the company or royalties over the company's properties at the Group's option for the period to November 2012. In the event of default the instrument becomes repayable and the Group would rank equally with the company's other unsecured creditors in this regard. The Group undertakes detailed analysis of factors which mitigate the risk of default to the Group.

### Foreign exchange risk

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

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

	2010					2009				
	GBP	AUD	CAD	USD	Euro	GBP	AUD	CAD	USD	Euro
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets	3,501	61,321	37,273	350	12	1,005	55,628	46,294	29	18
Financial liabilities	-	-	-	-	-	-	-	-	-	-
Short term exposure	3,501	61,321	37,273	350	12	1,005	55,628	46,294	29	18

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

It assumes a +/- 10% change of the Sterling / Australian Dollar exchange rate for the year ended December 31, 2010 (2009: 10%). A +/- 10% is considered for the Sterling / Canadian Dollar exchange rate (2009: 10%). The sensitivity analysis is based on the Group's foreign currency financial instruments held at balance sheet date.

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

	2010					2009				
	GBP	AUD	CAD	USD	Euro	GBP	AUD	CAD	USD	Euro
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	(1)	3,233	1,578	-	-	-	772	(76)	-	-
Equity	350	6,132	3,727	35	1	101	5,563	4,629	3	2

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

	2010					2009				
	GBP	AUD	CAD	USD	Euro	GBP	AUD	CAD	USD	Euro
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net result for the year	1	(3,233)	(1,578)	-	-	-	(772)	76	-	-
Equity	(350)	(6,132)	(3,727)	(35)	(1)	(101)	(5,563)	(4,629)	(3)	(2)

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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 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 15% increase or decrease in listed equity prices has been performed (2009: 10%). 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 £12.9 million (2009: £2.5 million). Equity would have changed by £18.3 million (2009: £10.0 million).

The royalties acquired during the year (note 17) expose the Group to other price risk through fluctuations in commodity prices, particularly the prices of iron ore, gold and uranium. As the directors obtain independent commodity price forecasts, the generation of which takes into account fluctuations in prices, no detailed analysis of the impact of fluctuations on the valuations of the royalties has been undertaken.

The Group is exposed to other price risk through its convertible instruments (note 16) that can be converted into equity or royalties.

The underlying value of the equity may change resulting in an increase or decrease in the value of the instrument. As the equity is currently unlisted it is not possible to quantify this risk at this stage.

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

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

### Interest rate risk

The Group is exposed to interest rate risk in respect of the cash balances held with banks and other highly rated counterparties. If the interest rates the Group received had increased by one percent during the year, the net result for the year would have been increased by £1,215,000 (2009: £796,000). If the interest rates the Group received had decreased by one percent during the year, the net result for the year would have been reduced by £486,000 (2009: £796,000). There would have been no impact on equity.

## Notes to the consolidated financial statements

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	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2010				
Assets				
Cash	0.40%	24,603	3,655	28,258
Trade receivables		–	–	–
Other receivables		–	8,425	8,425
<b>Total Financial Assets</b>		<b>24,603</b>	<b>12,080</b>	<b>36,683</b>
Financial Liabilities				
Trade payables		–	131	131
Other payables		–	244	244
<b>Total Financial Liabilities</b>		<b>–</b>	<b>375</b>	<b>375</b>
<b>Net Financial Assets</b>		<b>24,603</b>	<b>11,705</b>	<b>36,308</b>

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2009				
Assets				
Cash	1.00%	8,154	6,041	14,195
Trade receivables		–	–	–
Other receivables	8.50%	1,112	3,896	5,008
<b>Total Financial Assets</b>		<b>9,266</b>	<b>9,937</b>	<b>19,203</b>
Liabilities				
Trade payables		–	125	125
Other payables		–	210	210
<b>Total Financial Liabilities</b>		<b>–</b>	<b>335</b>	<b>335</b>
<b>Net Financial Assets</b>		<b>9,266</b>	<b>9,602</b>	<b>18,868</b>

### Financial Assets

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

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Available-for-sale</i>				
Other royalties	28,061	28,061	21,169	21,169
Mining and exploration interests	128,231	107,865	108,685	101,900
<i>Fair value through profit or loss</i>				
Other royalties	–	–	810	810
Mining and exploration interests	248	248	1,010	1,010
<i>Loans and receivables</i>				
Trade and other receivables	8,425	41,432	5,008	6,298
Cash at bank and in hand	28,258	3,986	14,195	6,624

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### Fair value hierarchy

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

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

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

The following tables present the Group's assets and liabilities that are measured at fair value at December 31, 2010 and December 31, 2009:

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

Group Assets	Note	2009			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Royalty instruments	(a)	–	–	21,979	21,979
Mining and exploration interests – quoted	(b)	99,543	–	–	99,543
Mining and exploration interests – unquoted	(c)	–	8,984	–	8,984
Royalty options	(d)	–	1,168	–	1,168
<b>Total</b>		<b>99,543</b>	<b>10,152</b>	<b>21,979</b>	<b>131,674</b>
<b>Net fair value</b>		<b>99,543</b>	<b>10,152</b>	<b>21,979</b>	<b>131,674</b>

The following tables present the Company's assets and liabilities that are measured at fair value at December 31, 2010 and December 31, 2009:

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

Company	Note	2009			Total £'000
		Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Assets</b>					
Royalty instruments	(a)	–	–	21,979	21,979
Mining and exploration interests – quoted	(b)	97,597	–	–	97,597
Mining and exploration interests – unquoted	(c)	–	4,145	–	4,145
Royalty options	(d)	–	1,168	–	1,168
<b>Total</b>		<b>97,597</b>	<b>5,313</b>	<b>21,979</b>	<b>124,889</b>
<b>Net fair value</b>		<b>97,597</b>	<b>5,313</b>	<b>21,979</b>	<b>124,889</b>

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

The methods and valuation techniques used for the purposes of measuring fair value are unchanged compared to the previous reporting period.

### (a) Royalty instruments

The Group's royalty streams arising from its four royalty instruments have been classified as available for sale, with value on initial recognition being calculated as the total cost of the agreement less the valuation of the option to convert to shares. At reporting date the royalty streams have been valued on the net present value of the pre-tax cash flows discounted at a rate management considers reflects the risk associated with each of the projects. Note 16 details the discount rates used.

The option to convert to shares has been treated as fair value through profit and loss as designated on initial recognition at the date of acquisition and has been valued at December 31, 2010 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.

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

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

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

All the unquoted mining and exploration interests are initially recognised using cost as the best evidence of fair value. 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.

### (d) Royalty options

All the royalty options are initially recognised using cost as the best evidence of fair value. 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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 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, 2010.

	Note	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
		Net smelter return royalty	Optionality to convert debenture	
		£'000	£'000	£'000
At January 1, 2010		21,169	810	21,979
Gains or losses recognised in:				
Profit and loss	(a)	–	(810)	(810)
Other comprehensive income		11,086	–	11,086
Additions		–	–	–
Disposals		–	–	–
Royalty instrument provision		(4,194)	–	(4,194)
Transfers into level 3		–	–	–
Transfers out of level 3		–	–	–
At December 31, 2010		28,061	–	28,061

The following table presents the changes in Level 3 instruments for the year ended December 31, 2009.

	Note	Available-for-sale financial assets	Financial assets at fair value through profit and loss	Total
		Net smelter return royalty	Optionality to convert debenture	
		£'000	£'000	£'000
At January 1, 2009		7,426	357	7,783
Gains or losses recognised in:				
Profit and loss	(a)	–	130	130
Other comprehensive income		7,147	–	7,147
Additions		6,596	323	6,919
Disposals		–	–	–
Transfers into level 3		–	–	–
Transfers out of level 3		–	–	–
At December 31, 2009		21,169	810	21,979

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

There have been no transfers into or out of level 3 in the reporting period under review.

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 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 15, note 16, note 17 and note 18.
- (b) Recoverability of deferred tax assets – note 2.10 and note 22.

#### 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 the nature of those royalty agreements to determine which class of asset they fall under. For those royalties acquired which give the Group a straight royalty with no conversion rights to shares for example, these are classified as a royalty interest within intangibles – note 2.7(b) and note 17.

Where an agreement has a convertible option within it, the contracts are reviewed to determine whether the option is closely related or not to the host contract. This will determine whether the assets should be classified as a derivative at fair value through profit and loss or an available for sale financial asset with an embedded derivative – note 2.9 and note 16.

- (c) Derecognition of the Group's investment in Royalco Resources Limited as an investment in associate – note 19b.
- (d) Review of assumptions underlying the independent coal industry advisors' valuation of the Kestrel and Crinum coal royalty – note 15.
- (e) 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.

- (f) Review of asset carrying values and impairment charges and reversals – note 2.6, note 2.7, note 2.8, note 15, note 16, note 17 and note 18.
- (g) Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 2.10, note 10 and note 22.

### 5 Segment information

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

The committees consider 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 and Investment committees for the reportable segments for the year ended December 31, 2010 is as follows:

	Australia		Americas		Europe		All other segments £'000	Total £'000
	Royalty £'000	Mining Interests £'000	Royalty £'000	Mining Interests £'000	Royalty £'000	Mining Interests £'000		
<b>Total segment income</b>	29,930	31,581	203	12,255	–	(2,811)	1,203	<b>72,361</b>
Profit before tax	29,930	32,385	(4,686)	12,255	–	(2,811)	(1,224)	<b>65,849</b>
Amortisation	–	–	(85)	–	–	–	–	<b>(85)</b>
Income tax expense	(7,803)	–	–	–	–	–	(1,763)	<b>(9,566)</b>
<b>Total assets</b>	<b>201,890</b>	<b>75,280</b>	<b>27,650</b>	<b>35,122</b>	<b>19,590</b>	<b>17,671</b>	<b>38,423</b>	<b>415,626</b>
Total assets include:								
Investments in associates	–	–	–	–	–	–	–	–
Additions to non-current assets (other than financial instruments and deferred tax assets)	13,664	–	20,351	–	3,997	–	–	<b>38,012</b>
<b>Total liabilities</b>	<b>56,669</b>	<b>–</b>	<b>855</b>	<b>–</b>	<b>2,716</b>	<b>–</b>	<b>9,498</b>	<b>69,738</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2010

The segment information for the year ended December 31, 2009 is as follows:

	Australia		Americas		Europe		All other segments £'000	Total £'000
	Royalty £'000	Mining Interests £'000	Royalty £'000	Mining Interests £'000	Royalty £'000	Mining Interests £'000		
<b>Total segment income</b>	20,334	7,043	-	(418)	-	(258)	809	<b>27,510</b>
Profit before tax	20,334	7,558	(2)	(418)	(24)	(258)	(1,307)	<b>25,883</b>
Amortisation	-	-	-	-	-	-	-	-
Income tax expense	(5,159)	-	-	-	-	-	(93)	<b>(5,252)</b>
<b>Total assets</b>	156,638	60,148	15,892	44,987	10,164	2,811	21,815	<b>312,455</b>
Total assets include:								
Investments in associates	-	3,771	-	-	-	-	-	<b>3,771</b>
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,030	-	4,473	-	-	-	2,402	<b>9,905</b>
<b>Total liabilities</b>	<b>47,622</b>	-	<b>1,068</b>	-	<b>1,154</b>	-	<b>2,575</b>	<b>52,419</b>

The amounts provided to the Executive and Investment committees 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 and Investment committees 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.

Royalty income of £29,930,000 (2009: £20,334,000) is derived from a single royalty. This income is attributable to the Australian royalty segment.

### 6a Expense by nature

	2010 £'000	2009 £'000
<b>Group</b>		
Employee benefit expense (note 7a)	1,896	1,459
Listing fees	249	135
Operating lease payments	144	146
Other expenses	987	1,016

### 6b Auditors' remuneration

	2010 £'000	2009 £'000
<b>Group</b>		
Fees payable to Company's auditor for the audit of parent company and consolidated financial statements	48	39
Fees payable to the Company's auditor and its associates for other services:		
- The audit of Company's subsidiaries pursuant to legislation	3	-
- Other services pursuant to legislations	11	11
- Tax and other services	75	10
	<b>137</b>	<b>60</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 7a Employee benefits expense

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Wages and salaries	1,511	1,151	1,356	951
Share-based awards to directors and employees	185	150	185	150
Social security costs	166	121	166	121
Other pension costs	34	37	34	37
	1,896	1,459	1,741	1,259

### 7b Retirement benefits plans

The Group operates a money purchase group personal pension scheme. Under this scheme the Group makes contributions to personal pension plans of individual 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 £34,000 (2009: £37,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at December 31, 2010, contributions of £15,000 (2009: £5,000) due in respect of the current reporting period had not been paid over to the schemes.

### 7c Average number of people employed

	2010	2009
<b>Group</b>		
Number of employees	8	7
	2010	2009
<b>Group</b>		
Average number of people (including executive directors employed:		
Executive directors	5	5
Administration	3	2
	8	7

### Company

The average number of administration staff employed by the Company during the year, including executive directors was 8 (2009: 7).

Directors' salaries are shown in the Directors' Remuneration Report on [pages 21 to 23](#), including the highest paid director.

### 8 Finance income

	2010 £'000	2009 £'000
<b>Group</b>		
Interest on bank deposits	486	431
Interest on royalty instruments	684	365
	1,170	796

### 9 Other (losses)/gains – net

	2010 £'000	2009 £'000
<b>Group</b>		
Gain on derecognition of associate	539	–
(Loss)/gain on financial asset at fair value through profit and loss	(810)	130
Net foreign exchange gain	1,049	893
Loss on permanent write down of royalty instrument	(4,194)	–
Loss on permanent write down of mining and exploration interests	–	(409)
	(3,416)	614

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 10 Income tax expense

	2010 £'000	2009 £'000
<b>Group</b>		
Total corporation tax charge	8,565	8,239
Deferred tax charged/(credited) to income – current year (note 22)	1,001	(2,987)
Tax on profit on ordinary activities	9,566	5,252
	<b>2010 £'000</b>	<b>2009 £'000</b>
<b>Group</b>		
Factors affecting the tax charge for the year:		
Profit on activities before tax	65,849	25,883
Prima facie tax payable at UK rate of 28% (2009: 28%) and Australian rate of 30% (2009: 30%)	19,128	7,744
Adjustment for tax exempt income	(10,475)	(1,841)
Utilisation of losses brought forward	213	108
Adjustment for foreign taxed income	29	(342)
Non-deductible expenses	671	(417)
Total income tax expense	9,566	5,252

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

### 11 Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £56,283,000 (2009: £20,631,000) and the weighted average number of shares in issue during the year of 108,257,718 (2009: 108,189,719).

The diluted earnings per ordinary share is calculated on a profit after tax of £56,283,000 (2009: £20,631,000) and 108,266,665 shares (2009: 108,209,561). The numbers used in calculating basic and diluted earnings per share are restated below:

	2010 £'000	2009 £'000
<b>Net profit attributable to shareholders</b>		
Earnings—basic	56,283	20,631
Earnings—diluted	56,283	20,631
	<b>2010</b>	<b>2009</b>
<b>Weighted average number of shares in issue</b>		
Ordinary shares in issue	108,257,718	108,189,719
Employee Share Option Scheme	8,947	19,842
	108,266,665	108,209,561

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 12 Royalty cash flow per share

	2010	2009
Group		
Basic royalty cash flow per share	28.65p	19.10p
Diluted royalty cash flow per share	28.65p	19.10p

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

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

	2010 £'000	2009 £'000
Royalty income	30,133	20,334
Receipts from royalty instruments	881	335
Total Royalty cash flow	31,014	20,669
	2010	2009
<b>Weighted average number of shares in issue</b>		
Ordinary shares in issue	108,257,718	108,189,719
Employee Share Option Scheme	8,947	19,842
	108,266,665	108,209,561

### 13 Dividends

On January 13, 2010 an interim dividend of 3.70 pence per share was paid to shareholders in respect of the year ended December 31, 2009. On July 7, 2010 a final dividend of 4.65 pence per share was paid to shareholders to make a total dividend for the year of 8.35 pence per share.

On January 12, 2011 an interim dividend of 3.95 pence per share was paid to shareholders in respect of the year ended December 31, 2010. This dividend has not been included as a liability in these financial statements. The directors propose that a final dividend of 5.10 pence per share be paid to shareholders on July 6, 2011, to make a total dividend for the year of 9.05 pence per share. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The proposed final dividend for 2010 is payable to all shareholders on the Register of Members on May 6, 2011. The total estimated dividend to be paid is £5.5 million. This will be reduced to the extent that shareholders elect to receive scrip instead of cash under any scrip dividend alternative. The Board will consider whether shareholders will again be given the opportunity to elect to receive a scrip dividend instead of cash depending on the share price at the time.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 14 Property, plant and equipment

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

Group	Producing assets £'000	Coal Tenures £'000	Equipment and Fixtures £'000	Total £'000
<b>Gross carrying amount</b>				
At January 1, 2009	821	–	150	971
Additions	–	88	80	168
Reclassification from mining and exploration interests	–	758	–	758
Disposals	–	–	(74)	(74)
At December 31, 2009	821	846	156	1,823
<b>Depreciation and impairment</b>				
At January 1, 2009	(2)	–	(140)	(142)
Disposals	–	–	73	73
Depreciation	–	–	(12)	(12)
At 31 December 2009	(2)	–	(79)	(81)
<b>Carrying amount December 31, 2009</b>	<b>819</b>	<b>846</b>	<b>77</b>	<b>1,742</b>

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

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

Company	Producing assets £'000	Coal Tenures £'000	Equipment and Fixtures £'000	Total £'000
<b>Gross carrying amount</b>				
At January 1, 2009	821	–	150	971
Additions	–	–	80	80
Reclassification from mining and exploration interests	–	–	–	–
Disposals	–	–	(74)	(74)
At December 31, 2009	821	–	156	977
<b>Depreciation and impairment</b>				
At January 1, 2009	(2)	–	(140)	(142)
Disposals	–	–	73	73
Depreciation	–	–	(12)	(12)
At December 31, 2009	(2)	–	(79)	(81)
<b>Carrying amount December 31, 2009</b>	<b>819</b>	<b>–</b>	<b>77</b>	<b>896</b>

The Group's property plant and equipment are carried at cost less depreciation with the exception of leases relating to the talc deposit on Shetland held by the parent company. The producing asset on Shetland is included at a directors' valuation of £0.8 million (2009: £0.8 million) plus additions which are carried at cost. This 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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 15 Coal royalties

	Group £'000	Company £'000
At January 1, 2009	93,347	–
Revaluation adjustment	42,916	–
Foreign currency translation	13,633	–
At December 31, 2009	149,896	–
Revaluation adjustment	355	–
Foreign currency translation	26,879	–
At December 31, 2010	177,130	–

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

The coal royalty was valued during December 2010 at £177.1 million (A\$270.3 million) by VCoal Pty Limited, 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 amount represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes. Were the coal royalty to be realised at the revalued amount there are £3.1 million (A\$4.8 million) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 22). The Directors do not presently have any intention to dispose of the coal royalty.

### 16 Royalty instruments

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

Project	Commodity	Cost '000	Royalty Rate	Escalation	Option Price	Discount Rate	Royalty Valuation £'000	Option Valuation £'000
Engenho	Gold	A\$4,000	2.50%	–	A\$0.35	10%	5,890	–
El Valle	Gold	C\$7,500	2.50%	3% >US\$1,100/oz	C\$0.958	12.5%	15,592	–
Jogjakarta Iron Sands	Iron Sands	A\$5,000	2.00% <sup>1</sup>	–	A\$0.10 – A\$0.50	15%	6,579	–
Midway–McKenzie Break <sup>2</sup>	Gold	C\$8,000	2.50%	2.75% >US\$1,250/oz	C\$0.70	12%	–	–
							28,061	–

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

<sup>2</sup> Midway–McKenzie Break royalty instrument has been fully provided for as at December 31, 2010 refer to note 16(a).

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### (a) Available for sale

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

	Group £'000	Company £'000
<b>Fair value</b>		
At January 1, 2009	7,426	7,426
Additions	6,596	6,596
Disposals	-	-
Revaluation adjustment	7,147	7,147
At December 31, 2009	21,169	21,169
Additions	-	-
Disposals	-	-
Revaluation adjustment	11,086	11,086
	32,255	32,255
Royalty instrument provision	(4,194)	(4,194)
At December 31, 2010	28,061	28,061

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

### (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. The options are classified as fair value through profit and loss, with gains and losses arising from changes in fair value directly recognised in the income statement as detailed below:

	Group £'000	Company £'000
<b>Fair Value</b>		
At January 1, 2009	357	357
Additions	323	323
Disposals	-	-
Revaluation adjustment	130	130
At December 31, 2009	810	810
Additions	-	-
Disposals	-	-
Revaluation adjustment	(810)	(810)
At December 31, 2010	-	-

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Total royalty instruments</b>	<b>28,061</b>	<b>28,061</b>	21,979	21,979

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 17 Intangibles

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

Group	Exploration and Evaluation Costs £'000	Royalty Interests £'000	Total £'000
<b>Gross carrying amount</b>			
At January 1, 2009	–	–	–
Additions	367	5,326	5,693
Reclassification from mining and exploration interests	402	–	402
At December 31, 2009	769	5,326	6,095
<b>Amortisation and impairment</b>			
At January 1, 2009	–	–	–
Impairment charge	–	–	–
Amortisation charge	–	–	–
At December 31, 2009	–	–	–
<b>Carrying amount December 31, 2009</b>	<b>769</b>	<b>5,326</b>	<b>6,095</b>

Company	Royalty Interests £'000	Total £'000
<b>Gross carrying amount</b>		
At January 1, 2010	2,296	2,296
Additions	1,701	1,701
Reclassification from mining and exploration interests	–	–
At December 31, 2010	3,997	3,997
<b>Amortisation and impairment</b>		
At January 1, 2010	–	–
Impairment charge	–	–
Amortisation charge	–	–
At December 31, 2010	–	–
<b>Carrying amount December 31, 2010</b>	<b>3,997</b>	<b>3,997</b>

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for the year ended December 31, 2010

Company	Royalty Interests £'000	Total £'000
<b>Gross carrying amount</b>		
At January 1, 2009	–	–
Additions	2,296	2,296
Reclassification from mining and exploration interests	–	–
At December 31, 2009	2,296	2,296
<b>Amortisation and impairment</b>		
At January 1, 2009	–	–
Impairment charge	–	–
Amortisation charge	–	–
At December 31, 2009	–	–
<b>Carrying amount December 31, 2009</b>	<b>2,296</b>	<b>2,296</b>

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

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

Royalty interests represent the net smelter royalties acquired on the Four Mile project in South Australia, the Salamanca uranium project in Spain and a number of tenements in the Athabasca Basin region of Canada, together with the gross revenue royalties on the DFD Rhodes Group iron ore deposits in Western Australia and the Amapá Iron Ore System in Brazil.

All amortisation and impairment charges (or reversals if any) are included within 'depreciation, amortisation and impairment of non-financial assets'. 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.

### 18 Mining and exploration interests

(a) Available for sale	Group £'000	Company £'000
<b>Fair value</b>		
At January 1, 2009	44,745	35,085
Additions	29,730	26,081
Disposals	(19,181)	(15,777)
Reclassification as investment in associate	(3,321)	–
Reclassification as intercompany loans	(953)	–
Revaluation adjustment	57,657	56,511
Foreign currency translation	8	–
At December 31, 2009	108,685	101,900
Additions	46,958	34,968
Disposals	(69,589)	(64,846)
Reclassification from investment in associate	4,151	–
Revaluation adjustment	37,502	35,843
Foreign currency translation	524	–
At December 31, 2010	128,231	107,865

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

	Group £'000	Company £'000
<b>(b) Fair value through profit and loss</b>		
<b>Fair value</b>		
At January 1, 2009	1,010	1,010
Additions	–	–
Disposals	–	–
Revaluation adjustment	–	–
At December 31, 2009	1,010	1,010
Additions	–	–
Disposals	(762)	(762)
Revaluation adjustment	–	–
At December 31, 2010	248	248

A non-repayable convertible instrument was created by the Group in 2007. 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 the best evidence of fair value. The Group considers that there had been no material change in the fair value of the instrument at the reporting date, and this will be re-examined on a regular basis considering factors such as the presence of an active market for the equity and valuations of the potential royalty streams. The Group has no present intention of exercising the conversion of the instrument in the next 12 months. Further guidance on fair value measurement is provided in note 3.

The Group's total mining and exploration interests are represented by 40 (2009: 46) investments held at December 31, as follows:

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Quoted investments	121,863	101,983	99,543	97,597
Unquoted investments	6,210	5,724	8,984	4,145
Royalty Options	406	406	1,168	1,168
<b>Total mining and exploration interests</b>	<b>128,479</b>	<b>108,113</b>	<b>109,695</b>	<b>102,910</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 19a Investments in subsidiaries

Company	Investments in subsidiaries £'000
Cost:	
At January 1, 2009	6,963
Additions	–
Investment reclassified as an intercompany loan	(953)
At December 31, 2009	6,010
Additions	17,000
Disposals	(4,353)
Investment reclassified as an intercompany loan	–
At December 31, 2010	18,657
Provisions:	
At January 1, 2009	345
Additions	–
At December 31, 2009	345
Additions	–
At December 31, 2010	345
Net book value:	
At January 1, 2009	6,618
At December 31, 2009	5,665
At December 31, 2010	18,312

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

### 19b Investments in associates

Group	Investments in associates £'000
At January 1, 2009	–
Additions – cost	3,321
Share of profits	515
Share of other comprehensive income	(65)
At December 31, 2009	3,771
Additions – cost	109
Return of capital by associate	(949)
Share of profits	265
Share of other comprehensive income	110
Reclassification to mining and exploration interests	(3,306)
At December 31, 2010	–

Investments in associates at December 31, 2009 include goodwill of £587,000.

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

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

The Group's investment in Royalco is included in available-for-sale mining and exploration interests as at December 31, 2010 (note 18).

### 19c Joint ventures

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

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

	2010 £'000	2009 £'000
Non-current assets	–	–
Current assets	4	2
Non-current liabilities	–	–
Current liabilities	7	1
Income	–	–
Expenses	41	48

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

### 20 Trade and other receivables

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Current</b>				
Income tax receivable	268	268	–	–
Trade receivables	–	–	–	–
Other receivables (including royalties receivable)	8,425	148	5,008	1,280
Prepayments and accrued income	120	106	74	67
	8,813	522	5,082	1,347
<b>Non-current</b>				
Amounts due from subsidiaries	–	41,284	–	5,018
	8,813	41,806	5,082	6,365

Trade and other receivables principally comprise amounts relating to royalties receivable for the quarter October 1, 2010 to December 31, 2010. The directors consider that the carrying amount of trade and other receivables is approximately their fair value. Amounts due from subsidiaries, are considered long term loans. All other amounts are considered short term and none are past due.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 21 Cash and cash equivalents

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

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Cash at bank and on hand	19,311	3,547	10,784	5,423
Trading deposits with brokers	8,947	439	3,411	1,201
Cash and cash equivalents	28,258	3,986	14,195	6,624

### 22 Deferred tax

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

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
At January 1	47,883	3,189	28,857	(1,603)
Charged/(Released) to income for the year	1,001	–	(2,987)	–
Charged to equity for the year	6,700	6,290	17,824	4,792
Foreign currency translation	8,254	–	4,189	–
At December 31	63,838	9,479	47,883	3,189

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

Group	Coal royalties		Available-for sale-investments			Total £'000
	Revaluation of coal royalty £'000	Effects of Tax losses £'000	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	Accrual of royalty receivable £'000	
At January 1, 2009	27,491	(563)	994	(2,918)	3,853	28,857
Released to income for the year (note 10)	–	–	–	–	(2,987)	(2,987)
Charged/(Released) to equity for the year	12,875	(111)	1,671	3,389	–	17,824
Foreign currency translation	4,090	(83)	–	(61)	243	4,189
At December 31, 2009	44,456	(757)	2,665	410	1,109	47,883
Charged to income for the year (note 10)	–	–	–	–	1,001	1,001
Charged/(Released) to equity for the year	106	(52)	2,230	4,416	–	6,700
Foreign currency translation	8,064	(136)	–	23	303	8,254
At December 31, 2010	52,626	(945)	4,895	4,849	2,413	63,838

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:

	Available-for sale-investments		Total £'000
	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	
At January 1, 2009	994	(2,597)	(1,603)
Charged to equity for the year	1,671	3,121	4,792
At December 31, 2009	2,665	524	3,189
Charged to equity for the year	2,230	4,060	6,290
At December 31, 2010	4,895	4,584	9,479

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 23 Trade and other payables

	2010		2009	
	Group £'000	Company £'000	Group £'000	Company £'000
Income tax payable	4,987	–	3,920	–
Other taxation and social security payable	364	364	226	226
Trade payables	131	120	125	90
Other payables	244	223	210	192
Accruals and deferred income	174	152	55	55
	<b>5,900</b>	<b>859</b>	<b>4,536</b>	<b>563</b>

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

### 24 Share capital and share premium

	Number of shares	Share capital £'000	Share premium £'000	Total £'000
<b>Group and Company</b>				
<b>At January 1, 2009</b>	106,172,139	2,123	18,604	20,727
Scrip dividends	1,201,250	24	1,966	1,990
Issue of share capital under share-based payment	66,074	2	148	150
<b>At December 31, 2009</b>	<b>107,439,463</b>	<b>2,149</b>	<b>20,718</b>	<b>22,867</b>
Scrip dividends	750,256	14	2,025	2,039
Issue of share capital under share-based payment	581,613	12	1,464	1,476
<b>At December 31, 2010</b>	<b>108,771,332</b>	<b>2,175</b>	<b>24,207</b>	<b>26,382</b>

### 25 Share based payments

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

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

#### (a) Company Share Ownership Plan

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

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

## Notes to the consolidated financial statements

for the year ended December 31, 2010

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

	2010		2009	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	71,367	1.2611	91,039	1.3181
Granted during the year	60,120	2.4950	–	–
Exercised during the year	(36,923)	0.8125	–	–
Surrendered during the year	(34,444)	1.7419	(19,672)	1.5250
Outstanding at 31 December	60,120	2.4950	71,367	1.2611

Out of the 60,120 outstanding options (2009: 71,367), nil options (2009: 36,923) were exercisable. Options exercised in 2010 resulted in 36,923 shares (2009: nil) being issued at a weighted average price of £0.8125 each (2009: nil each). The related weighted average price at the time of exercise was £2.515 (2009: nil) per share. There were no related transaction costs.

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

Expiry date	Exercise price in £ per share	Shares	
		2010	2009
2010	0.8125	-	36,923
2011	–	–	–
2012	–	–	–
2013	–	–	–
2014	–	–	–
2015	–	–	–
2016	–	–	–
2017	–	–	–
2018	–	–	–
2019	2.4950	60,120	–
		60,120	36,923

The weighted average fair value of options granted during the period determined using the Black-Scholes valuation model was £1.326 per option (2009: nil). The significant inputs into the model were weighted average share price of £2.495 (2009: nil) at the grant date, exercise price shown above, volatility of 40% (2009: nil), expected option life of three years (2009: nil) and an annual risk-free interest rate of 2.3% (2009: nil). See note 7a for the total expense recognised in the income statement for share options granted to directors and employees.

### (b) Joint Share Ownership Plan

Under the JSOP, the Remuneration Committee invites selected 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 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 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.

## Notes to the consolidated financial statements

for the year ended December 31, 2010

JSOP awards made during the year are as follows:

	Grant price in \$ per share	Hurdle price in £ per share	Shares		Expiry Date
			2010	2009	
Outstanding at 1 January			–	–	
Awarded during the year	2.480	3.150	508,050	–	2014
Awards settled during the year			–	–	
Outstanding at 31 December			508,050	–	

The weighted average fair value of shares awarded during the period determined using the Monte Carlo valuation model was £0.58 per share. The significant inputs into the model were weighted average share price of £2.48 at the grant date, share price hurdle £3.15, volatility of 40%, expected option life of four years and an annual risk-free interest rate of 2.3%. See note 7a for the total expense recognised in the income statement for share options granted to directors and employees.

### Change in accounting treat of JSOP awards

Awards under the JSOP previously met the definition of cash-settled share-based payments under IFRS 2 'Share-based Payments'. As such the Group measured the awards under the JSOP and the corresponding liability incurred at the fair value of the liability. Until the liability was settled, the Group was required to remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in value recognised in the income statement for the period.

The Anglo Pacific Group Employee Benefit Trust and the participating employees agreed to amend their existing JSOP award agreements such that the awards may only be settled in ordinary shares of the Company. These amendments were made with retrospective effect to the initial awards made on May 20, 2010 resulting in the awards being accounted for as equity-settled share-based payments from grant date.

#### (c) Shares in lieu of remuneration

On December 8, 2010 following the recommendation of the Remuneration Committee, the Group issued 36,640 (2009: 66,074) Ordinary Shares of 2p each in the Company at a price of 327.5p (2009: 225.5p) per share to the Executive Directors as part of their remuneration.

## 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, 2010, this reserve remains unavailable for distribution.

	Group £'000	Company £'000
At January 1, 2010 and December 31, 2010	632	632

## 27 Retained earnings

	Group £'000	Company £'000
Balance at January 1, 2009	80,894	53,968
Surrender of options from share-based payment	–	–
Dividends paid	(9,302)	(9,302)
Profit for the year	20,631	37,813
Balance at December 31, 2009	92,223	82,479
Surrender of options from share-based payment	13	13
Dividends paid	(8,764)	(8,764)
Profit for the year	56,283	43,527
<b>Balance at December 31, 2010</b>	<b>139,755</b>	<b>117,255</b>

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 28 Financial commitments

#### Operating leases

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:

	2010 £'000	2009 £'000
<b>Group</b>		
Within one year	168	148
In the second to fifth years inclusive	557	592
After five years	175	225
	900	965

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 £1,199,000 (2009: £2,365,000) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2009: £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		Associates	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Funding transactions	(28,766)	26,484	–	–
Management fee	2,209	(1,504)	23	10
Amounts owed by related parties at year end	41,284	5,018	–	3

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 of the Group is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on [pages 21 to 23](#).

	2010 £'000	2009 £'000
Short-term employee benefits	1,456	1,179
Post-employment benefits	29	34
Share-based payment	185	150
	1,670	1,363

#### Directors' transactions

Related party transactions in the year ended December 31, 2010 were payments of £8,000 to Allenbridge Group PLC, a company in which Mr A.H. Yadgaroff, a non-executive director, is both a director and shareholder, for the provision of office support services (2009: £8,000). At December 31, 2010 a total of £nil was owing to Allenbridge Group plc (2009: £nil).

## Notes to the consolidated financial statements

for the year ended December 31, 2010

### 30 Events occurring after year end

The Group's investment in Northern Star Mining Corp has been fully provided for subsequent to year end, as a result of Northern Star Mining Corp's shares being suspended from trade on the Toronto Stock Exchange on January 25, 2011 following the announcement of its filing for bankruptcy. The Group, through Anglo Pacific Finance Ltd, held 6,521,000 shares in Northern Star Mining Corp as at December 31, 2010 with a market value of £147,420. The Group ranks equally with all other shareholders and will pursue the recovery of its share of funds to be returned to shareholders by the trustee in bankruptcy.

### 31 Principal subsidiaries and associates

	Country of registration and operation	Principal activity	Proportion of shares held at December 31, 2010
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100% <sup>†</sup>
Argo Royalties Pty Ltd	Australia	Investments	100% <sup>†</sup>
Starmont Ventures Pty Ltd	Australia	Investments	100% <sup>†</sup>
Alkormy Pty Ltd	Australia	Investments	100% <sup>†</sup>
Gordon Resources Ltd	Australia	Owner of coal royalty	100% <sup>†</sup>
Jandale Pty Ltd	Australia	Joint venture company	100% <sup>†</sup>
Centaurus Royalties Ltd	England	Owner of iron ore royalties	100%
Southern Cross Royalties Ltd	England	Owner of uranium royalties	100%
Shetland Talc Ltd	Scotland	Mineral exploration	100%
Anglo Pacific Group Employee Benefit Trust	Guernsey	Administering Group incentive plans	100%
Anglo Pacific Finance Ltd	Ireland	Group treasury	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100% <sup>†</sup>
Panorama Coal Corporation	Canada	Holder of coal tenures	100%
Trefi Coal Corporation	Canada	Holder of coal tenures	100%

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

## Shareholder statistics

(a) Size of Holding (at February 15, 2011)

Category UK and Australia	Number of Shareholders	%	Number of Shares	%
1 – 1,000	665	29.45	359,831	0.33
1,001 – 5,000	916	40.57	2,250,700	2.07
5,001 – 10,000	225	9.96	1,682,490	1.55
10,001 – and over	452	20.02	104,478,311	96.05
	2,258	100.00	108,771,332	100.00

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at February 15, 2011 was 44.46%.

## Notice of Annual General Meeting

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

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Anglo Pacific Group PLC (the "Company") will be held at the Geological Society, Burlington House, Piccadilly, London W1J 0BG, UK on Wednesday April 13, 2011 at 11.00 am to consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 9 will be proposed as ordinary resolutions and resolutions 10 to 12 will be proposed as special resolutions:-

1. To receive the Accounts for the year ended December 31, 2010 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report for the year ended December 31, 2010.
3. To declare a final dividend of 5.10p per ordinary share of the Company.
4. To re-elect as a director M.H. Atkinson, who retires three years after his previous election in accordance with the Company's Articles of Association.
5. To re-elect as a director J.G. Whellock, who retires three years after his previous election in accordance with the Company's Articles of Association.
6. To re-elect as a director A.H. Yadgaroff, who retires three years after his previous election in accordance with the Company's Articles of Association.
7. To re-appoint Messrs Grant Thornton UK LLP as auditors of the Company to hold office until the conclusion of next general meeting at which accounts are laid before the Company, and to authorise the directors of the Company to fix their remuneration.
8. THAT the Board of Directors of the Company (the "Directors") be and they are hereby authorised to offer the holders of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") (subject to such exclusions or other arrangements as the Directors may consider necessary or expedient in relation to treasury shares or any legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange in any territory or otherwise) the right to elect to receive new Ordinary Shares instead of cash in respect of all or part of the final dividend for the year ended December 31, 2010 and all other dividends declared up to the beginning of the next annual general meeting of the Company.
9. THAT the Directors be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £725,142 provided that this authority (unless previously revoked or renewed) shall expire on the earlier of April 13, 2016 and the conclusion of the annual general meeting of the Company held in 2016, save that the Company may before such expiry (or the expiry of any renewal of this authority) make any offer or agreement which would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Directors may allot shares or grant such rights in pursuance of such offer or agreement as if this authority had not expired, and provided further that this authority shall be in substitution for the authority conferred by a resolution dated April 21, 2010 to the extent unused and shall supersede and revoke any other earlier authorities under section 551 of the Act.
10. THAT the Directors be and they are hereby generally empowered pursuant to section 570 and section 573 of the Act to allot equity securities (within the meaning of section 560 of the Act) (including the grant of rights to subscribe for, or to convert any securities into, ordinary shares of two pence each in the capital of the Company) wholly for cash (a) by selling equity securities held by the Company as treasury shares; or (b) by allotting new equity securities pursuant to any authority for the time being in force conferred on them for the purposes of section 551 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited:-
  - (a) to the allotment of equity securities in connection with or pursuant to a rights issue or any other offer in favour of the holders of equity securities and other persons entitled to participate therein in proportion (as nearly as may be practicable) to the respective numbers of ordinary shares then held by them (or, as appropriate, the number of such securities which such other persons are for those purposes deemed to hold), but subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with any fractional entitlements or treasury shares or legal or practical difficulties which may arise under the laws of any overseas territory or the requirements of any regulatory body or any stock exchange in any territory or otherwise;
  - (b) to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities up to an aggregate nominal value of £217,542; and this power shall (unless renewed, varied or revoked by the Company) expire on June 30, 2012 or, if earlier, at the conclusion of the annual general meeting of the Company next held following the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such an offer or agreement as if this power had not expired.
11. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make one or more market purchases (within the meaning of section 693(4) of the Act) of Ordinary Shares on such terms and in such manner as the Directors think fit, subject to the following restrictions and provisions:-
  - (a) the aggregate maximum number of Ordinary Shares hereby authorised to be purchased is 10,877,133;
  - (b) the maximum price which may be paid for an Ordinary Share is an amount being not more than the higher of:
    - (i) 105 per cent of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange's Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is purchased, and

## Notice of Annual General Meeting

- (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venue where the purchase is carried out,  
in each case exclusive of any associated expenses;
  - (c) the minimum price which may be paid for an Ordinary Share is its nominal value (exclusive of any associated expenses);
  - (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the annual general meeting of the Company to be held in 2012 or eighteen months from the date of passing of this resolution, whichever shall be the earlier;
  - (e) the Company may enter into a contract to purchase Ordinary Shares under this authority before the expiry of such authority, and may make a purchase of Ordinary Shares pursuant to any such contract which purchase would or might be completed wholly or partly after the expiration of this authority; and
  - (f) any Ordinary Shares so purchased shall be cancelled or, if the Directors so determine and subject to the provisions of any applicable laws or regulations, held as treasury shares.
12. THAT with effect from the conclusion of the Annual General Meeting:-
- (a) the Articles of Association of the Company be amended by deleting all the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, are to be treated as provisions of the Company's Articles of Association; and
  - (b) the draft articles of association produced to the meeting and initialled by the Chairman of the meeting for the purposes of identification, be and hereby are adopted as the Articles of Association of the Company (the "New Articles") in substitution for and to the exclusion of the existing Articles of Association (the "Current Articles").

*Registered Office*

17 Hill Street  
London  
W1J 5NZ

By Order of the Board

M.J. Tack C.A.  
*Company Secretary*

March 8, 2011

## Notice of Annual General Meeting

### Notes:

1. A member entitled to attend and vote at the above meeting may appoint one or more persons as his proxy to attend, speak and vote instead of him at the meeting. If multiple proxies are appointed they must not be appointed in respect of the same shares. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.
2. In order to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZL.
3. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for this meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
4. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual which can be viewed at [www.euroclear.com/CREST](http://www.euroclear.com/CREST). The message must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 7RA01) not later than 48 hours before the time fixed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.
5. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. A person to whom this Notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the member by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statements of the rights of members in relation to the appointment of proxies in Notes 1 and 3 above do not apply to a Nominated Person. The rights described in those Notes can only be exercised by registered members of the Company.
7. As at February 22, 2011 (being the last business day prior to the publication of this Notice) the Company's issued share capital amounted to 108,771,332 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at February 23, 2011 were 108,771,332 votes.
8. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company or in the Company's overseas branch register as at 6:00pm on April 8, 2011 (or in the event that the meeting is adjourned, only those shareholders registered in the register of members of the Company or in the Company's overseas branch register as at 6.00 pm on the day which is three days prior to the adjourned meeting) shall be entitled to attend or vote at the above meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
9. Any corporation which is a member can appoint one or more corporate representatives. Members can only appoint more than one corporate representative where each corporate representative is appointed to exercise rights attached to different shares. Members cannot appoint more than one corporate representative to exercise the rights attached to the same share(s).
10. Information regarding the Annual General Meeting, including information required by section 311A of the Act, and a copy of this notice of Annual General Meeting is available from the Company's website [www.anglo-pacificgroup.com](http://www.anglo-pacificgroup.com).
11. Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Act, the Company may be required to publish on a website a statement setting out any matter relating to: (a) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (b) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Act to publish on a website.

## Notice of Annual General Meeting

12. Any person holding 3% or more of the total voting rights of the Company and who appoints a person other than the Chairman of the Annual General Meeting as his proxy will need to ensure that both he, and his proxy, comply with their respective disclosure obligations under the UK Disclosure and Transparency Rules.
13. Under section 319A of the Act, the Company must cause to be answered any question relating to the business being dealt with at the Annual General Meeting put by a member attending the meeting unless answering the question would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, or the answer has already been given on a website in the form of an answer to a question, or it is undesirable in the interests of the Company or the good order of the meeting that the question be answered. Members who have any queries about the Annual General Meeting should contact the Company Secretary by email on [company.secretary@anglopacifigroup.com](mailto:company.secretary@anglopacifigroup.com). Members may not use any electronic address provided in this notice or in any related documents (including the accompanying circular and proxy form) to communicate with the Company for any purpose other than those expressly stated.
14. The directors' service contracts, the letters of appointment of the non-executive directors, a copy of the Current Articles and a copy of the New Articles will be available for inspection from the date of this notice until the conclusion of the Annual General Meeting at the Geological Society, Burlington House, Piccadilly, W1J 0BG.

### Appendix 1

#### Summary of the material changes to the Articles of Association of the Company

The New Articles reflect the implementation of the final provisions of the Act and the changes required as a result of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 (the "Shareholders' Rights Regulations"). The material differences between the Current Articles and the New Articles are summarised below.

#### The Company's objects

The provisions regulating the operations of the Company are currently set out in the Memorandum and Current Articles. The Memorandum contains, among other things, the objects clause, which sets out the scope of the activities that the Company is authorised to undertake. This is drafted to give a broad scope. The Act significantly reduces the importance of a company's memorandum of association, providing that it will simply record the names of the subscribers and the number of shares each subscriber has agreed to take in a company. Under the Act, the objects clause and all other provisions that were contained in a company's memorandum of association have been deemed to be contained in a company's articles of association as from October 1, 2009. However, a company can remove these provisions from its articles of association by special resolution.

Further, the Act states that, unless a company's articles of association provide otherwise, a company's objects are unrestricted. Therefore, there is no longer a requirement for an objects clause. Consequently, the Company is proposing to remove its objects clause, together with all other provisions of its Memorandum (except for the limited liability clause) which, by virtue of the Act, have been treated as forming part of the Current Articles. Resolution 12 confirms the removal of these provisions. As the objects clause in the Current Articles is of such a broad scope, if resolution 12 is passed, there will be no significant broadening of the permitted operations of the Company, although the Company would be operating under unrestricted objects.

As the effect of resolution 12 will be to remove the statement regarding limited liability in the Memorandum, the New Articles include an express statement regarding the limited liability of the shareholders.

#### Authorised share capital and unissued shares

The Act abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this. Directors will still be limited as to the number of shares they can allot at any time, as authority to allot is still required under the Act, save in respect of employee share schemes.

#### Authority to purchase own shares, consolidate and sub-divide shares and reduce share capital

Under the Companies Act 1985, a company required specific enabling provisions in its articles of association in order to purchase its own shares, consolidate or sub-divide its shares and reduce its share capital or other undistributable reserves, as well as shareholder authority to undertake the relevant action. The Current Articles include these enabling provisions. Under the Act, a company only requires shareholder authority to do any of these things and it is only necessary for articles of association to contain provisions if it is considered preferable to exclude or restrict the exercise of the powers available to the Company under the relevant sections of the Act. The Directors do not consider it necessary to restrict the Company in this way.

#### Registration of share transfers

The Current Articles permit the Directors to suspend the registration of share transfers. Under the Act, share transfers must be registered as soon as practicable. Accordingly, the New Articles do not contain the power to suspend registration.

Under the Companies Act 1985 and the Current Articles, the Directors could decline to register a transfer of shares without giving any reason for so doing. The position has changed under the Act so that reasons for refusal must be given within certain timescales. Accordingly, this has been reflected in the New Articles.

#### Company seal

Under the Act, a company may have a common seal, but need not have one. Accordingly, the New Articles allow for the Directors to dispense with the requirement to have a seal and also provide alternative methods for documents to be executed by the Company which would otherwise have required a seal.

## Notice of Annual General Meeting

### Remuneration for Non-Executive Directors

Guidelines from the Association of British Insurers (the "ABI Guidelines") require that a company's articles of association contain a monetary cap on the aggregate fees payable to non-executive directors. The Current Articles contain a cap on the fees payable to each non-executive director. In order to more closely comply with the ABI Guidelines, the New Articles provide that non-executive directors shall not receive, in aggregate, more than £400,000 per annum (excluding amounts paid for special services performed outside the scope of the ordinary duties of a director), which is consistent with current market practice. Any increase in this figure will need to be approved by an ordinary resolution of the shareholders.

### Voting by proxies on a show of hands

The Shareholders' Rights Regulations have amended the Act so that it now provides that each proxy appointed by a shareholder has one vote on a show of hands, unless the proxy is appointed by more than one shareholder, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, or to vote as he decides. The New Articles reflect these changes and are in line with the recommendations of the Institute of Chartered Secretaries and Administrators.

### Proxies to vote in accordance with instructions

Under the Act, as amended by the Shareholders' Rights Regulations, proxies are required to vote in accordance with instructions given by the appointing shareholder. The New Articles provide that the Company is not required to confirm that a proxy has followed his instructions and that a failure to vote as instructed does not invalidate the proceedings on the resolution.

### Voting by corporate representatives

The Shareholders' Rights Regulations have amended the Act in order to enable multiple representatives appointed by the same corporate shareholder to vote in different ways on a show of hands and a poll. The New Articles contain provisions which reflect these amendments.

### Chairman's casting vote

The New Articles do not contain the provision giving the Chairman a casting vote in the event of an equality of votes on a members' resolution, as this is no longer permitted under the Act.

### Adjournments for lack of quorum

The Shareholders' Rights Regulations have amended the Act so as to provide that general meetings adjourned for lack of quorum must be held at least 10 days after the original meeting. The New Articles reflect this requirement.

# Anglo Pacific Group PLC

## Form of Proxy

I/We \_\_\_\_\_

of \_\_\_\_\_

being (a) member(s) of Anglo Pacific Group PLC ("the Company") hereby appoint the Chairman of the meeting, or,

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11.00a.m. on Wednesday April 13, 2011 at the Geological Society, Burlington House, Piccadilly, London W1J 0BG, UK and any adjournment thereof.

Date \_\_\_\_\_

Signature(s) \_\_\_\_\_

Please tick here if this proxy appointment is one of multiple appointments being made.   
For the appointment of more than one proxy please refer to Note 1 overleaf.

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an "X".  
If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

Resolution		For	Against	Withheld
Ordinary 1.	Resolution to receive the 2010 Accounts.			
Ordinary 2.	Resolution to approve the Directors' Remuneration Report.			
Ordinary 3.	Resolution to declare a final dividend of 5.10p per Ordinary Share.			
Ordinary 4.	Resolution to re-elect M.H. Atkinson as a director.			
Ordinary 5.	Resolution to re-elect J.G. Whellock as a director.			
Ordinary 6.	Resolution to re-elect A.H. Yadgaroff as a director.			
Ordinary 7.	Resolution to re-appoint Messrs. Grant Thornton UK LLP as auditors and authorise the directors to fix their remuneration.			
Ordinary 8.	Resolution to authorise scrip dividends.			
Ordinary 9.	Resolution that the directors be authorised to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £725,142.			
Special 10.	Resolution that the directors be authorised to allot treasury shares or new equity securities for cash up to an aggregate nominal amount of £217,542 free from statutory pre-emption rights.			
Special 11.	Resolution that the Company be authorised to make one or more market purchases of up to 10,877,133 Ordinary Shares in the capital of the Company, subject to certain restrictions and provisions, including the maximum and minimum price at which such shares may be purchased.			
Special 12.	Resolution that the Company adopt new Articles of Association.			

Please indicate with an "X" how you wish your vote to be cast.

## Notes

1. To appoint as a proxy a person other than the Chairman of the meeting insert the full name in the space provided. A proxy need not be a member of the Company. You can also appoint more than one proxy provided each proxy is appointed to exercise the rights attached to a different share or shares held by you. The following options are available:
  - (a) To appoint the **Chairman** as your **sole proxy** in respect of all your shares, simply fill in any voting instructions in the appropriate box and sign and date the Form of Proxy
  - (b) To appoint a **person other than the Chairman as your sole proxy** in respect of all your shares, delete the words 'the Chairman of the meeting (or)' and insert the name of your proxy in the spaces provided. Then fill in any voting instructions in the appropriate box and sign and date the Form of Proxy
  - (c) To appoint **more than one proxy**, you may photocopy this form. Please indicate the proxy holder's name and next to it the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate by ticking the box overleaf if the proxy instruction is one of multiple instructions being given. If you wish to appoint the Chairman as one of your multiple proxies, simply write 'the Chairman of the Meeting'. All forms must be signed and should be returned together in the same envelope
2. Unless otherwise indicated the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
3. The Form of Proxy below must arrive not later than 48 hours before the time set for the meeting at Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6ZL during usual business hours accompanied by any power of attorney under which it is executed (if applicable).
4. A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney.
5. The 'Vote Withheld' option is to enable you to abstain on any particular resolution. Such a vote is not a vote in law and will not be counted in the votes 'For' and 'Against' a resolution.
6. Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.
7. Completion and return of the Form of Proxy will not preclude you from attending and voting in person at the meeting should you subsequently decide to do so.

This annual report has been printed on Chromomat paper and board. It has 15% recycled content and is made up of 100% ECF virgin wood fibre. It is independently certified in accordance with the FSC (Forest Stewardship Council). The paper is manufactured at a mill that is certified to ISO 14001 environmental management standards. All the pulp is bleached using an elemental chlorine free (ECF) process and inks used are all vegetable oil based.

Design by [straightedge.co.uk](http://straightedge.co.uk)

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