

# Anglo Pacific Group PLC

**Report and Accounts**

**2009**

# Anglo Pacific Group PLC

## Annual Report 2009

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# Anglo Pacific Group PLC

## Annual Report 2009

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### DIRECTORS

#### *Executive*

P.M. BOYCOTT (*Chairman*)  
A.C. ORCHARD (*Chief Investment Officer*)  
M.J. TACK (*Finance Director*)  
J. THEOBALD (*Chief Operating Officer*)  
B.M. WIDES (*Chief Executive*)

#### *Non-Executive*

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  
27<sup>th</sup> Floor  
Churchill Place  
London E14 5HP

### REGISTRARS

EQUINITI REGISTRARS LIMITED  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

### STOCKBROKERS

LIBERUM CAPITAL LIMITED  
Citypoint  
10<sup>th</sup> Floor  
One Ropemaker Street  
London EC2Y 9HT

### LISTINGS

LONDON STOCK EXCHANGE  
Full Listing  
Symbol APF

AUSTRALIAN STOCK EXCHANGE  
Dual Listing  
Symbol AGP

### WEBSITE

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

# Anglo Pacific Group PLC

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### CHAIRMAN'S REVIEW

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In the year under review, I am pleased to report that the Group has acquired several new royalty interests and will be recommending an increased final dividend.

#### Financial Highlights

##### Royalties

- Australian coal royalties independent valuation of £149.9 million (2008: £93.3 million)
- Total value of other royalties £27.3 million (2008: £7.8 million)
- Coal royalty income for the year of £20.3 million (2008: £22.1 million)

##### Assets

- Total assets increased by 77% to a record £312 million (2008: £176 million)
- Total quoted and unquoted strategic interests valued at £113.5 million (2008: £45.8 million)
- Cash and royalty receivables at the year end of £17.9 million (2008: £28.4 million)

##### Earnings

- Profit before tax of £25,883,000 (2008: £35,255,000)
- Earnings per share of 19.20p (2008: 27.25p)
- Realised profits for the year from non-core mining interests of £6.4 million (2008: £14.0 million)

##### Dividends

- Final dividend increased by 6.9% to 4.65p per share (2008: 4.35p)
- Total dividends for the year increased by 7.1% to 8.35p (2008: 7.80p)

#### Operational Highlights

- New royalty rights acquired in gold, platinum and uranium
- Compliant resources announced for the Trefi and Panorama Canadian coal projects
- Threefold increase in value of strategic quoted interests
- Steady coking coal royalty receipts
- Increased exposure to coal and uranium projects
- TSX listing progressing

#### 2009 Review and Results

The latter part of 2009 has seen an improving economic outlook and substantially higher commodity prices. This is in sharp contrast to 2008 and the first few months of 2009 which were characterised by falling stock markets and the banking crisis.

This recovery in prices has benefited the Group and has been driven by a continuing demand for raw materials from the expanding Chinese and Asian economies. In addition, the protracted crisis in the banking sectors of the Western economies has led to an extended period of quantitative easing by several Governments. This is helping a broader economic recovery, but has raised concerns about future inflation and currency stability resulting in higher prices for gold and precious metals where the Group has substantial exposure.

The rising prices of base metals, oil and coal products have produced a strong recovery in the general mining sector. The junior quoted mining markets have also recently shown signs of recovery with indications of investment returning to the sector. This and the Group's policy of active involvement in mining projects has produced a substantial improvement in the value of the Group's total assets.



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In the second half of the year the price of coking coal recovered sharply resulting in an increased Australian coal royalty evaluation at the year end and steady coking coal receipts for the year. The Group made substantial progress in developing other royalty interests with four new royalties acquired. The recovery in world stock markets during the year resulted in a threefold increase in the value of the Group's quoted interests.

The Group's coal royalty revenues for the year were £20.3 million (A\$41 million) compared to £22.1 million (A\$48 million) in 2008. This reflected the lower contracted price of circa \$127 per ton in April 2009 compared with an agreed price of circa US\$295 for the previous year. Over the course of 2009, however, the prices of both thermal and metallurgical coal from Australia have continued to benefit from the increasing demand for seaborne coal from China. Consequently, the Group's coal royalty interests were independently valued at 31<sup>st</sup> December 2009 at £149.9 million compared to £93.3 million at 31<sup>st</sup> December 2008.

The Group realised capital gains of £6.4 million during the year from the sale of non-core mining interests, compared to £14.0 million in 2008. This reflected relatively subdued junior mining markets during most of the year. Including royalty revenues, the Group achieved earnings of 19.20p per share compared to 27.25p in 2008.

In addition to the Kestrel and Crinum coking coal royalties in Queensland, Australia, the Group now owns seven further royalty entitlements. These are in addition to its royalty rights to mineral exploration on nearly five million acres of the Athabasca Basin in Canada. The total value of the Group's new royalty entitlements was £27.3 million at 31<sup>st</sup> December 2009 compared to £7.8 million at the end of the previous year.

The value of the Group's private mining interests and quoted stakes in mining projects recovered sharply to £113.5 million at 31<sup>st</sup> December 2009 compared to £45.8 million at 31<sup>st</sup> December 2008. The private mining interests remain in the financial statements at cost and include the Trefi and Panorama coal projects in British Columbia where NI43-101 and JORC compliant resources have been announced for both deposits.

At 31<sup>st</sup> December 2009 the Group had no borrowings and £14.2 million of cash in the bank.

These earnings and balance sheet valuations represent a solid outcome during a year when the direction of the world's economy has continued to be uncertain. This progress is in no small part due to the Group's sensible management of its balance sheet and its conservative approach to mining project evaluation.

The Board is recommending that the final dividend for the year ended 31<sup>st</sup> December 2009 be increased by 6.9% to 4.65p per share.

### Strategy and Progress

The Group's strategy remains focused on securing new royalties by acquisition and through investment in its mining interests in order to generate strong cashflows and continue to pay dividends to its shareholders. The Group remains committed to a progressive dividend policy and to further expanding its other mining interests and royalty flows in pursuit of this objective.

#### Royalties

The Group has continued to expand its royalty interests with four new acquisitions during the year. The acquisition of these new royalty interests further demonstrates the Group's progress in delivering its strategy to broaden and diversify its portfolio of royalties.

- **Uranium (Australia):** in March 2009 the Group acquired for A\$6 million a 1% net smelter royalty (NSR) on the Beverley Four Mile uranium project in South Australia. This project has received environmental approval from the Federal Government and is expected to go into production towards the end of 2010.
- **Platinum (Canada):** in May 2009 the Group purchased options to acquire a 1% royalty on each of Northern Shield Resources' Highbank Lake and Eastbank properties in Western Ontario, Canada. Northern Shield has a joint venture agreement with Impala Platinum Holdings of South Africa for Impala to fund and explore for platinum group metals on the Highbank Lake property.

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- Gold (Canada): in July 2009 the Group purchased for C\$8 million a 2.5% NSR on Northern Star Mining Corporation's Midway and McKenzie Break projects in Quebec, Canada. Northern Star poured its first gold at the Midway gold project in February 2010.
- Uranium (Europe): in December 2009 the Group acquired for A\$4 million a 1% NSR on all future uranium production from the Spanish and Portuguese properties owned by Berkeley Resources. Uranium production at the Salamanca project is expected to commence in 2013.

On 23<sup>rd</sup> September 2009 Orvana Minerals Corporation completed its takeover of Kinbauri Gold Corporation which owns the El Valle gold project in northern Spain, where the Group retains a 2.5% NSR. Orvana recently announced that it is on budget and on schedule to commence production at El Valle in January 2011.

On 13<sup>th</sup> May 2009 the Group made an unconditional on-market cash bid of A\$0.30 per share for all the outstanding issued share capital of Royalco Resources Limited ("Royalco"), an Australian mining company which owns a number of royalty interests in Australasia. The offer price was increased to A\$0.34 on 3<sup>rd</sup> July 2009 and the bid closed on 10<sup>th</sup> July 2009, resulting in the Group increasing its shareholding from just under 20% to over 31%. On 25<sup>th</sup> September 2009 Chris Orchard, the Group's Chief Investment Officer and an executive director, was appointed to the Royalco Board to assist Royalco's management in developing and expanding its royalty interests. The Group's interest in Royalco is now accounted for as an Investment in Associate and is excluded from quoted investments.

#### Assets

During the year the Group's cash, receivables and strategic investments increased in value by £58.2m to £132.7 million (2008: £74.5 million). Together with the Group's coal and other royalties worth £177.2 million and fixed assets and capitalised exploration costs of £2.5 million, the Group's total assets at 31<sup>st</sup> December 2009 increased by 77% to £312 million (£176 million at 31<sup>st</sup> December 2008). Furthermore, this did not include any increase in value over cost that may be attributable to the Group's expanding private coal interests in Canada.

The Group remains debt free and its liquid resources are held in a spread of currencies and banks. The Group's mining interests and royalty revenues are mainly denominated in Australian, Canadian and US dollars.

#### Private Coal Projects

On 10<sup>th</sup> September 2009 the Group announced an initial NI43-101 and JORC compliant Measured and Indicated Resource estimate of 39.35 million tonnes and an Inferred Resource of 51.6 million tonnes at its Trefi Coal Project in Northeast British Columbia, Canada. A Scoping Study on this project is in the process of being finalised.

On 16<sup>th</sup> February 2010 the Group released an initial resource statement on the Panorama Coal Project in the Groundhog Coalfield in Northwest British Columbia. This showed a NI43-101 and JORC compliant Indicated Resource of 13.7 million tonnes and an Inferred Resource of 24.1 million tonnes of anthracite and semi-anthracite coal.

#### Quoted Equity Interests

The Group's quoted equity interests disclosed on the LSE, ASX and TSX, where initial equity stake disclosure levels are 3%, 5% and 10% respectively, amount to £77 million in eighteen different holdings. The balance of quoted holdings of £23 million is made up of a further twenty incubator investments. The split of the Group's strategic interests by commodity can be seen on the Group's website at [www.angloapacificgroup.com](http://www.angloapacificgroup.com) where links to all the equity disclosures can be accessed.

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#### Dividends

On 3<sup>rd</sup> July 2009 a final dividend of 4.35p per share for the year ended 31<sup>st</sup> December 2008 was paid. Shareholders representing 21.0% of the issued share capital elected to take scrip instead of cash. The interim dividend of 3.70p per share for the year ending 31<sup>st</sup> December 2009 was paid to shareholders on 13<sup>th</sup> January 2010. Shareholders representing 25.8% of the issued share capital elected to take scrip instead of cash.

Subject to approval at the AGM to be held in London on 21<sup>st</sup> April 2010, the 2009 final dividend of 4.65p per share will be paid to shareholders on 7<sup>th</sup> July 2010. This brings the total dividends for the year to 8.35p (2008: 7.80p). Depending on the share price at the time, the Board will consider whether shareholders will again be given the opportunity to elect to receive a scrip dividend instead of cash.

#### Board Developments

Having originally joined Anglo Pacific as Chief Investment Officer and Chief Operating Officer respectively, Mr Chris Orchard and Mr John Theobald were appointed to the Board on 22<sup>nd</sup> June 2009.

Their skills will greatly assist in the evaluation of new royalty propositions and the management of the Group's strategic interests.

#### Overseas Listings

The application for listing of the Group's shares on the Toronto Stock Exchange is progressing. The listing is anticipated during the second quarter of 2010. As a substantial number of the Group's private and quoted mining interests are in Canada, it is the Group's medium term strategy to broaden the shareholder base to include both Canadian and American investors.

Furthermore, the Group is seeking to de-list from the Australian Stock Exchange due to a lack of liquidity, negligible volumes and less than two percent of the Group's share capital being held by the Australian Share Register.

#### Outlook

New contract prices for Kestrel and Crinum coking coal will become effective in April 2010. These are expected to be higher than the previous year as spot coking coal prices have recently increased towards US\$200 per ton. Output at the Kestrel mine remains buoyant whilst some production still continues from the private ground at Crinum.

Despite the recovery in metal prices and equity markets, the raising of mining finance from conventional lenders or equity issues still remains challenging for junior mining companies. In this environment the Group continues to receive a steady flow of enquiries about potential royalty opportunities.

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

In conclusion I would like to thank my Board colleagues and staff for their considerable efforts in sustaining the continuing growth of our Group and our shareholders for their ongoing support.

P.M. Boycott  
Chairman

24<sup>th</sup> February 2010

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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The directors submit their report and the Group financial statements of Anglo Pacific Group PLC for the year ended 31<sup>st</sup> December 2009.

Anglo Pacific Group PLC is a public limited company, incorporated in England, and quoted on the London Stock Exchange and the Australian Stock Exchange.

#### **Principal activities**

The activities of the Group, conducted through the holding company and its subsidiary undertakings, are summarised below: -

##### *Coal royalties*

The Group, via its wholly owned Australian subsidiary Gordon Resources Limited, owns half of a royalty entitlement to the output from the Kestrel and Crinum underground mines in Queensland other than Crown areas. The basis of calculation of the royalty is a two tier royalty rate: 7% of the invoiced value of the coal sold below A\$100 per tonne and 10% of the invoiced value of coal above A\$100 per tonne.

##### *Uranium royalties*

The Group owns a 1% Net Smelter Royalty (NSR) over the Beverley Four Mile Uranium project in South Australia.

The Group owns a 1% NSR over the Salamanca Uranium project in Spain, operated by Berkeley Resources Limited.

In addition, the Group holds the royalty rights to mineral exploration tenures covering approximately 4.8m acres of the Athabasca Basin, Canada.

##### *Gold royalties*

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

The Group owns a 2.5% NSR, escalating to 2.75% for gold prices in excess of US\$1,250 per ounce, on Northern Star Mining Corporation's Midway and McKenzie Break properties in Quebec, Canada.

The Group also owns a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain. This deposit is currently being developed by Orvana Minerals.

##### *Other royalties*

The Group owns a 2% NSR on the Jogjakarta Iron Sands project in Indonesia, operated by Indo Mines Limited.

##### *Mining and exploration interests*

At 31<sup>st</sup> December 2009 the Group owned a number of strategic mining and exploration interests held for the purposes of generating additional royalty flows including:

- a number of quoted and unquoted coal, uranium, gold, base metals and PGM mining projects;
- a stake in Royalco Resources Limited;
- mineral licences in the Groundhog (Panorama and Discovery) and Peace River (Trefi) Coal deposits in British Columbia, Canada;
- a joint venture with Core Coal Holdings to identify mining opportunities in Australia as well as carrying out detailed investigations into a potential new coal area in Australia; and
- a talc deposit in Shetland.

# Anglo Pacific Group PLC

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### DIRECTORS' REPORT

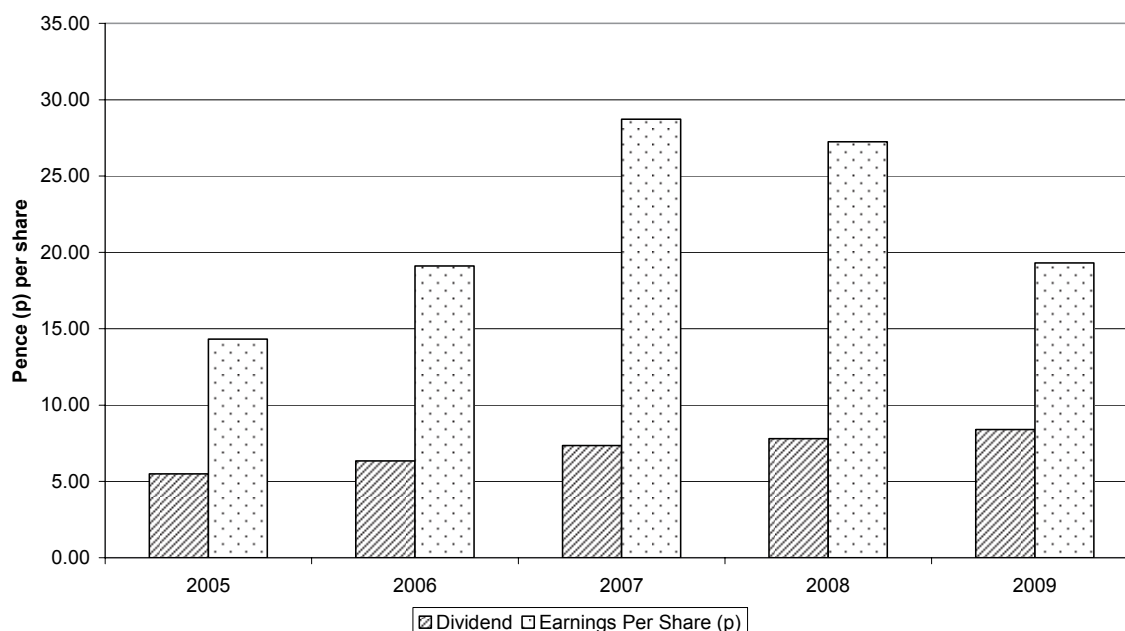
#### Results and dividends

The consolidated income statement is set out on page 30 of the financial statements.

The Group profit after tax decreased by 29% to £20,631,000 (2008: £29,261,000)

The Directors recommend a final dividend of 4.65p per share for the year ended 31<sup>st</sup> December 2009 which with the interim dividend of 3.70p per share paid on 13<sup>th</sup> January 2009 will make a total for 2009 of 8.35p per share (2008: 7.80p). The Board proposes to pay the final dividend on 7<sup>th</sup> July 2010 to shareholders on the Company's share register at the close of business on 7<sup>th</sup> May 2010. As with the interim dividend, depending on the share price at the time the Board will consider whether shareholders will be given the opportunity to elect to receive a scrip dividend instead of cash.

#### 5 Year Earnings per share and Dividend Performance



#### Review of the business

This business review comprises the Financial and Operational Reviews set out below as well as the Chairman's Review on pages 3 to 6. The Key Performance Indicators and Principal Risks and Uncertainties laid out on page 12 also form part of this review.

The Group's business is a going concern as interpreted by the Guidance on Going Concern and Financial Reporting for directors of listed companies registered in the United Kingdom, published in October 2009.

#### Financial Review

Group profits before tax for the year ended 31<sup>st</sup> December 2009 were £25,883,000 compared to £35,255,000 for the previous year. Earnings per share for the year decreased by 30% to 19.20p (2008: 27.25p). The Group had realised capital gains of £6,367,000 (2008: £14,016,000) from its various mining interests.

The Group's Australian coal royalty interests have been independently valued at £149.9 million as at 31<sup>st</sup> December 2009 (2008: £93.3 million). The change in the valuation compared to last year has been credited to the revaluation reserve after accounting for deferred tax.

# Anglo Pacific Group PLC

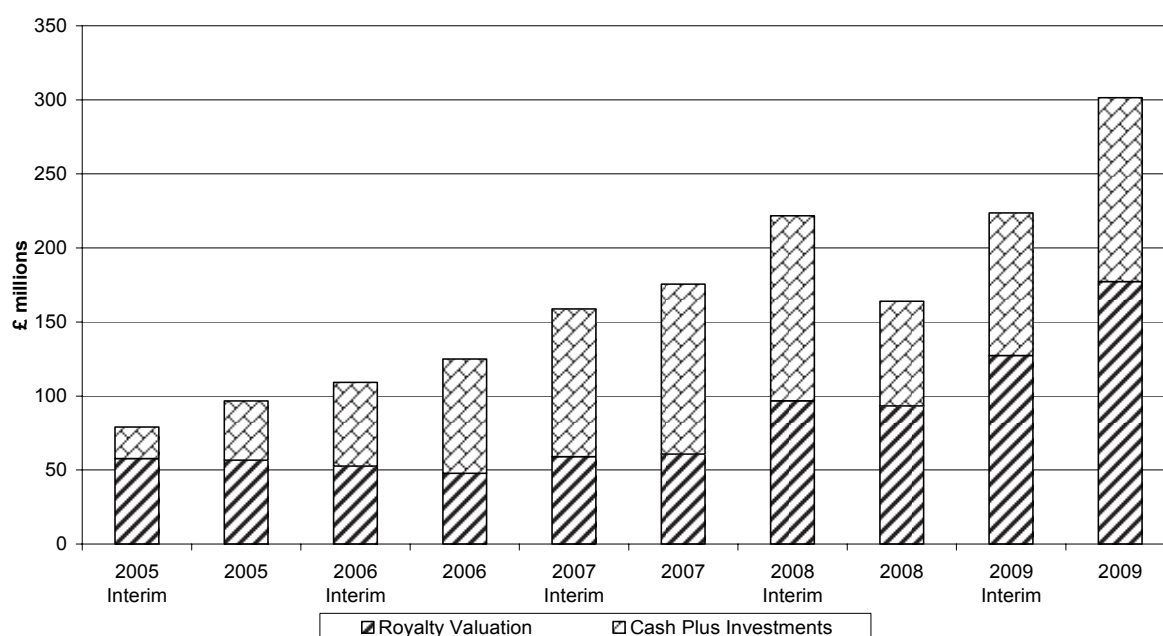
## Annual Report 2009

### DIRECTORS' REPORT

The Group's other royalties, were valued at £27.3 million at 31<sup>st</sup> December 2009 (2008: £7.8 million). The change in valuation of the royalty income stream from the date of acquisition has been credited to revaluation reserve after accounting for deferred tax. The change in valuation of the share options associated with these royalty interests of £130,000 has been credited to Group profits (2008: £126,000).

The Group's private mining operational interests and quoted stakes in mining projects, including the Group's investment in associates, were valued at 31<sup>st</sup> December 2009 at £113.5 million (2008: £45.8 million) after having realised profits of £6.4 million (2008: £14.0 million) over the year. This valuation included an additional unrealised gain / (loss) over book value of £31.0 million (2008: (£26.0) million), which included a valuation gain for foreign exchange movements. The Group had cash of £14.2 million at 31<sup>st</sup> December 2009 (2008: £17.1 million) with no borrowings.

#### Valuation of Royalties and Investments



#### Operational Review

##### Coal Royalties

In Australia, coal royalty receipts from the Kestrel and Crinum mines, operated by Rio Tinto Limited and BHP Billiton Limited respectively, were £20,334,000 (2008: £22,072,000).

The independent valuation of these interests at the year-end was A\$270 million (£149.9 million) compared to A\$193 million (£93.3 million) at 31<sup>st</sup> December 2008 and is based on the net present value of the pre-tax cashflow discounted at a rate of 7%. The net royalty income is taxed in Australia at a rate of 30%.

The coal royalty is computed by reference to Queensland Government legislation, which resulted in an increase in the rate of royalty from 7% to 10% on the marginal price of coal in excess of A\$100 per tonne in July 2008. The legislation applies to both ground owned by the Crown and certain other privately owned areas in which the Group participates. During the year coal royalties decreased to £20 million due to lower coal prices after contract coal prices for the 2010 Japanese Financial Year (JFY) were settled at US\$127 per tonne. In contrast to this, forecast long term prices have increased as a result of increasing demand from China for seaborne thermal and coking coal throughout 2009. This has resulted in the value of the Group's coal royalty interests increasing over the year.

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#### *Uranium Royalties*

During the year the Group purchased two uranium royalties in Australia and Spain respectively.

The Group acquired the 1% NSR over the Beverley Four Mile Uranium project in South Australia. Alliance Resources Limited reported on 21<sup>st</sup> January 2010 that Four Mile now has an inferred Joint Ore Reserves Committee (JORC) resource of 71 million pounds of uranium grading 3,300 parts per million (ppm) uranium oxide (U<sub>3</sub>O<sub>8</sub>). The company also reports that production is anticipated to commence in 2010 at a targeted production rate of 3 million pounds U<sub>3</sub>O<sub>8</sub> per annum.

During the year the Group also acquired a 1% NSR over the Salamanca Uranium project in Spain, operated by Berkeley Resources Limited. This company reported on 26<sup>th</sup> February 2010 that the Salamanca project contains total JORC resources of 52.4 million pounds of uranium grading 442 ppm U<sub>3</sub>O<sub>8</sub> including inferred resources of 36 million pounds at 432 ppm U<sub>3</sub>O<sub>8</sub> and measured and indicated resources of 16.4 million pounds at 466 ppm U<sub>3</sub>O<sub>8</sub>. The company also reported that the project has an exploration target of an additional 25.5 to 29 million pounds of uranium and the right to use the Quercus Uranium Processing Plant along with associated infrastructure. A Scoping Study recently confirmed the technical and economic viability of the project and a Definitive Feasibility Study is now underway.

In addition, the Group holds the royalty rights to mineral exploration tenures covering approximately 4.8m acres of the Athabasca Basin, Canada. These tenures are currently being explored by a number of listed and unlisted companies for uranium.

#### *Gold royalties*

The Group holds a 2.5% NSR on the Engenho gold project in Brazil, operated by Mundo Minerals Limited. Until the consideration paid for the NSR has been received in royalties the Group retains the right to convert the difference between royalties received and this sum into shares of Mundo Minerals Limited at a price of A\$0.35 per share. During the year receipts relating to the NSR on the Engenho gold project totalled £310,000 (2008: £nil). These receipts consisted of repayments of the consideration and also included £180,000 interest (2008: £nil).

During the year the Group acquired a 2.5% NSR on the Midway-McKenzie Break project. The project is located in Quebec, Canada, and is operated by Northern Star Mining Corp. The NSR escalates to 2.75% for gold prices in excess of US\$1,250 per ounce, and drops to 1.5% after two million ounces have been produced, provided gold prices are below this level. Northern Star Mining Corp announced their first gold pour from the project on 5<sup>th</sup> February 2010.

The Group also holds a 2.5% NSR, escalating to 3% for gold prices in excess of US\$1,100 per ounce, on the El Valle deposit in Spain. This deposit is currently being developed by Orvana Minerals Corp. In the event that production from the El Valle mill does not exceed a rate of 90,000 ounces of gold per year on or before 31<sup>st</sup> December 2012, the Group possesses an option to convert the difference between the sum advanced and royalties received into shares immediately redeemable for cash. Orvana recently announced that it is on budget and on schedule to commence production at El Valle by January 2011.

#### *Iron sands royalties*

During the year the Group acquired a 2% NSR on the Jogjakarta Iron Sands project in Indonesia, operated by Indo Mines Limited. This company is currently in the process of completing a Bankable Feasibility Study and arranging finance for the project.

#### *Coal Interests*

The Group retains the licences and tenancies of the Panorama and Discovery Coal Projects in the Groundhog Coalfield, northwest British Columbia and the Trefi Coal Project in the Peace River Coalfield, northwest British Columbia. At the Trefi project, the Group commissioned a drilling programme and produced a maiden JORC and National Instrument (NI) 43-101 compliant measured and indicated coal resource of 39.35 million tonnes and an inferred coal resource of 51.6 million tonnes. A Scoping Study on this project is in the process of being finalised.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

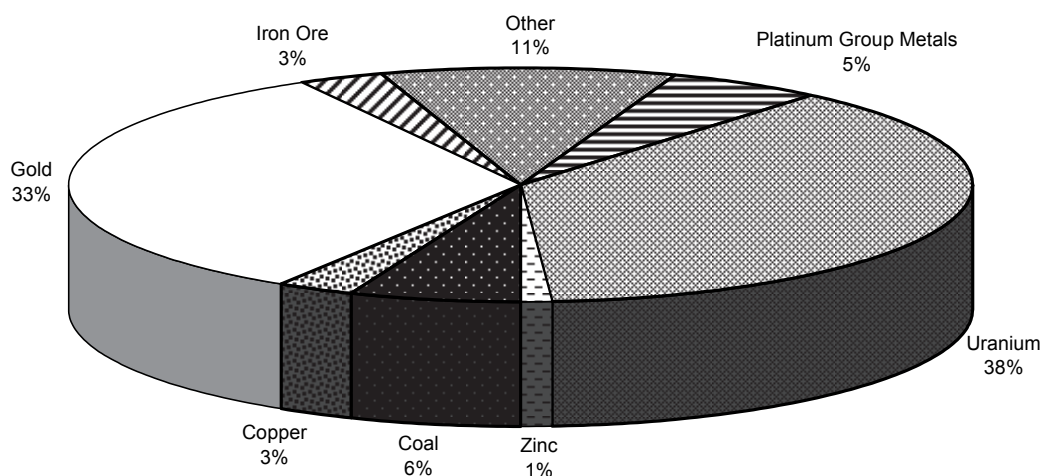
At the Panorama project the Group recently announced an initial NI 43-101 and JORC compliant indicated coal resource of 13.7 million tonnes and inferred coal resource 24.1 million tonnes of anthracite and semi-anthracite coal.

In Australia the Group retains its 22% interest in the Tiaro coal project where drilling and exploration work is being funded by Tiaro Coal Limited and Dynasty Metals Australia Limited.

#### *Other Metal Interests*

The Group's other metal interests remain primarily focused on precious metals and uranium. The Group has widened its exposure to gold and platinum group metals during the year with increased holdings in, inter alia, Maudore Minerals and Magma Metals in North America. Further exposure to the uranium sector has been achieved with an increased holding in Berkeley Resources and the continuing sharp increase in value in the Group's declining holding in Mantra Resources. Other mining interests include copper, zinc and iron ore projects.

**Strategic Mining Interests By Commodity  
at 31st December 2009**



#### *Interest in Royalco Resources Limited*

On 13<sup>th</sup> May 2009 the Group made an unconditional on-market cash bid of A\$0.30 per share for all the outstanding issued share capital of Royalco Resources Limited, an Australian mining company which owns a number of royalty interests in Australasia. The offer price was increased to A\$0.34 on 3<sup>rd</sup> July 2009 and the bid closed on 10<sup>th</sup> July 2009, resulting in the Group increasing its shareholding to 31.1%. On 25<sup>th</sup> September 2009 Chris Orchard, the Group's Chief Investment Officer and an executive director, was appointed to the Royalco Resources Limited Board. As a result of its significant shareholding and this board appointment the Group's investment in Royalco Resources Limited has been reclassified as 'Investments in associates' and is now accounted for under the equity method.



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### DIRECTORS' REPORT

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#### Key Performance Indicators

The Board have 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

The Board have identified five main 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
- (v) Changes to the current Australian state royalty regime in favour of a federal Mineral Resources Rent Tax

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 spread 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 spread of currencies and short term financial instruments
- Close monitoring of Australian State and Federal policies on royalties

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.

#### Future developments

The Group's current strategy is set out in the Chairman's Review. The directors consider that this strategy will continue to provide positive returns for shareholders, as the limited finance options for small mining companies in the current environment create more opportunities for the Group to secure royalties. In addition the directors' efforts on developing the Group's listed and unlisted interests are expected to deliver further royalty opportunities. Management policies will continue to be reviewed in the light of changing commodity and equity markets and macroeconomic conditions.

# Anglo Pacific Group PLC

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### DIRECTORS' REPORT

#### 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 22 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 four royalties acquired during the year, in the event of non-payment the Group have security against plant and equipment and the royalties are registered against mining title where possible. In addition, the Group is entitled to full reconciliations of amounts paid and retains the right to audit the royalty returns and verify the calculations.

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.

In 2007 the Group created a derivative financial instrument to provide finance to an unlisted mining development company (note 15). 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 5 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 continual 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/(liability)				Total £'000
	AUD £'000	CAD £'000	USD £'000	Euro £'000	
<b>Functional currency of operation</b>					
<b>2009</b>					
Sterling	55,628	46,294	29	29	101,951
<b>2008</b>					
Sterling	16,173	18,280	0	16	34,469

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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#### *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 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 gold, which may affect the future cash flows received from these royalties.

### **Management**

#### *Directors*

The following directors have held office since 1<sup>st</sup> January 2009:

P.M. Boycott	(Executive Chairman)
M.J. Tack	(Finance Director)
A.C. Orchard	(Executive Director and Chief Investment Officer) (appointed 22 <sup>nd</sup> June 2009)
J. Theobald	(Executive Director and Chief Operating Officer) (appointed 22 <sup>nd</sup> June 2009)
B.M. Wides	(Chief Executive)
M.H. Atkinson	(Non-Executive and Senior Independent Director)
J.G. Whellock	(Non-Executive Director)
A.H. Yadgaroff	(Non-Executive Director)

The directors who are due to retire by rotation at the next Annual General Meeting are Mr P.M. Boycott and Mr B.M. Wides, who, being eligible, offer themselves for re-election. Mr A.C. Orchard and Mr J. Theobald, having been appointed on 22<sup>nd</sup> June 2009, retire and offer themselves for election as directors at the Annual General Meeting in accordance with the Company's articles of association.

The biographical details of Mr Boycott, Mr Wides, Mr Orchard and Mr Theobald are as follows:

Peter Boycott (Chairman) is a Chartered Accountant and was appointed to the board on 2<sup>nd</sup> May 1997. He became executive Chairman on 13<sup>th</sup> June 1997. 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 furnace systems to the major mining Groups world-wide. He has been a Director of several public quoted Companies in Australia and Canada.

Brian Wides (Chief Executive) is a Chartered Accountant (SA) and was appointed to the board on 13<sup>th</sup> June 1997. He became Finance Director on 5<sup>th</sup> September 1997 and subsequently Chief Executive on 5<sup>th</sup> July 2006 following Matthew Tack's appointment to the Board. 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.

Chris Orchard joined the Group in December 2007 as the Group's Chief Investment Officer and was appointed to the Board as executive director on 22<sup>nd</sup> June 2009. Mr Orchard graduated with a Mining Hons degree from Leeds University, before working in the South African mining industry. He then spent 20 years as an investment banker in the City specializing in the resources sector, his last roles being MD of Hambros Equity UK and a Director of RBC Dominion Securities. More recently he managed the investment operations of a private wealth management group.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

John Theobald joined the Group as Chief Operating Officer in April 2008 and was appointed to the Board as executive director on 22<sup>nd</sup> June 2009. Mr. Theobald is a qualified geologist and Chartered Engineer and has held senior positions with major and junior mining companies covering a wide range of metallic and non-metallic minerals. Prior to joining the Group Mr Theobald was an Operations Director for SCR-Sibelco, a major industrial minerals group. He has also worked for Anglo American, Phelps Dodge and Iscor amongst others and has extensive experience in exploration, acquisitions and developing and operating mines in a number of different countries.

Biographies for all directors are available at [www.anglopacificgroup.com](http://www.anglopacificgroup.com).

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

The post of Chairman remains an executive role to allow the Group to continue to function as efficiently as possible. The Board believes that, with eight directors (three of whom are non-executive) and only two 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, the Corporate Governance of the Group is not adversely affected by the combination of these roles. The executive Chairman and the Chief Executive have distinct roles with a clear and documented division of responsibilities agreed by the Board.

#### *Directors' interests*

The beneficial interests of the directors in office at 1<sup>st</sup> January 2009 and 31<sup>st</sup> December 2009 in the issued share capital of the Company are as follows:

		Ordinary shares of £0.02 each	
	17 <sup>th</sup> February 2010	31 <sup>st</sup> December 2009	31 <sup>st</sup> December 2008
P.M. Boycott (Chairman)	2,676,983	2,676,983	3,275,291
A.C. Orchard (Executive Director)*	64,634	64,634	N/A
M.J. Tack (Finance Director)	54,126	54,126	34,852
J. Theobald (Executive Director)*	17,134	17,134	N/A
B.M. Wides (Chief Executive)	2,903,295	2,903,295	3,661,443
M.H. Atkinson (Non-Executive)	3,803	3,803	3,622
J.G. Whellock (Non-Executive)	13,084	13,084	13,084
A.H. Yadgaroff (Non-Executive)	180,372	180,372	176,380

\* Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on 22<sup>nd</sup> June 2009.

#### **Corporate governance**

A report on corporate governance and compliance with the Combined Code on Corporate Governance as appended to the Listing Rules of the Financial Services Authority is set out on pages 20 to 23. The directors' remuneration report, as set out on pages 24 to 27, will be proposed for approval at the AGM to be held on 21<sup>st</sup> April 2010. In accordance with The Large and Medium sized companies and Group (Accounts and Reports) Regulations 2008, the vote on such resolution is advisory and no director's remuneration is conditional upon the passing of the resolution.

#### **Internal Monitoring**

The Group has a policy whereby any employee may contact the Chairman 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.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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#### **Corporate Social Responsibility**

##### *Donations*

It is a continuing policy of the Group not to make political or charitable donations. However, 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 (2008: nil).

No political donations were made during the year (2008: 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 31<sup>st</sup> December 2009 the Company took an average of 33 days to settle its bills with suppliers (2008: 15 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 effects of its activities on the natural and human environments associated with its operations, where appropriate.

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 7 employees, 5 of whom are executive directors. More information regarding the Group's employees can be found on pages 14 and 15.

##### *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 is committed to ensuring that companies it works with have appropriate procedures in place to facilitate this. The Group also consults with local community groups where its activities could have an impact to ensure all relevant parties are presented with the opportunity to engage at the planning stage.

#### **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.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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#### Capital Structure

The structure of the Group's ordinary capital at 17<sup>th</sup> February 2010 is as follows:

	Issued No.	Nominal value per share £	Total £	% of total capital
Ordinary shares	107,439,463	0.02	2,148,789	100%

#### Rights and Obligations

##### *Dividends*

The £0.02 ordinary shares carry the right to dividends determined at the discretion of the Group's directors.

##### *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 17<sup>th</sup> February 2010.

	Ordinary Shares of 2p each	Representing
Ransomes Dock Ltd	8,841,315	8.23%
AXA Investment Managers UK	6,634,147	6.17%
Rathbones Brothers PLC	6,395,897	5.95%
Legal and General Group PLC	5,405,779	5.03%

#### 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 a resolution to reappoint Grant Thornton UK LLP will be proposed at the Annual General Meeting to be held on 21<sup>st</sup> April 2010.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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#### Annual General Meeting

The notice of the Annual General Meeting (refer to page 71) contains ordinary and special resolutions detailed below.

##### *Scrip Dividend Authority*

Resolution 9 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 10 seeks a new authority, to replace the present authority and be effective until the earlier of 21<sup>st</sup> April 2015 and the conclusion of the annual general meeting held in 2015, to authorise the Directors to allot relevant securities up to a maximum nominal amount of £716,263 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.

##### *Company Share Option Plan*

Resolution 11 seeks approval to authorise the Directors to establish and operate the Anglo Pacific Group Company Share Option Plan ("CSOP"), further details of which are provided at Appendix 1 to the Notice of Annual General Meeting. This CSOP, which is recommended by the Remuneration Committee, will replace the existing Approved Employee Share Option Plan, which can no longer issue new options as it has passed the 10 year limit. Assuming that Resolution 11 is adopted, the Company will seek HMRC approval for the CSOP following implementation.

##### *Company Joint Share Ownership Plan*

Resolution 12 seeks approval to authorise the Directors to establish and operate the Anglo Pacific Group Joint Share Ownership Plan ("JSOP"), which will require the establishment and operation of the Anglo Pacific Group Employee Benefit Trust. Further details regarding the JSOP and the Employee Benefit Trust are provided at Appendices 2 and 3 to the Notice of Annual General Meeting. The JSOP, which is recommended by the Remuneration Committee, is designed to provide share incentives in the most overall cost effective manner with a strong emphasis on aligning the interests of participants and shareholders and absolute growth in shareholder value. Assuming that Resolution 12 is adopted, the plan will replace the Company's Unapproved Executive Share Option Scheme which closed during the year.

##### *De-listing from the Australian Stock Exchange*

Resolution 13 seeks authority for the Company to de-list from the Australian Stock Exchange.

##### *Authority to Allot Shares and Partial Disapplication of Pre-emption Rights*

Resolution 14 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 £214,878 (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 30<sup>th</sup> June 2011. No shares are currently held in treasury by the Company.

This resolution, which increases the authority to 10% from 5% last year, is in line with current practice amongst a number of companies and will provide the Company with greater flexibility when assessing new royalty opportunities.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REPORT

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#### *Authority to purchase own shares*

Resolution 15 gives authority for the Company to purchase its own shares and specifies the maximum number of shares which may be acquired (10,743,946, 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 71,367 ordinary shares; they represent 0.07% of the current issued share capital and would represent 0.07% 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 31<sup>st</sup> December 2009 the Company still had authority to acquire 10,617,213 shares under Resolution 10 passed at the last Annual General Meeting.

#### *Recommendation*

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

#### **Cautionary statement on forward- looking statements and related information**

This document contains a number of forward-looking statements relating to the Group with respect to, amongst others, the following: financial conditions; results of operations; economic conditions in which the Group operates; the business of the Group; and the management plans and objectives. The Group considers that any statements that are not historical facts are "forward-looking statements". They relate to events and trends that are subject to risks and uncertainties that could cause the actual results and financial position of the Group to differ materially from the information presented in the relevant forward-looking statement. When used in this document the words "estimate", "project", "intend", "aim", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Group or the management of it, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Neither the Group nor any member of the Group's management undertake any obligation publicly to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable laws, the Listing Rules, and other regulations.

#### *Registered Office*

17 Hill Street  
London  
W1J 5NZ

By Order of the Board

M.J. Tack C.A.  
Company Secretary

12<sup>th</sup> March 2010



# Anglo Pacific Group PLC

## Annual Report 2009

### CORPORATE GOVERNANCE

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#### **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. It 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 2008") 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, 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 28. 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, corporate governance best practice and corporate social responsibility. 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 3 year re-election requirement. The Board considers this appropriate but will review the situation at regular intervals.

Biographies of all directors are available at [www.anglopacifigroup.com](http://www.anglopacifigroup.com).

#### **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.

# Anglo Pacific Group PLC

## Annual Report 2009

### CORPORATE GOVERNANCE

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#### *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 report on Directors' remuneration is set out on pages 24 to 27.

#### *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. Previously appointments were considered by the full Board. 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 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.

#### *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.

# Anglo Pacific Group PLC

## Annual Report 2009

### CORPORATE GOVERNANCE

#### *Attendance*

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

	<b>General</b>	<b>Executive</b>	<b>Audit</b>	<b>Remuneration</b>	<b>Nomination</b>
Total meetings held:	12	4	3	2	1
Attendance:					
P.M. Boycott	12	4	-	1	-
A.C. Orchard*	5	-	-	1	-
M.J. Tack	12	4	3	2	1
J. Theobald*	5	-	-	1	-
B.M. Wides	12	4	-	1	-
M.H. Atkinson	12	-	3	2	1
J.G. Whellock	12	-	3	2	1
A.H. Yadgaroff	12	-	3	2	1

\* Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on 22<sup>nd</sup> June 2009.

#### **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 ICAEW.

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 31<sup>st</sup> December 2009 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.

# Anglo Pacific Group PLC

## Annual Report 2009

### CORPORATE GOVERNANCE

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#### **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.

Private investors are encouraged to participate in the Annual General Meeting at which the Chairman presents a review of the results and comments on current business activity. 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 21<sup>st</sup> April 2010. The notice of the Annual General Meeting may be found on page 71.

#### **Capital Structure**

The Group's capital structure is disclosed in the Directors' Report on page 17.

#### **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.

#### **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;
- Provision A7.2: Non-executives not appointed for specific terms.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REMUNERATION REPORT

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#### **The Remuneration Committee comprises:**

A.H. Yadgaroff (Chairman)  
M.H. Atkinson  
J.G. Whellock

In accordance with the recommendations of the Combined Code all the members of the Committee are independent non-executive directors. The 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 Committee's full terms of reference are available on the Group's website.

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.

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

#### **The Policy and objectives**

The 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. The Committee reviews the salary package annually having regard, amongst other factors, to the remuneration paid by companies of comparable size and business.

It is the Committee's policy that executive directors should have service contracts with an indefinite term providing for a notice period of six months. Service contracts remain in force for all executive directors.

The committee confirms that it complies with section 1 of the Combined Code in determining the Group's policy on remuneration of its executive directors, including service contracts and compensation.

#### **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 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 KPIs outlined on page 12. A proportion of this bonus is payable in shares to align the directors' interests with shareholders.
- (iii) **Share schemes**

#### *Unapproved Executive Share Option Scheme*

No executive share options have been granted to directors since 1999 and no options are currently exercisable under the scheme, which is unapproved by HM Revenue and Customs (HMRC). Under the scheme rules no options may be granted after November 2007. As a result this scheme has now closed.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REMUNERATION REPORT

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#### *Approved Employee Share Option Plan*

The Group operates a HMRC approved Company Share Option Plan. No options were granted to directors during the year under this plan.

The options of the directors at 31<sup>st</sup> December 2009 under this scheme were as undernoted for which nil has been paid.

	<b>No. of Shares</b>		<b>Exercisable</b>	<b>Exercise</b>
	<b>2009</b>	<b>2008</b>	<b>between</b>	<b>price</b>
A.C. Orchard*	18,250	N/A	07/04/11 – 07/04/18	164.375p
M.J. Tack	36,923	36,923	04/10/07 – 04/10/14	81.25p
J. Theobald*	16,194	N/A	15/07/11 – 15/07/18	185.25p

\* Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on 22<sup>nd</sup> June 2009. At the time of their appointments Mr A.C. Orchard held 18,250 options and Mr J. Theobald held 16,194 options.

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 3 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 2% in excess of the UK Retail Price Index (RPI) over the vesting period. No options were exercised during the year.

(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:

	<b>2009</b>	<b>2008</b>
	<b>£</b>	<b>£</b>
A.C. Orchard*	3,500	N/A
M.J. Tack	5,583	5,000
J. Theobald*	3,500	N/A

\* Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on 22<sup>nd</sup> June 2009.

(v) Early termination

In the event of early termination, the executive directors' service contracts provide for compensation limited to twelve month's 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.

# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' REMUNERATION REPORT

#### Directors' emoluments and compensation

	2009	2008
	£	£
Salaries	471,500	390,000
Performance-Related Bonus	447,000	490,000
Fees	148,000	99,000
	<u>1,066,500</u>	<u>979,000</u>

The remuneration of the directors was as follows:-

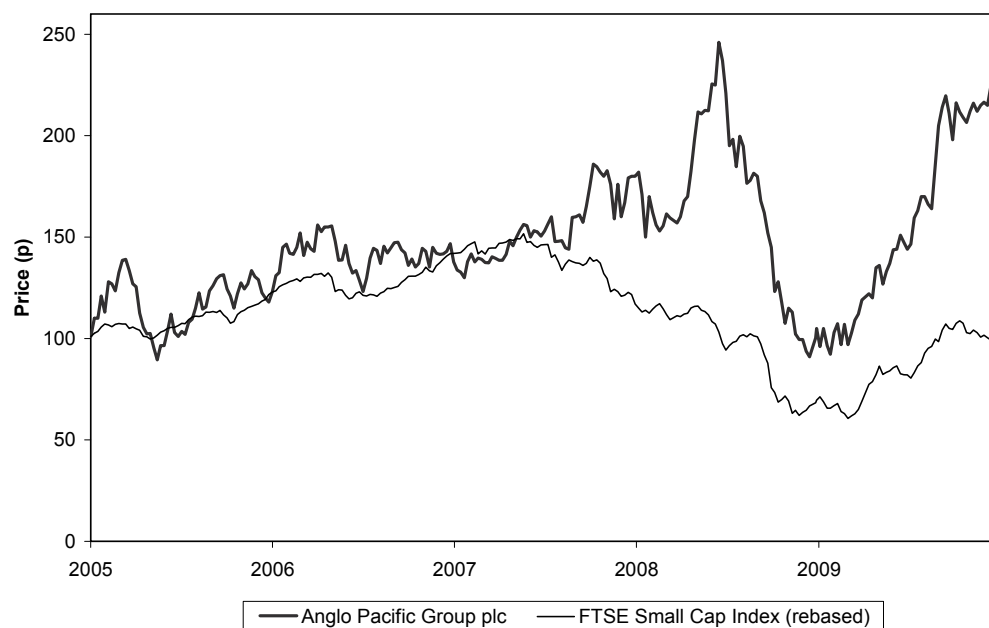
	Salary	Performance -Related Bonus	Fees	2009 Total	2008 Total
	£	£	£	£	£
P.M. Boycott	147,333	75,000	-	222,333	327,150
A.C. Orchard <sup>1</sup>	70,000	99,000	-	169,000	-
M.J. Tack	111,667	99,000	-	210,667	225,700
J. Theobald <sup>1</sup>	70,000	99,000	-	169,000	-
B.M. Wides	72,500	75,000	49,000	196,500	327,150
M.H. Atkinson	-	-	33,000	33,000	33,000
J.G. Whellock	-	-	33,000	33,000	33,000
A.H. Yadgaroff	-	-	33,000	33,000	33,000
	<u>471,500</u>	<u>447,000<sup>2</sup></u>	<u>148,000</u>	<u>1,066,500</u>	<u>979,000</u>

1 Mr A.C. Orchard and Mr J. Theobald were appointed to the Board on 22<sup>nd</sup> June 2009.

2 £149,000 was paid in shares, see note 28.

#### Share Price Performance

##### Anglo Pacific Group plc (APG)



# **Anglo Pacific Group PLC**

## **Annual Report 2009**

### **DIRECTORS' REMUNERATION REPORT**

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The above graph plots the movement for the ordinary share price of Anglo Pacific Group plc for the last 5 years against the FTSE Small Cap Index, which has 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.

The market price of the shares at 31st December 2009 was 226p and the range during the year was 88p to 235p.

#### **Audit**

Under section 421 of the Companies Act 2006 the directors' emoluments and compensation, and items (iii) and (iv) of the executive directors' remuneration section have been audited.

#### **Approval**

This report was approved by the Board of Directors and authorised for issue on 10<sup>th</sup> March 2010 and signed on its behalf by:

M.J. Tack C.A.  
Company Secretary

12<sup>th</sup> March 2010



# Anglo Pacific Group PLC

## Annual Report 2009

### DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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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 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;
- 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 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Group's website, [www.anglopacifigroup.com](http://www.anglopacifigroup.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

12<sup>th</sup> March 2010

# Anglo Pacific Group PLC

## Annual Report 2009

### REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ANGLO PACIFIC GROUP PLC

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We have audited the financial statements of Anglo Pacific Group plc for the year ended 31<sup>st</sup> December 2009 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 30. 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 28, 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 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/UKP](http://www.frc.org.uk/apb/scope/UKP).

#### **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 31<sup>st</sup> December 2009 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 20 to 23 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 23, 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.

#### **Christopher Smith**

Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants

12<sup>th</sup> March 2010

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

# Anglo Pacific Group PLC

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
Royalty income	3	20,334	22,072
Other operating income	3	13	50
Finance income	3,6	796	957
		<u>21,143</u>	<u>23,079</u>
Profit on sale of mining and exploration interests	3	6,367	14,016
<b>Total income</b>		<u>27,510</u>	<u>37,095</u>
Share of profit of associates	17	515	-
Net operating expenses	4	(2,142)	(1,840)
<b>Profit before tax</b>		<u>25,883</u>	<u>35,255</u>
Tax	7	(5,252)	(5,994)
<b>Profit attributable to equity holders</b>	25	<u>20,631</u>	<u>29,261</u>
<b>Total and continuing earnings per share</b>			
Basic earnings per share	9	<u>19.20p</u>	<u>27.25p</u>
Diluted earnings per share	9	<u>19.20p</u>	<u>27.25p</u>

# Anglo Pacific Group PLC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 £'000	2008 £'000
<b>Profit for the year</b>		20,631	29,261
<b>Other comprehensive income:</b>			
Net gain on revaluation to coal royalties	12	42,916	25,943
Net gain/(loss) on revaluation of available for sale investments		63,737	(40,881)
Net exchange gain on translation of foreign operations		15,585	7,175
Share of other comprehensive income of associates	17	(65)	-
Deferred tax	21	(21,770)	(6,295)
<b>Net income recognised directly in equity</b>		<u>121,034</u>	<u>15,203</u>
Transferred to income statement disposal of available for sale investments		322	(18,658)
<b>Total transferred from equity</b>		<u>322</u>	<u>(18,658)</u>
<b>Total comprehensive income/(expense) for the year</b>		<u><u>121,356</u></u>	<u><u>(3,455)</u></u>

# Anglo Pacific Group PLC

## CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET AS AT 31 DECEMBER 2009

		Consolidated		Company	
	Notes	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Non-current assets</b>					
Property, plant and equipment	11	1,742	829	896	829
Coal royalties	12	149,896	93,347	-	-
Royalty instruments	13	21,979	7,783	21,979	7,783
Intangibles	14	6,095	-	2,296	-
Mining and exploration interests	15	109,695	45,755	102,910	36,095
Investments in subsidiaries	16	-	-	5,665	6,618
Investments in associates	17	3,771	-	-	-
Deferred tax	21	-	-	-	1,603
Other receivables	19	-	-	5,018	45
		293,178	147,714	138,764	52,973
<b>Current assets</b>					
Taxation	19	-	-	-	646
Trade and other receivables	19	5,082	11,575	1,347	276
Cash at bank	22	14,195	17,136	6,624	101
		19,277	28,711	7,971	1,023
<b>Total assets</b>		312,455	176,425	146,735	53,996
<b>Non-current liabilities</b>					
Deferred tax	21	47,883	28,857	3,189	-
		47,883	28,857	3,189	-
<b>Current liabilities</b>					
Taxation	20	4,146	877	226	20
Trade and other payables	20	390	849	337	222
		4,536	1,726	563	242
<b>Total liabilities</b>		52,419	30,583	3,752	242
<b>Capital and reserves attributable to shareholders</b>					
Share capital	23	2,149	2,123	2,149	2,123
Share premium	23	20,718	18,604	20,718	18,604
Coal royalty revaluation reserve		88,582	58,430	-	-
Investment revaluation reserve		36,850	(22,149)	36,845	(21,733)
Share based payment reserve		78	78	78	78
Foreign currency translation reserve		18,804	7,230	82	82
Special reserve	24	632	632	632	632
Retained Earnings	25	92,223	80,894	82,479	53,968
		260,036	145,842	142,983	53,754
<b>Total equity and liabilities</b>		312,455	176,425	146,735	53,996

The financial statements of Anglo Pacific Group PLC (registered number: 897608) on pages 30 to 69 were approved by the Board of Directors and authorised for issue on 10<sup>th</sup> March 2010 and are signed on its behalf by:

B.M. Wides                      Director  
P.M. Boycott                  Director

12<sup>th</sup> March 2010

# Anglo Pacific Group PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2009

	Share capital	Share premium	Coal royalty revaluation reserve	Investment revaluation reserve	Share based payment reserve	Foreign currency translation reserve	Special reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1st January 2008</b>	<b>2,113</b>	<b>17,742</b>	<b>40,899</b>	<b>33,104</b>	<b>48</b>	<b>2,224</b>	<b>632</b>	<b>59,420</b>	<b>156,182</b>
Profit for the year	-	-	-	-	-	-	-	29,261	29,261
<i>Other comprehensive income:</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	25,943	-	-	6,530	-	-	32,473
Deferred tax on valuation	-	-	(8,412)	-	-	(1,844)	-	-	(10,256)
Available-for-sale investments:									
Valuation movement taken to equity	-	-	-	(40,881)	-	(111)	-	-	(40,992)
Deferred tax on valuation	-	-	-	4,286	-	(325)	-	-	3,961
Transferred to income statement on disposal	-	-	-	(18,658)	-	-	-	-	(18,658)
Reclassification as investment in associate	-	-	-	-	-	-	-	-	-
Share of comprehensive income of associates	-	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	756	-	-	756
<b>Other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>17,531</b>	<b>(55,253)</b>	<b>-</b>	<b>5,006</b>	<b>-</b>	<b>-</b>	<b>(32,716)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>17,531</b>	<b>(55,253)</b>	<b>-</b>	<b>5,006</b>	<b>-</b>	<b>29,261</b>	<b>(3,455)</b>
Dividends paid	-	-	-	-	-	-	-	(7,787)	(7,787)
Scip Dividend	10	862	-	-	-	-	-	-	872
Issue of share capital	-	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	-	-	-	-	-	-	-	-	-
Equity share options issued	-	-	-	-	-	-	-	-	-
Transactions with owners	10	862	-	-	30	-	-	-	30
<b>Balance at 31st December 2008</b>	<b>2,123</b>	<b>18,604</b>	<b>58,430</b>	<b>(22,149)</b>	<b>78</b>	<b>7,230</b>	<b>632</b>	<b>80,894</b>	<b>145,842</b>

# Anglo Pacific Group PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2009

	Share capital	Share premium	Coal royalty revaluation reserve	Investment revaluation reserve	Share based payment reserve	Foreign currency translation reserve	Special reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1st January 2009</b>	<b>2,123</b>	<b>18,604</b>	<b>58,430</b>	<b>(22,149)</b>	<b>78</b>	<b>7,230</b>	<b>632</b>	<b>80,894</b>	<b>145,842</b>
Profit for the period	-	-	-	-	-	-	-	20,631	20,631
<i>Other comprehensive income:</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	42,916	-	-	13,633	-	-	56,549
Deferred tax on valuation	-	-	(12,764)	-	-	(4,007)	-	-	(16,771)
Available-for-sale investments:									
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>-</b>	<b>-</b>	<b>30,152</b>	<b>58,999</b>	<b>-</b>	<b>11,574</b>	<b>-</b>	<b>-</b>	<b>100,725</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>30,152</b>	<b>58,999</b>	<b>-</b>	<b>11,574</b>	<b>-</b>	<b>20,631</b>	<b>121,356</b>
Dividends paid	-	-	-	-	-	-	-	(9,302)	(9,302)
Scip Dividend	24	1,966	-	-	-	-	-	-	1,990
Issue of share capital	-	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	2	148	-	-	-	-	-	-	150
Equity share options issued	-	-	-	-	-	-	-	-	-
<b>Transactions with owners</b>	<b>26</b>	<b>2,114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9,302)</b>	<b>(7,162)</b>
<b>Balance at 31st December 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>

# Anglo Pacific Group PLC

## COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2009

	Share capital	Share premium	Investment revaluation reserve	Share based payment reserve	Foreign currency translation reserve	Special reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 1st January 2008</b>	<b>2,113</b>	<b>17,742</b>	<b>29,258</b>	<b>48</b>	<b>82</b>	<b>632</b>	<b>37,058</b>	<b>86,933</b>
<i>Changes in equity for 2008</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	(39,887)	-	-	-	-	(39,887)
Deferred tax on valuation	-	-	1,996	-	-	-	-	1,996
Transferred to income statement on disposal	-	-	(13,100)	-	-	-	-	(13,100)
Net income recognised direct into equity	-	-	(50,991)	-	-	-	-	(50,991)
Profit for the period	-	-	-	-	-	-	24,697	24,697
Total recognised income and expenses	-	-	(50,991)	-	-	-	24,697	(26,294)
Dividends paid	-	-	-	-	-	-	(7,787)	(7,787)
Scrip Dividend	10	862	-	-	-	-	-	872
Issue of share capital	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	-	-	-	-	-	-	-	-
Equity share options issued	-	-	-	30	-	-	-	30
<b>Balance at 31st December 2008</b>	<b>2,123</b>	<b>18,604</b>	<b>(21,733)</b>	<b>78</b>	<b>82</b>	<b>632</b>	<b>53,968</b>	<b>53,754</b>
<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	-	-	-	-	-	-	(9,302)	(9,302)
Scrip Dividend	24	1,966	-	-	-	-	-	1,990
Issue of share capital	-	-	-	-	-	-	-	-
Issue of share capital under share-based payment	2	148	-	-	-	-	-	150
Equity share options issued	-	-	-	-	-	-	-	-
<b>Balance at 31st December 2009</b>	<b>2,149</b>	<b>20,718</b>	<b>36,845</b>	<b>78</b>	<b>82</b>	<b>632</b>	<b>82,479</b>	<b>142,983</b>



# Anglo Pacific Group PLC

## CONSOLIDATED CASH FLOW STATEMENT AND COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

		Group		Company	
	Notes	2009 £'000	2008 £'000	2009 £'000	2008 £'000
<b>Cash flows from operating activities</b>					
Profit before taxation		25,883	35,255	37,903	25,100
Adjustments for:					
Interest received	6	(796)	(957)	(593)	(850)
Unrealised foreign currency loss		1,562	756	-	-
Depreciation of property, plant and equipment	4	12	9	12	9
(Gain) on disposal of mining and exploration interests		(6,367)	(14,016)	(6,701)	(12,041)
(Gain) on revaluation of assets held as fair value through profit or loss	13,15	(130)	(126)	(130)	(126)
Loss on writedown of assets		410	-	410	-
Inter-company dividends		-	-	(30,500)	(12,450)
Share of associates (profit)		(515)	-	-	-
Share based payments	28	150	30	150	30
		<u>20,209</u>	<u>20,951</u>	<u>551</u>	<u>(328)</u>
Decrease/ (Increase) in trade and other receivables excluding amounts due from subsidiary companies		6,493	(9,701)	(1,071)	(244)
(Decrease) / Increase in trade and other payables		<u>(459)</u>	<u>588</u>	<u>115</u>	<u>136</u>
Cash generated from operations		26,243	11,838	(405)	(436)
Income taxes paid		<u>(4,727)</u>	<u>(4,342)</u>	<u>553</u>	<u>(3,285)</u>
<b>Net cash flows from operating activities</b>		<u>21,516</u>	<u>7,496</u>	<u>148</u>	<u>(3,721)</u>
<b>Cash flows from investing activities</b>					
Proceeds on disposal of mining and exploration interests		25,391	31,117	22,384	27,388
Purchases of mining and exploration interests		(29,195)	(28,849)	(26,511)	(27,194)
Purchases of royalty interests		(12,245)	(5,574)	(9,215)	(5,574)
Acquisition of associates		(1,331)	-	-	-
Purchases of property, plant and equipment		(80)	-	(80)	-
Exploration and evaluation expenditure		(513)	-	-	-
Interest received	6	796	957	593	850
<b>Net cash flows from investing activities</b>		<u>(17,177)</u>	<u>(2,349)</u>	<u>(12,829)</u>	<u>(4,530)</u>
<b>Cash flows from financing activities</b>					
Proceeds from issue of share capital		-	-	-	-
Dividends paid		(7,280)	(6,915)	(7,280)	(6,915)
Net financing of related entities		-	-	26,484	13,232
<b>Net cash flows from financing activities</b>		<u>(7,280)</u>	<u>(6,915)</u>	<u>19,204</u>	<u>6,317</u>
<b>Net increase in cash and cash equivalents</b>		<b>(2,941)</b>	<b>(1,768)</b>	<b>6,523</b>	<b>(1,934)</b>
<b>Cash and cash equivalents at beginning of period</b>	22	<u><b>17,136</b></u>	<u><b>18,904</b></u>	<u><b>101</b></u>	<u><b>2,035</b></u>
<b>Cash and cash equivalents at end of period</b>	22	<u><b>14,195</b></u>	<u><b>17,136</b></u>	<u><b>6,624</b></u>	<u><b>101</b></u>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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### 1. Summary of significant accounting policies

#### 1.1 Corporate information

The financial statements of the Group were authorised for issue in accordance with a directors' resolution on 10<sup>th</sup> March 2010. Anglo Pacific Group PLC is incorporated in England and quoted on Stock Exchanges in the United Kingdom and Australia. Anglo Pacific Group PLC's registered office is at 17 Hill Street, London, W1J 5NZ, United Kingdom (registered number: 897608).

Anglo Pacific Group PLC's business is securing natural resources royalties by acquisition and through investment in mining interests. The Group's royalties and mining interests are diversified but are strongly represented by coal, gold and uranium.

#### 1.2 Basis of preparation

The basis of preparation and 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.

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 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 2.

##### 1.2.1 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 1<sup>st</sup> January 2009:

- IAS 1 (revised) 'Presentation of financial statements' – effective 1<sup>st</sup> January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group has elected to present the 'Statement of comprehensive income' in two statements: the 'Consolidated income statement' and a 'Consolidated statement of comprehensive income'. Only one comparative period has been presented for the balance sheet as there are no retrospective restatements of any figures from applying the amended IAS 1. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 7 (amendment) 'Financial instruments – Disclosures' – effective 1<sup>st</sup> January 2009. The amendment requires enhanced disclosure about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.
- IFRS 8 'Operating Segments' – effective 1<sup>st</sup> January 2009. The standard requires disclosure of information about the Group's operating segments and also about the Group's businesses and the geographical area in which it operates.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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*(b) 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 1<sup>st</sup> January 2010 or later periods, but the Group has not early adopted them:

- IFRS 9 'Financial Instruments' – effective 1<sup>st</sup> January 2013
- IFRIC 14 (amendments) 'Prepayments of a Minimum Funding Requirement' – effective 1<sup>st</sup> January 2011
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' – effective 1<sup>st</sup> July 2010
- IFRS 2 (amendments) 'Group Cash-settled Share-based Payment Transactions' – effective 1<sup>st</sup> January 2010
- IAS 24 (revised 2009) 'Related Party Disclosures' – effective 1<sup>st</sup> January 2011

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.

### 1.3 Consolidation

The financial statements consist of the consolidation of the accounts of Anglo Pacific Group PLC (the Company) and its subsidiaries (together 'the Group').

All intragroup balances, transactions, income and expenses, including unrealised profits from intragroup transactions, have been eliminated on consolidated. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

#### *(a) Subsidiaries*

Subsidiaries are all 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.

In the accounts of the Company, investments in subsidiaries are shown at cost less any provision for impairment. The results of subsidiaries are included in the consolidated income statement.

The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminated intercompany transactions as noted above.

#### *(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 movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equal 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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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Unrealised gains on transaction 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.

On 13<sup>th</sup> May 2009 the Group made an unconditional on-market cash bid of A\$0.30 per share for all the outstanding issued share capital of Royalco Resources Limited, an Australian mining company which owns a number of royalty interests in Australasia. The offer price was increased to A\$0.34 on 3<sup>rd</sup> July 2009 and the bid closed on 10<sup>th</sup> July 2009, resulting in the Group increasing its shareholding to 31.1%. On 25<sup>th</sup> September 2009 Chris Orchard, the Group's Chief Investment Officer and an executive director, was appointed to the Royalco Resources Limited Board. As a result of its significant shareholding and this board appointment, the Group's investment in Royalco Resources Limited is accounted for under the equity method. Note 17 provides further details of the Group's investment in Royalco Resources Limited.

### *(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.

## **1.4 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive and Investment committees, who combined fulfil the role of the chief operating decision-maker. The Executive and Investments committees are responsible for allocating resources and assessing performance of the Group's operating segments.

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. For the purposes of management reporting the Group does not have separate geographical reporting segments.

## **1.5 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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### *(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 follow:

- (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.

### **1.6 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.

### **1.7 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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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### 1.8 Intangibles

#### *(a) Exploration and evaluation costs*

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

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

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

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

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 and the Salamanca Uranium Project in Spain, which are development and feasibility stage projects respectively.

The Group does not own the physical rights to the minerals on these projects, rather it is entitled to the royalty payments from both the Four Mile and Salamanca Uranium 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.

### 1.9 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 and 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

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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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.

### **1.10 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.

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 15).

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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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### *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.

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 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.

## **1.11 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.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

### 1.12 Share-based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7<sup>th</sup> November 2002 that were unvested as of 1<sup>st</sup> January 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

### 1.13 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 30th June 2002 which was created as part of a capital reduction performed in 2002.
- "Retained earnings" represents retained profits.

### 1.14 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.

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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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### 1.15 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.

### 1.16 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.

## 2. Critical accounting estimates and judgements

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

### 2.1 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 1.7, note 1.8, note 1.9, note 12, note 13, note 14 and note 15.
- (b) Recoverability of deferred tax assets – note 1.11 and note 21

### 2.2 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 1.10 and note 15
- (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 1.8 (b) and note 14.

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 1.10 and note 13.

- (c) Review of assumptions underlying the independent coal industry advisors' valuation of the Kestrel and Crinum coal royalty – note 12.
- (d) Review of assumptions underlying the valuation of royalty instruments and their associated embedded derivatives – note 13.

The Directors review the latest available mine plans and obtain independent foreign exchange and commodity price forecasts to determine the each of the royalty instruments carrying value at reporting date.

- (e) Review of asset carrying values and impairment charges and reversals – note 1.7, note 1.8, note 1.9, note 12, note 13, note 14 and note 15.
- (f) Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 1.11, note 7 and note 21.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 3. 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. Any revenue, overheads, assets or liabilities that cannot be directly allocated to these segments is reported under "Unallocated".

For the year ended 31<sup>st</sup> December 2009, income from royalties was derived 100% in Australia through the coal royalty held (2008: 100%). The Group's royalty assets are 89% (2008: 93%) held in Australasia with the balance being represented by interests in Europe 6% (2008: 5%), North America 4% (2008: nil) and South America 1% (2008: 2%). This analysis has been based on the source of royalty income, together with the location of the operations giving rise to the royalty income.

The Group's listed mining and exploration interests are 100% operated from the United Kingdom and whilst the interests of those mining companies are worldwide they are listed on the following markets:

- Australia – 56% (2008: 58%)
- Canada – 41% (2008: 37%)
- United Kingdom – 3% (2008: 5%)

The segment information provided to the Executive and Investment committees for the reportable segments for the year ended 31<sup>st</sup> December 2009 is as follows:

	Year ended 31st December 2009			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
<b>Income</b>	20,334	-	13	20,347
Profit on sale of mining and exploration interests	-	6,367	-	6,367
Interest received	-	-	796	796
Depreciation	-	-	(12)	(12)
Tax	-	-	(5,252)	(5,252)
Share of profits of associates	-	515	-	515
<b>Segment Result</b>	20,334	6,882	(6,585)	20,631
Segment Assets	177,201	115,082	20,172	312,455
Segment Liabilities	(47,475)	(408)	(4,536)	(52,419)
<b>Net Segment Assets</b>	129,726	114,674	15,636	260,036
Capital Expenditure	-	88	80	168
Exploration and evaluation expenditure	-	367	-	367

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Year ended 31st December 2008			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
<b>Income</b>	22,072	-	50	22,122
Profit on sale of mining and exploration interests	-	14,016	-	14,016
Interest received	-	-	957	957
Depreciation	-	-	(9)	(9)
Tax	-	-	(5,994)	(5,994)
Share of profits of associates	-	-	-	-
<b>Segment Result</b>	22,072	14,016	(6,827)	29,261
Segment Assets	101,130	45,755	29,540	176,425
Segment Liabilities	(30,781)	1,924	(1,726)	(30,583)
<b>Net Segment Assets</b>	70,349	47,679	27,814	145,842
Capital Expenditure	-	-	6	6
Exploration and evaluation expenditure	-	-	-	-

### 4. Profit before tax

	2009 £'000	2008 £'000
Profit before tax is stated after charging/(crediting):—		
Net realised foreign exchange (gains)	(893)	(567)
Depreciation of property plant and equipment (note 11)	12	9
Staff costs (note 5)	1,408	1,322
Movement in fair value through profit or loss investments (note 13 & note 15)	130	126
Payments under operating leases	146	66
<i>Auditors' remuneration:</i>		
Fees payable to the Company's auditor for audit of the financial statements	39	40
Fees payable to the Company's auditor for other services:		
- Interim review	11	8
- Other taxation services	10	15

### 5. Staff costs

	Consolidated 2009 £'000	2008 £'000
Wages and salaries	1,250	1,208
Social security costs	121	100
Other pension costs	37	14
	1,408	1,322

	Consolidated 2009 Number	2008 Number
Executive directors	5	3
Administration	2	3
	7	6

Directors' salaries are shown in the directors' remuneration report on pages 24 to 27, including the highest paid director.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 6. Finance income

	2009 £'000	2008 £'000
Interest on bank deposits	431	931
Interest on royalty instruments	365	26
	<u>796</u>	<u>957</u>

### 7. Income tax expense

	2009 £'000	2008 £'000
Total corporation tax charge	8,239	2,932
Deferred tax (credited)/charged to income – current year (note 21)	(2,987)	3,062
Tax on profit on ordinary activities	<u>5,252</u>	<u>5,994</u>
	<b>2009 £'000</b>	<b>2008 £'000</b>
Factors affecting the tax charge for the year:		
Profit on activities before tax	<u>25,883</u>	<u>35,255</u>
Prima facie tax payable at UK rate of 28% (2008: 28.50%) and Australian rate of 30% (2008: 30%)	7,744	10,379
Adjustment for tax exempt income	(1,841)	(3,311)
Investment allowances	-	(120)
Utilisation of losses brought forward	108	(540)
Adjustment for foreign taxed income	(342)	196
Non-deductible expenses	(417)	(610)
Utilisation of previously unrecognised deferred tax assets	-	-
Total income tax expense	<u>5,252</u>	<u>5,994</u>

Refer to note 21 for information regarding the Group's deferred tax assets and liabilities.

### 8. Dividends

On 7<sup>th</sup> January 2009 an interim dividend of 3.45 pence per share was paid to shareholders in respect of the year ended 31<sup>st</sup> December 2008. On 3<sup>rd</sup> July 2009 a final dividend of 4.35 pence per share was paid to shareholders to make a total dividend for the year of 7.80 pence per share.

On 13<sup>th</sup> January 2010 an interim dividend of 3.70 pence per share was paid to shareholders in respect of the year ended 31<sup>st</sup> December 2009. This dividend has not been included as a liability in these financial statements. The directors propose that a final dividend of 4.65 pence per share be paid to shareholders on 7<sup>th</sup> July 2010, to make a total dividend for the year of 8.35 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 2009 is payable to all shareholders on the Register of Members on 7<sup>th</sup> May 2010. The total estimated dividend to be paid is £5.0 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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 9. Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £20,631,000 (2008: £29,261,000) and the weighted average number of shares in issue during the year of 107,439,463 (2008: 107,373,389).

The diluted earnings per ordinary share is calculated on a profit after tax of £20,631,000 (2008: £29,261,000) and 107,459,305 shares (2008: 107,388,826). The numbers used in calculating basic and diluted earnings per share are restated below:

<b>Net profit attributable to shareholders</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Earnings—basic	20,631	29,261
Earnings—diluted	<u>20,631</u>	<u>29,261</u>
<b>Weighted average number of shares in issue</b>	<b>Number</b>	<b>Number</b>
Ordinary shares in issue	107,439,463	107,373,389
Employee Share Option Scheme	<u>19,842</u>	<u>15,437</u>
	<u>107,459,305</u>	<u>107,388,826</u>

### 10. Results of Anglo Pacific Group Plc

Included in the consolidated profit attributable to the shareholders of Anglo Pacific Group PLC is a profit after tax of £37,813,000 (2008: £24,697,000), which has been dealt with in the accounts of the holding company. As permitted by Section 408 of the Companies Act 2006, the parent company's profit and loss account has not been included in these financial statements.

### 11. Property, plant and equipment

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

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	Producing assets £'000	Equipment and Fixtures £'000	Total £'000
<b>Consolidated</b>			
<b>Gross carrying amount</b>			
Balance 1 <sup>st</sup> January 2008	821	144	965
Additions	-	6	6
Disposals	-	-	-
Reclassification from mining and exploration interests	-	-	-
Balance 31 <sup>st</sup> December 2008	821	150	971
<b>Depreciation and impairment</b>			
Balance 1 <sup>st</sup> January 2008	(2)	(131)	(133)
Disposals	-	-	-
Depreciation	-	(9)	(9)
Balance 31 <sup>st</sup> December 2008	(2)	(140)	(142)
<b>Carrying amount 31<sup>st</sup> December 2008</b>	<b>819</b>	<b>10</b>	<b>829</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.

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

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Company	Producing assets £'000	Equipment and Fixtures £'000	Total £'000
<b>Gross carrying amount</b>			
Balance 1 <sup>st</sup> January 2008	821	144	965
Additions	-	6	6
Disposals	-	-	-
Reclassification from mining and exploration interests	-	-	-
Balance 31 <sup>st</sup> December 2008	821	150	971
<b>Depreciation and impairment</b>			
Balance 1 <sup>st</sup> January 2008	(2)	(131)	(133)
Disposals	-	-	-
Depreciation	-	(9)	(9)
Balance 31 <sup>st</sup> December 2008	(2)	(140)	(142)
<b>Carrying amount 31<sup>st</sup> December 2008</b>	<b>819</b>	<b>10</b>	<b>829</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 (2008: £0.8 million) plus additions which are carried at cost. This valuation was carried out on 26<sup>th</sup> March 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

### 12. Coal Royalties

	Consolidated £'000	Company £'000
At 1 <sup>st</sup> January 2008	60,874	-
Revaluation adjustment	25,943	-
Foreign currency translation	6,530	-
At 31 <sup>st</sup> December 2008	93,347	-
Revaluation adjustment	42,916	-
Foreign currency translation	13,633	-
At 31 <sup>st</sup> December 2009	149,896	-

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

The coal royalty was valued during December 2009 at £149.9 million (A\$270 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 £2.5 million (A\$4.5 million) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 21). The Directors do not presently have any intention to dispose of the coal royalty.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 13. 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%	2,881	265
El Valle	Gold	C\$7,500	2.50%	3% >US\$1,100/oz	C\$0.958	12.5%	7,869	-
Jogjakarta Iron Sands <sup>1</sup>	Iron Sands	A\$5,000	2.00% <sup>3</sup>	-	A\$0.10 - A\$0.50	15%	3,541	200
Midway- McKenzie Break <sup>2</sup>	Gold	C\$8,000	2.50%	2.75% >US\$1,250/oz	C\$0.70	12%	6,878	345
							<u>21,169</u>	<u>810</u>

<sup>1</sup> Jogjakarta Iron Sands royalty instrument was acquired on 15<sup>th</sup> June 2009.

<sup>2</sup> Midway-McKenzie Break royalty instrument was acquired on 3<sup>rd</sup> September 2009.

<sup>3</sup> Jogjakarta Iron Sands royalty rate decreases to 1% following repayment of principal, unless liquid iron prices exceed US\$700/t.

#### (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:

	Consolidated £'000	Company £'000
At 1 <sup>st</sup> January 2008	-	-
Additions	5,343	5,343
Disposals	-	-
Revaluation adjustment	2,083	2,083
Fair value at 31 <sup>st</sup> December 2008	<u>7,426</u>	<u>7,426</u>
Additions	6,596	6,596
Disposals	-	-
Revaluation adjustment	7,147	7,147
Fair value at 31 <sup>st</sup> December 2009	<u>21,169</u>	<u>21,169</u>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### (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:

	<b>Consolidated £'000</b>	<b>Company £'000</b>
At 1 <sup>st</sup> January 2008	-	-
Additions	231	231
Disposals	-	-
Revaluation adjustment	126	126
Fair value at 31 <sup>st</sup> December 2008	357	357
Additions	323	323
Disposals	-	-
Revaluation adjustment	130	130
Fair value at 31 <sup>st</sup> December 2009	810	810

	<b>2009</b>		<b>2008</b>	
	<b>Consolidated £'000</b>	<b>Company £'000</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
<b>Total royalty instruments</b>	<b>21,979</b>	<b>21,979</b>	<b>7,783</b>	<b>7,783</b>

### 14. Intangibles

<b>Consolidated</b>	<b>Exploration &amp; Evaluation Costs £'000</b>	<b>Royalty Interests £'000</b>	<b>Total £'000</b>
<b>Gross carrying amount</b>			
Balance 31 <sup>st</sup> December 2008	-	-	-
Additions	367	5,326	5,693
Reclassification from mining and exploration interests	402	-	402
Balance 31 <sup>st</sup> December 2009	769	5,326	6,095
<b>Amortisation and impairment</b>			
Balance 31 <sup>st</sup> December 2008	-	-	-
Impairment charge	-	-	-
Amortisation charge	-	-	-
Balance 31 <sup>st</sup> December 2009	-	-	-
<b>Carrying amount 31<sup>st</sup> December 2009</b>	<b>769</b>	<b>5,326</b>	<b>6,095</b>

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

<b>Company</b>	<b>Royalty Interests £'000</b>	<b>Total £'000</b>
<b>Gross carrying amount</b>		
Balance 31 <sup>st</sup> December 2008	-	-
Additions	2,296	2,296
Reclassification from mining and exploration interests	-	-
Balance 31 <sup>st</sup> December 2009	2,296	2,296
<b>Amortisation and impairment</b>		
Balance 31 <sup>st</sup> December 2008	-	-
Impairment charge	-	-
Amortisation charge	-	-
Balance 31 <sup>st</sup> December 2009	-	-
<b>Carrying amount 31<sup>st</sup> December 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.

The royalty interests are represented by the net smelter royalties on the Four Mile Project in South Australia and the Salamanca Uranium Project in Spain, which are development and feasibility stage projects respectively. These royalty interests are recorded at cost.

All amortisation and impairment charges (or reversals if any) are included within 'depreciation, amortisation and impairment of non-financial assets'. As both royalty interests remain in preproduction there was no amortisation or impairment during the period. No intangible assets have been pledged as security for liabilities.

### 15. Mining and Exploration Interests

<b>(a) Available for sale</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
At 1 <sup>st</sup> January 2008	94,690	78,538
Additions	28,766	26,839
Disposals	(35,636)	(28,322)
Revaluation adjustment	(42,964)	(41,970)
Foreign currency translation	(111)	-
Fair value at 31 <sup>st</sup> December 2008	44,745	35,085
Additions	29,730	26,081
Disposals	(19,181)	(15,777)
Reclassification as investment in associate	(3,321)	-
Reclassification as exploration interests	(953)	-
Revaluation adjustment	57,657	56,511
Foreign currency translation	8	-
Fair value at 31 <sup>st</sup> December 2009	108,685	101,900
Quoted investments	99,543	97,597
Unquoted investments	9,142	4,303
	108,685	101,900

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

These 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 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.

<b>(b) Fair value through profit and loss</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
At 1 <sup>st</sup> January 2008	1,060	1,060
Additions	-	-
Disposals	(50)	(50)
Revaluation adjustment	-	-
Fair value at 31 <sup>st</sup> December 2008	1,010	1,010
Additions	-	-
Disposals	-	-
Revaluation adjustment	-	-
Fair value at 31 <sup>st</sup> December 2009	1,010	1,010

A non-repayable convertible instrument was created by the Group in 2007. This convertible instrument was created to provide finance to an unlisted 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 5 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.

	<b>2009</b>		<b>2008</b>	
	<b>Consolidated £'000</b>	<b>Company £'000</b>	<b>Consolidated £'000</b>	<b>Company £'000</b>
<b>Total mining and exploration interests</b>	109,695	102,910	45,755	36,095

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 16. Investments in subsidiaries

<b>Company</b>	<b>Investments in subsidiaries £'000</b>
Cost:	
At 1 <sup>st</sup> January 2008	6,686
Additions:	277
At 31 <sup>st</sup> December 2008	6,963
Additions	-
Investment reclassified as exploration interests	(953)
At 31 <sup>st</sup> December 2009	6,010
Provisions:	
At 1 <sup>st</sup> January 2008	345
Additions	-
At 31 <sup>st</sup> December 2008	345
Additions	-
At 31 <sup>st</sup> December 2009	345
Net book value:	
At 1 <sup>st</sup> January 2008	6,341
At 31 <sup>st</sup> December 2008	6,618
At 31 <sup>st</sup> December 2009	5,665

	<b>Country of registration and operation</b>	<b>Principal activity</b>	<b>Proportion of shares held at 31st December 2009</b>
Starmont Holdings Pty Ltd	Australia	Intermediate holding company	100%
Indian Ocean Resources Ltd	Australia	Investments	100%†
Alkormy Pty Ltd	Australia	Investments	100%†
Gordon Resources Ltd	Australia	Owner of coal royalty	100%†
Jandale Pty Ltd	Australia	Joint venture company	100%†
Starmont Ventures Pty Ltd	Australia	Investments	100%†
Shetland Talc Ltd	Scotland	Mineral exploration	100%
APGM Ltd	England	Investments	100%
Southern Cross Royalties Ltd	England	Owner of uranium royalty	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%
Panorama Coal Corporation	Canada	Holder of coal tenures	100%
Trefi Coal Corporation	Canada	Holder of coal tenures	100%

† Denotes held by a subsidiary company.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 17. Investments in associates

	Investments in associates £'000
At 1 <sup>st</sup> January 2008	-
Additions - cost	-
At 1 <sup>st</sup> January 2009	-
Additions - cost	3,321
Share of profits	515
Share of other comprehensive income	(65)
At 31 <sup>st</sup> December 2009	<u>3,771</u>

Investments in associates at 31 December 2009 include goodwill of £587,000 (2008: £nil).

The goodwill comprises the excess of the acquisition cost for Royalco Resources Limited over the fair value of the Group's share of the identifiable net assets of this company. The cost base of the Group's acquisition of its 31.13% interest in Royalco Resources Limited as at 10<sup>th</sup> July 2009 was A\$6.0 million. The Group's share of Royalco Resources Limited's net assets on acquisition was A\$4.9 million. As the cost base exceeds the Group's share of Royalco Resources Limited's net assets, the A\$1.1 million excess has been recognised as goodwill.

Goodwill is carried at cost less accumulated impairment losses. Royalco Resources Limited announced on 9<sup>th</sup> September 2009 that it had commissioned an independent valuation of its royalties which were held on the company balance sheet at 30<sup>th</sup> June 2009 at a cost of A\$248,000. This independent valuation returned a value range between A\$15.9 million and A\$17.0 million for these assets. After evaluating this information the Group does not consider the goodwill to be impaired.

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities, are as follows:

Name	Country of incorporation	% interest held	Assets £'000	Liabilities £'000	Revenues £'000	Profit £'000
Royalco Resources Limited	Australia	31.13	<u>3,318</u>	<u>135</u>	<u>740</u>	<u>515</u>
			<u>3,318</u>	<u>135</u>	<u>740</u>	<u>515</u>

The Group has not incurred any contingent liabilities or other commitments relating to its investments in associates.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 18. 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 Resources Pty Ltd for the purpose of exploration and development.

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

	2009 £'000	2008 £'000
Non-current assets	-	-
Current assets	2	7
Non-current liabilities	-	-
Current liabilities	1	3
Income	-	50
Expenses	48	-

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

### 19. Trade and other receivables

	2009		2008	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Income tax receivable	-	-	-	646
Trade receivables	-	-	-	-
Other receivables (including royalties receivable)	5,008	1,280	11,537	251
Prepayments and accrued income	74	67	38	25
	5,082	1,347	11,575	922
Amounts due from subsidiaries	-	5,018	-	45
	5,082	6,365	11,575	967

Trade and other receivables principally comprise amounts relating to royalties receivable for the quarter 1<sup>st</sup> October to 31<sup>st</sup> December 2009. 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.

### 20. Trade and other payables

	2009		2008	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Income tax payable	3,920	-	857	-
Other taxation and social security payable	226	226	20	20
Trade payables	125	90	35	33
Other payables	210	192	780	155
Accruals and deferred income	55	55	34	34
	4,536	563	1,726	242

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Trade and other payables principally comprise amounts outstanding for taxation, investment purchases and ongoing costs. The average credit period taken for trade purchases is 33 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.

### 21. Deferred tax

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

	2009		2008	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
At 1 <sup>st</sup> January	28,857	(1,603)	19,252	393
Released to income for the year	(2,987)	-	3,062	-
Charge to equity for the year	17,824	4,792	4,126	(1,996)
Foreign currency translation	4,189	-	2,417	-
At 31 <sup>st</sup> December	<u>47,883</u>	<u>3,189</u>	<u>28,857</u>	<u>(1,603)</u>

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

	Coal royalties		Available-for sale-investments		Accrual of royalty receivable	Total
	Revaluation of coal royalty £'000	Effects of Tax losses £'000	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	£'000	£'000
At 1 <sup>st</sup> January 2008	17,749	(1,077)	-	2,037	543	19,252
Released to income for the year (note 7)	-	-	-	-	3,062	3,062
Charge to equity for the year	7,783	629	994	(5,280)	-	4,126
Foreign currency translation	1,959	(115)	-	325	248	2,417
At 31 <sup>st</sup> December 2008	<u>27,491</u>	<u>(563)</u>	<u>994</u>	<u>(2,918)</u>	<u>3,853</u>	<u>28,857</u>
Released to income for the year (note 7)	-	-	-	-	(2,987)	(2,987)
Charge 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 31 <sup>st</sup> December 2009	<u>44,456</u>	<u>(757)</u>	<u>2,665</u>	<u>410</u>	<u>1,109</u>	<u>47,883</u>

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 12. 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
	Revaluation of royalty instruments £'000	Revaluation of mining interests £'000	£'000
At 1 <sup>st</sup> January 2008	-	393	393
Charge to equity for the year	994	(2,990)	(1,996)
At 31 <sup>st</sup> December 2008	<u>994</u>	<u>(2,597)</u>	<u>(1,603)</u>
Charge to equity for the year	1,671	3,121	4,792
At 31 <sup>st</sup> December 2009	<u>2,665</u>	<u>524</u>	<u>3,189</u>



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 22. Other financial assets

The disclosures detailed below are as required by IFRS 7 'Financial Instruments: Disclosures'. The Company'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 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 detailed below:

#### 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 four royalties during the year. In the event of non-payment of royalties, in both instances the Group have security against plant and equipment and the royalties are registered against mining title where possible. In addition, the Group is 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 an unlisted mining development company is currently held by the Group (note 15). 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 5 years. 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:

	2009					2008				
	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000
Financial assets	1,005	55,628	46,294	29	18	3,860	16,173	20,418	-	16
Financial liabilities	-	-	-	-	-	-	-	-	-	-
Short term exposure	1,005	55,628	46,294	29	18	3,860	16,173	20,418	-	16

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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

It assumes a +/- 10% change of the Sterling / Australian Dollar exchange rate for the year ended 31<sup>st</sup> December 2009 (2008: 10%). A +/- 10% is considered for the Sterling / Canadian Dollar exchange rate (2008: 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:

	2009					2008				
	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000
Net result for the year	-	772	(76)	-	-	4	918	88	-	3
Equity	101	5,563	4,629	3	2	386	1,617	2,042	-	2

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

	2009					2008				
	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000	GBP £'000	AUD £'000	CAD £'000	USD £'000	Euro £'000
Net result for the year	-	(772)	76	-	-	(4)	(918)	(88)	-	(3)
Equity	(101)	(5,563)	(4,629)	(3)	(2)	(386)	(1,617)	(2,042)	-	(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.

### 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 10% increase or decrease in listed equity prices has been performed. If the quoted stock price for these securities had increased or decreased by this percentage the net result for the year would have been increased / reduced by £2,534,000 (2008: £2,207,000). Equity would have changed by £9,954,000 (2008: £3,473,000).

The royalties acquired during the year (note 13 and note 14) expose the Group to other price risk through fluctuations in commodity prices, particularly the prices of 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 13) 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 severe 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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 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 rate the Group received had increased/decreased by one percent during the year, the net result for the year would have been increased / reduced by £796,000 (2008: £383,000). There would have been no impact on equity.

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

	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
<b>2008</b>				
Financial Assets				
Cash	2.65%	17,136	-	17,136
Other receivables		-	11,537	11,537
Total Financial Assets		17,136	11,537	28,673
Financial Liabilities				
Trade payables		-	35	35
Other payables		-	780	780
Total Financial Liabilities		-	815	815
Net Financial Assets		17,136	10,722	27,858

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### Financial Assets

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

	2009		2008	
	Group £'000	Company £'000	Group £'000	Company £'000
<i>Available-for-sale</i>				
Other royalties	21,169	21,169	7,426	7,426
Mining and exploration interests	108,685	101,900	44,745	35,085
<i>Fair value through profit or loss</i>				
Other royalties	810	810	357	357
Mining and exploration interests	1,010	1,010	1,010	1,010
<i>Loans and receivables</i>				
Trade and other receivables	5,008	6,298	11,537	296
Cash at bank and in hand	14,195	6,624	17,136	101

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.

### Fair value hierarchy

The Group adopted the amendments for IFRS 7 'Improving Disclosures about Financial Instruments' effective from 1<sup>st</sup> January 2009. These amendments require the Group to present certain information about financial instruments measured at fair value in the statement of financial position. In the first year of application, comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure of the fair value hierarchy is only presented for the year ended 31<sup>st</sup> December 2009.

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 financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

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

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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)	-	5,313	-	5,313
Total		<u>97,597</u>	<u>5,313</u>	<u>21,979</u>	<u>124,889</u>
<b>Net fair value</b>		<u>97,597</u>	<u>5,313</u>	<u>21,979</u>	<u>124,889</u>

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 13 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 independently valued at 31<sup>st</sup> December 2009 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 and the United Kingdom. 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.

### 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 financial instruments within this level can be reconciled from beginning to ending balances as follows:

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	<b>Available-for-sale financial assets</b>	<b>Financial assets at fair value through profit and loss</b>	
	<b>Net smelter return royalty £'000</b>	<b>Optionality to convert debenture £'000</b>	<b>Total £'000</b>
Opening balance as at 1st January 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	-	-	-
Closing balance as at 31st December 2009	21,169	810	21,979

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

Gains or losses recognised in profit and loss for the period are presented in 'net operating expenses' and can be attributed to assets held at the end of the reporting period as follows:

	<b>Available-for-sale financial assets</b>	<b>Financial assets at fair value through profit and loss</b>	
	<b>Net smelter return royalty £'000</b>	<b>Optionality to convert debenture £'000</b>	<b>Total £'000</b>
Assets held at the end of the reporting period	-	130	130
Total gains or losses	-	130	130

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.

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 23. Called up share capital and share premium

	Number of shares	Ordinary shares £'000	Share premium £'000	Total £'000
<b>At 1<sup>st</sup> January 2008</b>	105,626,626	2,113	17,742	19,855
Scrip dividends	545,513	10	862	872
Issue of share capital under share-based payment	-	-	-	-
<b>At 31<sup>st</sup> December 2008</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 31<sup>st</sup> December 2009</b>	107,439,463	2,149	20,718	22,867

The total authorised number of ordinary shares is 500,000,000 shares of 2p each (2008: 500,000,000 shares). All issued shares are fully paid.

### Share option schemes

Shares under option to directors in office at 31<sup>st</sup> December 2009 are disclosed within the Directors' Remuneration Report. The Group operates an employee share option plan, the Anglo Pacific Company Share Option Plan, which is open to all Group employees. Options were first granted under this scheme during 1999. During the year 19,672 options were surrendered under this scheme and 71,367 options remain outstanding at 31<sup>st</sup> December 2009. Further information is provided at note 28.

### 24. Special reserve

As part of the capital reduction in 2002, a special reserve was created, which represents the level of profit attributable to the Group for the period ended 30<sup>th</sup> June 2002. At 31<sup>st</sup> December 2009, this reserve remains unavailable for distribution.

	Consolidated £'000	Company £'000
At 1 <sup>st</sup> January 2009 and 31 <sup>st</sup> December 2009	632	632

### 25. Retained Earnings

	Consolidated £'000	Company £'000
Balance at 1 <sup>st</sup> January 2009	80,894	53,968
Dividends paid	(9,302)	(9,302)
Profit for the financial year	20,631	37,813
Balance at 31 <sup>st</sup> December 2009	92,223	82,479

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

### 26. 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:

	2009 £'000	2008 £'000
Within one year	148	50
In the second to fifth years inclusive	592	200
After five years	225	360
	<u>965</u>	<u>610</u>

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 £2,365,000 (2008: £nil) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2008: £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.

### 27. 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 £37,200 (2008: £13,800) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31<sup>st</sup> December 2009, contributions of £4,600 (2008: £5,600) due in respect of the current reporting period had not been paid over to the schemes.

### 28. Share based payments

The Group has an Inland Revenue approved Company Share Option Plan. The option plan provides for a grant price equal to the quoted market price of the Group's shares on the date of grant.

The vesting period for the option plan is 3 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 2% in excess of the UK Retail Price Index (RPI) over the vesting period.



# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

	2009		2008	
	Options	Weighted average exercise price (£)	Options	Weighted average Exercise price (£)
Outstanding at 1 <sup>st</sup> January	91,039	1.3181	56,595	1.0602
Granted during the year	-	-	34,444	1.7419
Surrendered during the year	(19,672)	1.5250	-	-
Outstanding at 31 <sup>st</sup> December	<u>71,367</u>	<u>1.2611</u>	<u>91,039</u>	<u>1.3181</u>
Exercisable at 31 <sup>st</sup> December	<u>36,923</u>	<u>0.8125</u>	<u>36,923</u>	<u>0.8125</u>

The options outstanding at 31<sup>st</sup> December 2009 had a weighted average exercise price of £1.26 and a weighted average remaining contractual life of 6.7 years. The Group recognised total expenses of £nil (2008: £30,300) relating to equity-settled share-based payment transactions. For this calculation the Black-Scholes model was employed.

On 29<sup>th</sup> December 2009 following the recommendation of the Remuneration Committee, the Group issued 66,074 Ordinary Shares of 2p each in the Company at a price of 225.5p per share to the Executive Directors as part of their remuneration.

### 29. Related party transactions

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

	Subsidiaries		Associates	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Funding transactions	26,484	13,118	-	-
Management fee	(1,504)	(1,272)	10	-
Amounts owed by related parties at year end	<u>5,018</u>	<u>45</u>	<u>3</u>	<u>-</u>

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 24 to 27.

	2009 £'000	2008 £'000
Short-term employee benefits	1,371	1,308
Post-employment benefits	37	14
Share-based payment	-	30
	<u>1,408</u>	<u>1,352</u>

### Directors' transactions

Related party transactions in the year ended 31<sup>st</sup> December 2009 were payments of £8,290 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 (2008: £29,750). At 31<sup>st</sup> December 2009 a total of £nil was owing to Allenbridge Group plc (2008: £nil).

In addition, during the year payments of £nil were made to JW Technologies, a company in which Dr J.G. Whellock, a non-executive director, is both a director and shareholder, for the provision of technical consulting services (2008: £4,416). At 31<sup>st</sup> December 2009 a total of £nil was owing to JW Technologies (2008: £nil).

# Anglo Pacific Group PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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### **30. Events occurring after year end**

The Group is seeking to de-list from the Australian Stock Exchange, with the necessary application being lodged on 23<sup>rd</sup> February 2010. The Group's decision to de-list was based on the lack of liquidity, negligible volumes and less than two percent of the Group's share capital being held by the Australian Share Register.

# Anglo Pacific Group PLC

## Annual Report 2009

### SHAREHOLDER STATISTICS

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(a) Size of Holding (at 17<sup>th</sup> February 2010)

Category	Number of		Number	
<b>UK and Australia</b>	<b>Shareholders</b>	<b>%</b>	<b>of Shares</b>	<b>%</b>
1 – 1,000	546	26.10	305,663	0.28
1,001 – 5,000	830	39.67	2,144,903	2.00
5,001 – 10,000	263	12.57	1,992,753	1.85
10,001 – and over	453	21.66	102,996,144	95.87
	<u>2,092</u>	<u>100.00</u>	<u>107,439,463</u>	<u>100.00</u>

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 17<sup>th</sup> February 2010 was 45.49%.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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*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 17 Hill Street, London W1J 5NZ, United Kingdom on Wednesday 21<sup>st</sup> April, 2010 at 11.00 am to consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 13 will be proposed as ordinary resolutions and resolutions 14 and 15 will be proposed as special resolutions:-

1. To receive the Accounts for the year ended 31<sup>st</sup> December 2009 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report for the year ended 31<sup>st</sup> December 2009.
3. To declare a final dividend of 4.65p per ordinary share of the Company.
4. To re-elect as a director P.M. Boycott, who retires after a 3 year appointment in accordance with the Company's articles of association.
5. To re-elect as a director B.M. Wides, who retires after a 3 year appointment in accordance with the Company's articles of association.
6. To elect as a director A.C. Orchard, who was appointed to the Board on 22<sup>nd</sup> June 2009 and who retires and offers himself for election in accordance with the Company's articles of association.
7. To elect as a director J. Theobald, who was appointed to the Board on 22<sup>nd</sup> June 2009 and who retires and offers himself for election in accordance with the Company's articles of association.
8. 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.
9. 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 31<sup>st</sup> December 2009 and all other dividends declared up to the beginning of the next annual general meeting of the Company.
10. THAT the Board of Directors of the Company (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 £716,263 provided that this authority (unless previously revoked or renewed) shall expire on the earlier of 21<sup>st</sup> April 2015 and the conclusion of the annual general meeting of the Company held in 2015, 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 23<sup>rd</sup> April 2009 to the extent unused and shall supersede and revoke any other earlier authorities under section 80 of the Companies Act 1985.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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11. THAT the Anglo Pacific Group Company Share Option Plan the main features of which are summarised in Appendix 1 of the Notice to the meeting, a copy of the rules of which is produced to the meeting and initialled by the Chairman for the purposes of identification, be hereby approved and the Board of Directors of the Company be and they are hereby authorised to do all acts and things which it considers necessary or desirable to carry the same into effect including making such amendments as may be required to obtain the approval of HM Revenue & Customs.

12. THAT the Anglo Pacific Group Joint Share Ownership Plan, including the establishment and operation of the Anglo Pacific Group Employee Benefit Trust the main features of both of which are summarised in Appendix 2 and Appendix 3 respectively of the Notice to the meeting and a copy of the rules and a copy of the draft Trust Deed for which are produced to the meeting and each initialled by the Chairman for the purposes of identification, be hereby approved and the Board of Directors of the Company be and they are hereby authorised to do all acts and things which it considers necessary or desirable to carry the same into effect.

13. THAT pursuant to the listing rules of the Australian Securities Exchange ("ASX") (including for the purposes of listing rule 17.11), the Company be removed from the official list of the ASX at a date to be determined by ASX and that the Directors be authorised to do all things necessary or expedited to procure the delisting including, without limitation anything necessary to comply with any ASX requirement or condition.

14. THAT the Board of Directors of the Company (the "Directors") be and they are hereby generally empowered pursuant to section 570 and section 573 of the Companies Act 2006 (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 (or section 80 of the Companies Act 1985), 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 £214,878;

and this power shall (unless renewed, varied or revoked by the Company) expire on 30<sup>th</sup> June 2011 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.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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15. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the "Act") to make one or more market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company (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 10,743,946;
- (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
  - (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 2011 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.

*Registered Office*

17 Hill Street  
London  
W1J 5NZ

By Order of the Board

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

12<sup>th</sup> March 2010

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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#### 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 RA 19) 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 Companies Act 2006 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 11<sup>th</sup> March 2010 (being the last business day prior to the publication of this Notice) the Company's issued share capital amounted to 107,439,463 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 11<sup>th</sup> March 2010 were 107,439,463 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 19<sup>th</sup> April 2010 (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 Companies Act 2006, and a copy of this notice of Annual General Meeting is available from the Company Secretary.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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11. Members should note that it is possible that, pursuant to requests made by members of the Company under section 527 of the Companies Act 2006, 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 2006 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 2006 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 2006 Act to publish on a website.
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 Companies Act 2006, 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 and the full terms of the Anglo Pacific Group Company Share Option Plan and the full terms of the Anglo Pacific Group Joint Share Ownership Plan will be available for inspection from the date of this notice until the conclusion of the Annual General Meeting at 17 Hill Street, London W1J 5NZ.



# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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#### **Appendix 1**

#### **Anglo Pacific Group Company Share Option Plan ("CSOP")**

The summary in this Appendix 1 does not form part of the rules of the CSOP and should not be taken as affecting the interpretation of the detailed rules of the CSOP.

#### **Eligibility**

A participant in the CSOP must be an employee or a full time director of the Company or any of its subsidiaries (together, the "Group"), and may be selected for inclusion (a "Participant") in the CSOP by the board of directors of the Company (the "Board") at their absolute discretion.

#### **Timing of Option Grants**

No options may be granted under the CSOP more than ten years after the CSOP's adoption by the Board. No option may be granted within a closed period. Awards shall only be granted during either of: (a) the period of 30 days following the date of approval of the Plan by shareholders at the AGM; or (b) a period commencing on the sixth dealing day after the date of announcement to the London Stock Exchange of the annual or half-yearly results of the Company and ending forty two days following the date of the relevant announcement.

#### **Structure of Options**

Options over ordinary shares in the Company ("Ordinary Shares") may be granted under the CSOP. The options will normally become exercisable 3 years and are subject to performance conditions. No payment will be required for the grant of an option. Options will not be transferable except on death nor will they be pensionable.

#### **Exercise price**

The exercise price will not be less than the higher of the nominal value of an Ordinary Share and the market value of an Ordinary Share on the day on which the option is granted. Market value will be the average mid market closing price of an ordinary share for the three dealing days before grant or as agreed with HMRC.

#### **Performance conditions**

The Remuneration Committee of the board of directors of the Company (the "Committee") may determine objective performance conditions for each option to be satisfied over a period and measured against such objective criteria as determined by the Committee. Initially it is proposed that the performance condition shall be that the Group's absolute total shareholder return (TSR) must grow at an annual rate (not compounded) of 3% in excess of the UK Retail Price Index (RPI) over the three years from the date of grant.

#### **Leaving employment with the Group**

If an employee leaves before the exercisable date of the option by reason of death, disability, ill health, retirement, redundancy, if he is dismissed without reasonable cause (to be determined by the Committee) or his employing company or the part of the business in which he works ceasing to be part of the Group, he becomes entitled to exercise his option within a period of 6 months following the leaving date (12 months in the case of death) (the "Extended Exercise Period"), provided that during the Extended Exercise Period the vesting period has passed and the performance conditions have been satisfied or waived, otherwise the options will lapse. If a participant leaves before the exercisable date of the option for any other reason, the Company has the right to request that the employee forfeits the option.

#### **Voting, dividend and other rights**

Participants will have no voting or dividend rights in respect of the Ordinary Shares under option until the options are exercised.

#### **Takeover, reconstruction or winding-up**

Special provisions allow early exercise but subject to the performance condition unless waived or varied in the event of a change in control, demerger, reconstruction or winding-up of the Company.

#### **Overall limit**

The number of Ordinary Shares that may be issued or placed under option to an employee under the CSOP or any other employee share plan in any 10 year period may not exceed 10% of the Ordinary Shares in issue from time to time. The number of shares that may be issued or placed under option to an executive under the Plan or any other Company executive share plan in any 10 year period may not exceed 5% of the Ordinary Shares in issue from time to time.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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#### **Variation of Share Capital**

Adjustments to the number of Ordinary Shares and or the exercise price may be made by the Board with the approval of HMRC in the event of a variation of the share capital of the Company. Any alteration to the benefit of participants will require shareholder approval.

#### **Tax and National Insurance**

The optionholder will be required to indemnify the Company or their employer for any tax and employee national insurance liability.

#### **Amendment of the Plan**

The CSOP may be amended by the Board, however, no amendment may be made to the rules of the CSOP if it would adversely affect the rights of Participants, or give them substantially greater rights than under the CSOP currently. Minor amendments to benefit the administration of the CSOP, to take account of legislation or to obtain or maintain favourable tax, exchange control, or regulatory treatment may, however, be made without the approvals set out above where such amendments do not alter the basic principles of the CSOP. No amendment to the key features of the CSOP rules shall take effect without the prior approval of HMRC.

#### **Appendix 2**

#### **Anglo Pacific Group Joint Share Ownership Plan ("JSOP")**

The summary below shows only the key features of the JSOP and should not be taken as affecting the interpretation of each Joint Share Ownership Deed ("Agreement").

#### **Operation and eligibility**

The Remuneration Committee of the board of directors of the Company (the "Committee") will supervise the operation of the JSOP. A participant in the JSOP must be an employee or officer of the Group. Actual participation in the JSOP will be at the absolute discretion of the Board or, in the case of executive directors, at the absolute discretion of the Remuneration Committee.

#### **Timing of share awards**

No award of shares under the JSOP (a "JSOP Award") may be made more than ten years after the passing of the resolution of shareholders approving the JSOP. No JSOP Award may be granted within a closed period. JSOP Awards shall only be made during either: (a) a period of the 30 days following the date of approval of the JSOP by shareholders at the AGM; or (b) a period commencing on the sixth dealing day after the date of announcement to the London Stock Exchange of the annual or half-yearly results of the Company and ending forty two days following the date of the relevant announcement.

#### **Structure of a JSOP award**

The Committee will invite selected employees (a "Participant") to enter into an Agreement with a "Co-Owner" to acquire a number of ordinary shares in the capital of the Company ("Ordinary Shares"). Unless regulatory requirements dictate otherwise, the Co-Owner will usually be an employee benefit trust ("EBT") established by the Company (as to which see Appendix 3). The Agreement will set out the respective rights of the two joint purchasers. For legal purposes, the shares will be held in the name of the Co-Owner, however the Agreement will give the Participant a beneficial interest in those shares. Provided any applicable performance targets have been met, the beneficial interest conferred will entitle the Participant to receive a proportion of the proceeds of sale of the Ordinary Shares. Their entitlement will be to receive all sale proceeds in excess of a threshold amount.

The threshold amount will be fixed by the Committee when a JSOP Award is made. It will be set at not less than the market value of the shares at the time of acquisition. It may be set at more than the market value of the shares at the date of acquisition. In normal circumstances, the Participant would therefore benefit from growth in value in the shares after acquisition. On sale, the Co-Owner will be entitled to the balance of the proceeds from the sale.

There are some important differences between a JSOP and a share option. The JSOP requires that the Participant acquires a restricted beneficial interest in shares from the outset. They will be required to pay a nominal value for that interest at the date of award, rather than making payment at the date of realisation of the JSOP Award as would be the case for an option. However, in common with an option, the JSOP will reward the Participant for growth in share value. Performance targets based on personal or corporate performance may be set on individual JSOP Awards.

The JSOP Award is non-transferable except on death and the entitlements under it are non-pensionable.

# Anglo Pacific Group PLC

## Annual Report 2009

### NOTICE OF ANNUAL GENERAL MEETING

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#### **Performance conditions**

For the initial JSOP Awards, the performance conditions are that the Group's absolute total shareholder return (TSR) must grow at an annual rate (not compounded) of 3% in excess of the UK Retail Price Index (RPI) over the three year vesting period. In addition the initial JSOP Awards will stipulate that the Company's share price must increase by an amount to be determined by the Committee during the three year vesting period. On a change of control, only the first condition will apply.

#### **Leaving employment with the Group**

If a Participant leaves:

- at any time by reason of death, disability, ill health, retirement, redundancy, if the business or subsidiary in which he is employed is sold outside the Group or if he is dismissed without reasonable cause (to be determined by the Remuneration Committee), the Co-Owner may exercise its right to require the Participant to sell his JSOP interest. In these circumstances, the price would be determined as the excess of market value over the threshold value. The Participant's benefit would be conditional on the satisfaction of the performance conditions (with the Board, acting through the Committee, retaining general discretion in these circumstances to vary the price and conditions).

- at any time for any other reason, the Co-Owner will have the right to require the Participant to sell his interest within a period specified by the Co-Owner, at a price equal to the price paid by the Participant for his interest.

#### **Accounting Treatment**

A corporation tax deduction can be claimed under general accounting principles based on the IFRS2 charge.

#### **Tax and National Insurance**

The Participant will be required to indemnify the Company or their employer for any tax and employee national insurance liability.

#### **Change in Participant's circumstances**

In the event of a Participant being adjudicated bankrupt, the Co-Owner will immediately require the Participant to sell his interest in the shares.

#### **Realising the value of a JSOP Award**

From the time when a JSOP Award is made, the employee and the Co-Owner will together own the JSOP Award shares on unequal terms. At any time after the awards have vested (and on satisfaction of any performance conditions) the Participant may ask the Co-Owner to jointly sell his holdings of Shares. If the Shares have not been sold after 10 years from the date of grant of the JSOP Award, the Co-Owner can require the Participant to sell the shares.

#### **Company reorganisations and reconstructions**

If there is a reorganisation or reconstruction which results in a new holding of shares which are equated with the original holding for capital gains tax purposes, the shares or other securities comprised in the new holding shall be held subject to the terms of the Agreement.

#### **Individual Participant Limits**

The Committee may issue JSOP Awards under the JSOP to members of the executive team for incentivisation purposes. However, such awards will be limited in value such that the initial value of shares acquired jointly with the Co-owner under the award will not exceed 400% of a Participant's gross annual salary. The Committee will determine the level of JSOP Awards after taking into consideration the total remuneration levels of comparable companies with respect to both size and sector compared to the current modest levels within the Group. To the extent that the operation of the JSOP results in increased costs to the Company, the Committee will endeavour to ensure that the size of JSOP Awards take this into consideration.

#### **Overall Limits on the Issue of Shares**

The Company may issue shares for the purposes of making JSOP Awards. However, the number of shares that may be issued or placed under option to an employee under the JSOP or any other employee share Plan in any 10 year period may not exceed such number of shares that represents 10% of the Ordinary Shares in issue from time to time. The number of shares that may be issued or placed under option to an executive under the JSOP or any other executive share plan in any 10 year period may not exceed such number of shares as represents 5% of the Ordinary Shares in issue from time to time. Award Shares may be sourced from the existing issued share capital of the Company to avoid dilution of share capital, however these shares so sourced will continue to count towards these limits for so long as this is required by institutional investor guidelines.

## 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. In the case of joint holder, where more than one of the joint holders purports to appoint one or more proxies, only the purported appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).
3. Unless otherwise indicated the proxy will vote as he thinks fit or, at his discretion, abstain from voting.
4. 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)
5. A corporation must execute the Form of Proxy under either its common seal or the hand of a duly authorised officer or attorney.
6. 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.
7. 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.
8. 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

