March 30, 2017

Anglo Pacific Group PLC
Publication of 2016 Annual Report and Accounts

Anglo Pacific Group PLC ('Anglo Pacific', the 'Company' or the 'Group') (LSE: APF) (TSX: APY) is pleased to announce the publication of its 2016 Annual Report and Accounts, which are available on both the Group's website at www.anglopacificgroup.com and on SEDAR at www.SEDAR.com. The following is a summary of the highlights for the period along with an extract of certain commentary and financial information from the audited financial statements. This announcement should be read in conjunction with the full audited 2016 Annual Report and Accounts.

Royalty Income Highlights

Figures in £m	CY 2016	CY2015	CY2014
Kestrel	13.1	3.6	1.7
Narrabri North	4.2	3.2	*n/a*
EVBC	1.3	1.3	1.6
Maracás Menchen	0.8	0.6	*n/a*
Royalty income (like-for-like)	**19.4**	**8.7**	**3.3**
Four Mile	0.3	--	--
Amapá	--	--	0.2
Total royalty income	**19.7**	**8.7**	**3.5**

Financial Highlights

- 127% increase in royalty income to £19.7m (2015: £8.7m), mainly due to a significant increase in overall saleable tonnes from Kestrel
- Earnings also benefitted from upward revisions to coal prices and the weakening of the pound post the EU Referendum vote - with to a significant increase in profit after tax to £26.4m (2015: loss of £22.6m) resulting in basic earnings per share of 15.60p (2015: loss of 14.06p)
- 316% increase in adjusted earnings[1] to £16.5m (2015: £4.0m) resulting in adjusted earnings per share of 9.76p (2015: 2.47p)
- 30% increase in net assets to £210.1m (December 31, 2015: £162.0m) resulting in net assets per share of 124.00p (December 31, 2015: 95.00p)
- Improved earnings translated into free cash flow[2] generated in 2016 of £13.2m (2015: £4.7m) and net debt reduced to £1.0m at December 31, 2016
- Recommended final dividend of 3.00p per share resulting in a total dividend for 2016 of 6.00p (2015: 7.00p).
- Significant increase in dividend cover, based on adjusted earnings, of 1.6x (2015: 0.4x) - dividend levels will be reviewed by the Board as part of the 2017 interim reporting in August 2017

Operational Highlights

- Record levels of sales volumes achieved at Kestrel, Narrabri and Maracas during 2016
- Overall production from Kestrel of 4.9mt in 2016, with 67% of all sales from Kestrel within the Group's private royalty land. This is expected to increase to 90% by the end of 2017
- Fourth highest ever quarterly coal royalty received in Q4 2016 from Kestrel in Australian dollar terms
- Significant improvement in coking and thermal coal prices since Q3 16 - which we believe creates a higher base going forward
- Recent permitting approvals and successful widening of longwall infrastructure by Whitehaven Coal should result in even higher production levels at Narrabri in the near term

Post Period Highlights

- C$43.5m Denison financing and streaming agreement entered into in February 2017, along with a successful, oversubscribed, equity raise of £13m. The Group has already received C$3m from toll milling revenues in relation to H2 2016
- The refinancing of the Group's $30m borrowing facility, in conjunction with the Denison transaction, provides more flexible and potentially greater financing options moving forward
- Announcement of the appointment of Patrick Meier as incoming Chairman following the 2017 AGM, succeeding Mike Blyth who will remain on the Board as a non-executive director

[1] Adjusted earnings represent the Group's underlying operational performance from core activities. Adjusted earnings is the profit/(loss) attributable to equity holders less all valuation movements, and non-cash impairments (which are non-cash items that arise primarily due to changes in commodity prices), amortisation charges, share based payments, finance costs, any associated deferred tax and any profit or loss on non-core asset disposals as these are not expected to be ongoing. Adjusted earnings dividend by the weighted average number of shares in issue gives adjusted earnings per share. Refer to note 11 of the 2016 Annual Report and Accounts for a calculation of the adjusted earnings per share.

[2] Free cash flow represents the net cash generated from operating activities, plus proceeds from the disposal of non-core assets, less finance costs.

Julian Treger, Chief Executive Officer of Anglo Pacific, commented:

"2017 should be a year of significant organic growth for Anglo Pacific as production at Kestrel moves increasingly into our royalty lands and we benefit from planned production increases at Narrabri. Coal prices remain much higher than in the previous year and this, we believe, has set a new base level for prices above those forecast this time last year.

We have already received our first contribution of C$3m from the Denison financing arrangement, which was concluded in February 2017. Our focus continues to be on adding further royalties to the portfolio. We see a number of prospective opportunities in the mid-tier and development arena where the lack of recent M&A activity, combined with underinvestment in growth, should spur renewed interest in developing the next wave of projects that will be required to meet expected supply deficits in the future.

The strong results reported today means that we will reconsider dividend levels at the time of the interims, when we have greater visibility as to coal price movements for the year and the outlook for the next few years."

Kevin Flynn, Chief Financial Officer of Anglo Pacific commented:

"The Group's financial position and prospects improved considerably during 2016, building on the growth which we had already experienced through in 2015. This is the second year in a row in which we report noticeable increases in royalty income, and this resulted in the Group achieving dividend cover for 2016, the first time since 2011, as well as becoming debt free at the end of January, prior to the Denison financing arrangement.

With further growth in royalty revenue expected in 2017, the Group is in a strong financial position to grow its asset base and continue to reward shareholders through a progressive dividend policy."

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Notes to Editors

About Anglo Pacific
Anglo Pacific Group PLC is a global natural resources royalty company. The Company's strategy is to develop a leading international diversified royalty and streaming company with a portfolio centred on base metals and bulk materials, focusing on accelerating income growth through acquiring royalties on projects that are currently cash flow generating or are expected to be within the next 24 months, as well as investment in earlier stage royalties. It is a continuing policy of the Company to pay a substantial portion of these royalties to shareholders as dividends.

Chairman's Statement

12 months ago I reported that 2015 had seen the beginnings of a turnaround in the fortunes of Anglo Pacific. It is therefore extremely gratifying to now report that that turnaround has become a full scale recovery with a further doubling in royalty income from £8.7m to £19.7m and more significant growth anticipated in 2017.

Our royalty income benefited from a range of factors in 2016. Mining at Kestrel returned increasingly to our royalty lands, a trend which will continue in 2017 and beyond. There was a recovery in commodity prices during 2016, notably for Anglo Pacific, in coking coal. While there was slippage in spot prices towards the end of the year, the average price achieved was still significantly ahead of 2015, and the EU referendum and subsequent sterling weakness also benefited our royalty income, all of which is either Australian, Canadian or US dollar denominated.

With operating expenses remaining broadly unchanged, this led to a six fold increase in operating profit, up from £2.1m in 2015 to £12.7m in 2016. Our results were, as usual, impacted by a number of revaluation adjustments and non-cash impairments, which this year resulted in a net credit of £10.9m (2015: charge £32.5m). The main driver for this turnaround was an upward revaluation of our Kestrel royalty of £17.9m due to the improvement in coking coal prices together with a favourable exchange rate movement. As a result, overall profit before tax was £28.3m compared to a loss of £30.5m in 2015. Basic and diluted earnings per share were 15.60p (2015 loss per share 14.06p). Stripping out these non-cash items, we present an adjusted earnings measure which, we believe, more closely reflects the performance within management's control. On this basis adjusted earnings per share were 9.76p (2015 - 2.47p) - refer to note 11 in the 2016 Annual Report and Accounts.

Dividends
12 months ago we rebased our dividend levels to a minimum annual payment of 6p per share, while retaining our overall target of paying dividends of 65% of adjusted earnings. On an adjusted basis, our dividend cover for 2016 is 1.6 times and current projections suggest that we should be reviewing dividend levels upwards during the course of 2017. Those projections are, however, heavily dependent on commodity prices in general and coal prices in particular. The latter were subject to significant fluctuations during 2016 and we wish to have much greater certainty about how they perform during 2017 before committing to a sustainable dividend increase.

Royalty portfolio
Once again it is encouraging to note that all of the Group's royalties that were in production in 2015 remain in production and continue to generate royalty income. It is equally encouraging to see that all of those royalties, with the exception of El Valle which remained flat, increased their contributions and that our Four Mile royalty

contributed for the first time. Payments from Narrabri and, in particular, Kestrel increased significantly. Both benefited from improvements in coal pricing while at Kestrel, mining was increasingly within our royalty lands.

No major acquisitions were concluded last year but we did announce a financing and streaming arrangement with Denison Mines Corp. earlier in the current year.

The improved trading performance referred to above coupled with the additional firepower available to us through headroom under our refinanced revolving credit facility and the steadily increasing value of our share portfolio has enabled us to extend our investment criteria. This now includes pre-production royalties, which, we believe, offer the opportunity of significantly higher returns, albeit some distance in the future. Our principal objective, however, will remain the acquisition of producing or near production royalty and streaming assets.

Board

There were no changes to the Board during 2016. We have collectively, I believe, all the skills and expertise necessary to drive the company forward. As you will have noted, however, we recently announced that I will be stepping down as chairman at the conclusion of the forthcoming AGM and will be succeeded by Patrick Meier.

The company is now extremely well positioned to take advantage of the renewed confidence within the mining sector and the opportunities that will provide. Patrick, with his extensive experience in investment banking in general and the mining sector in particular, is perfectly placed to lead the company through the next stage in its development.

Outlook

2017 should be a year of continued organic growth for Anglo Pacific as production at Kestrel moves increasingly into our royalty lands and we receive our first contributions from the Denison financing arrangement. Much, however, will depend on how coal prices move during the year. In addition, as confidence returns to the mining sector, fresh opportunities should arise. We have shown our ability to be innovative and imaginative in our approach to the Denison opportunity and believe that approach will continue to bear fruit in the year ahead.

In conclusion, I should like to thank all Directors and staff for their continued diligence and hard work during the year.

On behalf of the Board

W.M. Blyth
Chairman
March 29, 2017

Chief Executive Officer's Statement

I am pleased to report that royalty income grew strongly in 2016 and is expected to do so again this year. The result was strong growth in profits, dividend cover and net asset value.

Market outlook

The outlook for the mining sector has changed markedly over the past year, primarily due to a combination of Chinese production restrictions and improved macroeconomic conditions. Whereas a year or so ago, people expected a negative macroeconomic environment, today the combination of supply restrictions and faster growth prospects has led to a much more optimistic outlook and a rapid rebound in equity prices. This also suggests that we are at the beginning of another multiyear cycle and that we need to accelerate our level of activities over the next year or two as this should be a relatively favourable period to put capital to work in the sector.

With regards to the royalty and streaming markets, this about turn has significant implications. First, some of the very large bulk royalties we were working on during 2016 with the majors are unlikely now to materialise. The rebound in commodity prices is rapidly resulting in the deleveraging of their balance sheets so they have little need for further assistance and soon will be looking to expand again. There is still a lack of capital flowing to the sector and so there may be room in the coming mergers and acquisitions activity for royalty financing. However, more prospective is the mid-tier and development arena where the expected supply deficits as a result of consistent underinvestment in the sector should spur renewed investment in developing the next wave of projects for the future. We are, as a result, already seeing an uplift in activity and royalty financing opportunities for those seeking to engage in mergers and acquisitions or moving projects forward.

Coal outlook

Whilst we continue to diversify the portfolio away from Kestrel, coal, and in particular coking coal, continue to be a major area of exposure for your company. Whilst we suffered with lower coal prices in 2015, fortunately at a time when our share of Kestrel's production was also low, the recovery in coal pricing together with the growth in that share contributed significantly to our growth in 2016 and is expected to do the same this year. In that context, the outlook for coal continues to be important to us.

The coal price has seen significant volatility over the past year, driven largely by restrictions on Chinese production in the autumn. This was part of a general trend to reduce poor quality coal production and consumption in China to improve air quality. The impact of this reduction in supply increased the price of energy or thermal coal by around a third in H2. The effect on the rarer form of coal which Kestrel produces, namely coking coal, was even more extreme and the spot price tripled. Subsequently over the Chinese winter, the authorities relaxed their restrictions and the price of thermal coal dropped by 20 percent, with the spot price of coking coal almost halving. It is worth noting that coking coal prices nevertheless remain roughly double the level of a year ago.

Looking forward, we expect the direction of travel to remain unchanged i.e. continued Chinese volume reductions. It is possible that further restrictions will be imposed during Q2 after the Chinese winter which in turn will send prices back up. However, we are making much more conservative assumptions in our internal forecasts and assume prices average slightly less than current spot levels for the year. What is important is that the environment for coal has changed and prices are unlikely to return to their previous low levels.

Shareholders should note that we are well positioned in coal with royalties on modern mines in safe locations and exposure to high quality cleaner coals.

Denison financing and streaming agreement

Though this transaction was announced early in 2017, we had been working on it for much of last year. The transaction ticked all the boxes for Anglo Pacific and moved forward our growth and diversification in a material way. Shareholders should expect to see the positive effects of the Denison transaction start to come through in our results from Q1 of this year.

Reflecting the different structure of the Denison transaction, where income will be derived in part from the repayment of debt, we are now introducing a new KPI in the form of cash generation which we believe will be a more accurate measure of progress going forward than earnings.

We expect to execute on further transactions in the year ahead though the structure of the Denison transaction was a one off and future deals should be more in the form of traditional royalties and streams.

New strategy

Although our main focus will continue to be on immediately revenue producing royalties, we announced early in the year that we were broadening our investment mandate to include development royalties. These could take up to a decade to bring into development, should generate higher returns, given the development risk, and have the potential to increase in value significantly in the coming years. The size of these investments is unlikely to exceed US$20m and the intention is to fund them primarily from retained earnings.

Dividend

The recovery in our earnings has significantly improved our dividend cover and it is pleasing that this exceeded 1.6x last year. With further improvement expected this year, there should be scope for dividend increases on a prudent and progressive basis. However, the levels of our earnings are in turn driven by the price of coking coal and this has been extremely volatile of late. Barring a transformational large transaction which fundamentally alters this relationship, your Board therefore intends to await the outcome of the first half of the year before considering any alterations to dividend levels. Any new level of dividends announced needs to be a new base from which we can comfortably grow in the years ahead.

Taxation
Assisted in part by the disposal of our Isua royalty, announced with the year end results, we have created significant tax losses. These should reduce our tax charge in the coming year, more than we had previously indicated to the market. We also have significant capital losses, some of which were used to shield against our equity profits in the current period, and which hopefully will be utilised during this cycle.

Currencies
The weakening of sterling as a result of the EU referendum has had the effect of increasing our income and profits. In order to maintain this benefit, we have instituted a rolling hedging program over part of our income, hedging against the main currencies in which our income is denominated. As at year end, this program had generated £0.7m of additional income.

Central costs
Central costs continued to be well controlled. One of the virtues of the Anglo Pacific model is that overheads do not increase in line with income, providing additional operating leverage. This proved to be the case in 2016 where income slightly more than doubled but operating profits rose almost six fold.

Financial resources
We are pleased to have repaid significant amounts of our borrowings last year and took advantage of the Denison opportunity to renew our borrowing facilities and extend them. If we had not invested in Denison, we would have been debt free by the end of Q1 2017. With our much higher income levels, we expect the new debt assumed for Denison to be repaid in short order leaving our new facility available for new acquisitions. This, together with our equity portfolio and income, provides considerable firepower for new deals. We intend to be prudent with regards to debt levels, with the intention of not exceeding 2x free cash flow and generally operating well below this level.

Net assets and share price
The increase in net asset value per share to 124p after the payment of 6p of dividends during the year is good news for all shareholders. The share price has recovered along with the sector and provides us with a better currency to move forward. However, it continues to trade at a discount to what we consider to be the true net asset value, and gives no credit for those assets in our portfolio which we believe have increased in value considerably since we acquired them and which is not reflected on the balance sheet.

Our shares continue to provide a much higher dividend yield than our global peers and we hope that the process of rerating will continue during the year. We were gratified that approximately 20 new institutional investors joined the register with the Denison transaction and we welcome these new shareholders on board.

Board developments

I would like to take the opportunity to pay tribute to the chairmanship of Mike Blyth over the past few years. He has made a significant difference to the way the company is run and governed, instigating a series of disciplines and controls which reflect best practice, and which should stand us in good stead for the years ahead. We are fortunate that he has decided to retain his presence on the Board.

I look forward to working closely with Patrick Meier in the years ahead to take the Company to a new level.

Outlook
In summary we have moved forward significantly over the past twelve months and are now in the fortunate position of having the resources to take advantage of being in the early stages of the upcycle. We expect this progress to continue during 2017 both from organic growth and new acquisitions.

J.A. Treger
Chief Executive Officer
March 29, 2017

Financial Review

The Group's financial position and prospects improved considerably during 2016, building on the growth which we had already experienced in 2015. This is the second year in a row in which we report noticeable increases in royalty income, and this resulted in the Group achieving dividend cover for 2016, the first time since 2011, as well as becoming debt free at the end of January, prior to the Denison financing transaction. With further growth in royalty revenue expected in 2017, the Group is in a strong financial position to grow its asset base and continue to reward shareholders through a progressive dividend policy.

Income statement

The combination of an increase in mining within the Group's royalty land at Kestrel along with the weakening of the pound following the EU referendum had the largest impact on the Group's earnings in 2016. The impact of much higher coal prices in Q4 16 ensured a very strong finish to the year.

	2016		**2015**
	£'000		**£'000**
Royalty income	19,705	127%	8,683
Operating expenses - excluding share based payments	(3,327)	3%	(3,220)
Finance costs	(1,086)	(73%)	(629)
Finance income	2,347	230%	712
Other income	309	(26%)	416
Tax	(1,454)	(27%)	(1,994)
Adjusted earnings	16,494	316%	3,968
Weighted average number of shares ('000)	169,016		160,512
	9.76p	**295%**	2.47p

The Group continued to keep its cost base in line with the previous year, despite a significant increase in revenue. The benefit of the weaker pound, particularly in H2 16, led to considerable realised currency gains during 2016. All of this combined to produce earnings per share for the year of 15.60p and adjusted earnings per share of 9.76p. On the adjusted metric, the Group's dividend cover was 1.6x.

Royalty income

	2016		**2015**		**2014**
	£'000		**£'000**		**£'000**
Kestrel	13,134	263%	3,614	118%	1,657
Narrabri	4,243	32%	3,217		-
EVBC	1,223	-2%	1,246	-24%	1,650
Maracás Menchen	791	31%	606		-
Four Mile	314		-		-
Recurring royalty income	19,705	127%	8,683	163%	3,307
Other	-		-		174
Total royalty income	19,705	127%	8,683	149%	3,481

Royalty income increased by 127% to £19.7m in the year, from £8.7m in 2015 and a world apart from the £3.5m earned in 2014. The reason for the growth in royalty income year on year since 2014 is largely due to the previously mentioned combination of higher sales volumes from Kestrel in 2016 and a greater proportion of this being within Anglo Pacific's royalty land.

<u>Kestrel</u>

Overall production from Kestrel in 2016 was 4.9mt compared with 4.1mt in 2015, a 19.5% increase in volume. Of greater significance to the Group's earnings was that the percentage of sales attributable to the Group's royalty land increased significantly, in line with our previous guidance and expectations.

In total, 67% of all sales from Kestrel in 2016 were from coal mined within our land, an increase on the 49% in 2015. The map included on page 26 of the 2016 Annual Report and Accounts, illustrates the direction of mining at the Kestrel South mine, and adds colour as to why the Group's income has been so volatile over the past three years. However, the map also illustrates why we believe that 2017 will show further growth for the Group as, save for a period in Q1 2017, we expect virtually all mining to be within our land for the foreseeable future. Our guidance for 2017 is for 80-90% of production to be within our land, and 90% thereafter.

Although Anglo Pacific's attributable volume is the key driver of revenue growth at Kestrel, there are three other factors worth mentioning. Firstly, the prices which we realised from Kestrel were largely flat from 2015 levels up until Q4 2016 when the coking coal priced spiked suddenly from US$89/t in Q3 2016 to $200/t in Q4 2016. Although this level of pricing only relates to one quarter of income in 2016 it did provide a significant boost to our end of year income. Secondly, and a knock-on effect of the price increase, is that with the higher coal price, the highest royalty rate will apply due to a ratchet mechanism as outlined on page 27 of the 2016 Annual Report and Accounts. The more than doubling of the coal price for the final quarter ensured a greater portion of sales was attracting the highest royalty rate. This led to royalty revenue for Q4 16 being the fourth highest quarterly coal royalty received by Anglo Pacific in Australian dollar terms. Finally, the weakening of the pound, following the EU referendum and as discussed further below, meant that the Group was translating its Australian dollar revenue at more favourable rates throughout 2016.

All of this resulted in income from Kestrel increasing by 262% to £13.1m in the year, compared to £3.6m in 2015.

<u>Narrabri</u>
Narrabri also contributed strongly to the Group's increase in earnings in 2016 generating income of £4.2m, an increase of 32% on the £3.2m earned in 2015. This increase has also been driven largely by favourable movements in coal price and foreign exchange rates. Sales by Whitehaven in 2016 were 7.8mt, slightly ahead of 7.6mt in 2015.

Similar to Kestrel, revenue from Narrabri also benefited from a sharp and sudden increase in coal prices in the final quarter of 2016, whereas prices had been falling throughout the first six months of the year. The implied average price received by the Group was ~10% higher than the previous year. The remainder of the increase is attributable to the benefit of translating Australian dollar revenue into pounds at a more favourable exchange rate following the weakening of the pound subsequent to the EU referendum.

Details on guidance for Narrabri are discussed in more detail on page 28 of the 2016 Annual Report and Accounts, explaining why the Group expects further growth in royalty income in 2017.

<u>EVBC</u>
EVBC continues to be a consistent performer for the Group, generating revenue of £1.2m in 2016, which is 6% lower than 2015. The operator, Orvana Minerals ("Orvana") does not publish specific sales information in relation to individual mines. They do, however, provide production information. Overall, production was approximately 21% lower in calendar year 2016 at 41,513oz gold, 130,301oz silver and 3.9mlbs copper. Their guidance for their fiscal year ending on September 30, 2017 shows anticipated increases to 50-55,000oz gold, 170-200,000oz silver and 6-6.5mlbs of copper, which would represent a significant uplift from 2016.

The average price for each commodity had mixed fortunes in 2016, with copper down 11.6%, gold up 7.6% and silver up 8.9%. Again, the Group's revenue benefited from translating the Canadian dollars it receives into pounds at a much more favourable exchange rate subsequent to the EU referendum.

<u>Maracás</u>
Income from Maracás increased by 29% in the period to just under £0.8m. The increase was largely attributable to sales volumes increasing significantly during the year as Largo reported very strong production numbers in H2 2016. Production increased from 630t in July to 828t in December 2016.

Strong sales numbers in H2 16 coincided with a recovery in the price of vanadium, which ended the year at $5.02/lbs, more than double the level of $2.38/lbs at the end of 2015.

Four Mile

Royalties from Four Mile commenced during 2016, although at a very low level. We have been disappointed with the level of deductions which the operator, Quasar Resources ("Quasar"), a subsidiary of Heathgate Resources (themselves a division of General Atomic), have applied in determining the royalty payable. We have disputed the manner in which Quasar have interpreted the royalty agreement, but have not been able to resolve this to date. We are considering our options in relation to this matter but currently, and conservatively, we are assuming limited royalty income from this royalty until the matter is resolved.

Operating expenses

Total operating expenses for the year were in line with 2015 which demonstrates one of the key benefits of the royalty model i.e. a significant increase in revenue does not necessitate a corresponding increase in the cost base.

	2016		2015
	£'000		£'000
Staff costs	1,746		1,937
Professional fees	626		418
Other costs	955		865
Operating expenses[1]	**3,327**	**(3.3%)**	**3,220**
Share based payments - including NI	803		840
Total operating expenses[2]	4,130		4,060

1 As included in the calculation of adjusting earnings.
2 As per the income statement.

Professional fees increased in the period, mainly due to costs associated with recovering tax, costs associated with revisions to the Group's value creation plan and general management of the Group's royalty portfolio. Staff costs decreased modestly in the period as headcount was higher in the first half of 2015. Overall, management are of the view that central costs are not excessive, and exercise discipline around cost control, identifying savings where possible.

Finance income and costs

	2016		2015
	£'000		£'000
Interest expense on borrowing facility	(278)		(138)
Non-utilisation fee on undrawn borrowings	(132)		(133)
Aborted transaction costs / professional fees	(676)		(358)
Finance costs	**(1,086)**	**72.7%**	**(629)**
Bank interest	56		23
Interest on other investments	26		278
Realised foreign exchange gains	2,265		411
Finance income	**2,347**	**229.6%**	**712**

Finance costs increased significantly in the year, due to the combination of higher interest costs associated with running at higher average borrowings in the year and an increase in aborted costs associated with acquisitions which failed to complete. Aborted costs associated with acquisitions is a business cost which is incurred as part of the Group's efforts to add royalties to its portfolio. The Group invested a considerable amount of time during the year on certain transactions which unfortunately proved not to meet the Group's exacting investment criteria.

Finance income is dominated by realised foreign exchange gains in the period due to the weakening of the pound following the EU referendum. At a high level, it represents the difference between income accounted for at average rates versus the actual amount received. This was particularly noticeable during 2016, where the GBP:AUD rate averaged 1.95 in H1 16 whereas the average for H2 16 was 1.70. Even though the average for H2 16 was 1.70, the full year Australian revenue was translated at the average rate for the year, which was 1.82. With most of our revenue generated in H2 16, this created a large realised foreign exchange gain as the revenue was reflected in the income statement at a higher translation rate than what was ultimately received. A similar trend occurred with the Group's Canadian and US dollar derived revenue. Realised foreign exchange gains and losses are included within the calculation of adjusted earnings.

Other income

Other income comprises of the effective income received in relation to royalty instruments along with any other forms of revenue which the Group earns through managing its activities. This income is included in the adjusted earnings calculation.

	2016		2015
	£'000		£'000
Effective interest	246		213
Other	63		203
Included in adjusted earnings	**309**	**(25.7%)**	**416**
Mark to market of currency hedges	664		-
Other income	**973**		**416**

The mark to market 'gain' represents the extent to which the Group's forward currency hedges were in the money at the balance sheet date. As noted in the CEO report, the Group took advantage of the sudden devaluation of the pound to put in place a series of forward contracts designed to lock in favourable rates of converting its Australian dollar income over the following four quarters. The Group entered into these trades in December 2016. The policy is to hedge, on a sliding scale, a percentage (70%-25%) of the next four quarters expected dollar income and this represents cash flow hedging rather than anything speculative. As this is a point in time valuation, this gain is not included in adjusted earnings.

Tax

The Group was successful in obtaining a number of tax rebates in the year, some of which was not provided for in previous periods. The Group utilised tax losses in the year, resulting in no corporation tax being paid in 2016.

	2016	2015
	£'000	£'000
United Kingdom corporation tax	-	-
Overseas tax	1,403	1,338
Adjustments in respect of prior years	(809)	(329)
	594	**1,009**
Less deduction claimed for amortisation	**860**	**985**
Tax per adjusted earnings	**1,454**	**1,994**

Deferred tax generally is a non-cash tax reflecting the probable tax on valuation gains which have yet to crystallise. As such, they are excluded from adjusted earnings.

Profit after tax

Profit after tax of £26.4m for the year ended December 31, 2016, is represented by adjusted earnings as outlined above, plus the gain on sale of certain of the Group's mining and exploration interests of £2.4m, together with the favourable Kestrel revaluation of £17.9m, less the impairment charge of £2.0m in relation to the Amapá royalty and the revaluation charge of £4.9m in relation to the Group's Dugbe 1 royalty and tax thereon.

Balance Sheet

Net assets increased from £162.0m at the beginning of the year to £210.1m at December 31, 2016, an increase of 28.5%. This equates to net assets per share of 124p per share at the end of 2016 compared to 95p at the end of the previous year. The main catalyst for the increase was undoubtedly the weakening of the pound in the second half of the year, as the majority of the Group's assets are denominated in dollar currencies. The impact of currency was most pronounced for Kestrel, which is fair valued at each reporting date. The following table reconciles the movement in net assets during 2016:

	FX	£'000	£'000	Pence
January 1, 2016			161,983	95p
Kestrel:				
Coal price (income statement)		18,540		
Translation from AUD:GBP	16,340	16,340		
Other (inc depletion & discount)		(644)		
Deferred tax (income statement)		(5,510)		
Deferred tax (other comprehensive income)	(4,754)	(4,754)	23,972	
Other:				
Foreign exchange on royalties held at cost	12,784		12,784	
Amortisation and impairment of royalties held at cost			(4,878)	
Fair value of royalties categorised as financial assets (net of tax)	2,178		(1,528)	
Tax asset on disposal of Isua royalty			4,426	
Mark to market of equity portfolio			9,534	
Adjusted earnings			16,494	
Dividends			(11,831)	
Other			(818)	
December 31, 2016	**26,548**		**210,138**	**124p**

The upward revision to the forward price outlook for coal translated into a noticeable increase in the underlying value of the Group's Kestrel royalty. The balance sheet also benefited from translating this Australian dollar asset into pounds at a more favourable rate on the reporting date following the weakening of the pound following the EU referendum. In line with IFRS, the Group recognises a deferred tax charge in relation to any movement in the value, resulting in an overall £24.0m increase in net assets during the period attributable to Kestrel.

The other main increase in value was the £12.8m translation benefit associated with the portfolio of assets accounted for as intangible assets. Intangible assets are recognised at the lower of fair value and amortised cost. As these assets are largely denominated in Australian dollars, the increase here relates to the weakening of the pound throughout 2016. The main constituent of the royalty intangible category is the Group's Narrabri royalty. This value of this royalty, similar to Kestrel, has increased considerably with the outlook for thermal coal along with higher production rates. The Group, in accordance with IFRS, does not recognise this increase on the balance sheet but the unaudited valuation would indicate an increase of as much as 50% on what we paid for it two years ago.

In December 2016, the Group received several offers from the owner of the Isua project to purchase its Isua royalty, an asset which was carried on the balance sheet at £nil. After due consideration, the Group decided to accept an offer and disposed of its interest for £16,000. This gave rise to a tax asset of £4.4m which is expected to be available to shelter royalty income during 2017.

The Group recorded further impairment charges of £2.0m in relation to its Amapá royalty, along with a £5.0m reduction in value of its Dugbe 1 asset. These non-cash charges arose due to revisions made to the likely restart/start date of the projects, with the operator of Amapá experiencing financial difficulties. Using these revised cash flow projections for Dugbe 1 resulted in the value being less than cost and an adjustments was made accordingly.

The Group took the opportunity to realise a modest amount of cash from its non-core equity portfolio during the year. Despite this, the overall value of the portfolio grew by £4.1m, due largely to an increase in the share price of Berkeley Energia in which the Group has a large equity position.

Cash flow and borrowings

http://www.rns-pdf.londonstockexchange.com/rns/9592A_-2017-3-30.pdf

The Group generated cash of £12.9m from its royalty portfolio during 2016, compared to £9.0m in the previous year. With royalty related receipts of £12.3m (2015: £5.3m) and other income from the royalty portfolio of £0.6m (2015: £3.7m), sufficient cash was generated during the year to allow a partial repayment of £1.3m on the borrowing facility. The Group ended the year with cash of £5.3m and had £6.3m drawn on its borrowing facility, resulting in net debt of £1.0m, down from £1.8m at the end of 2015.

The cash and borrowings analysis above has moved on considerably since the balance sheet date. Prior to the completion of the Denison transaction, the Group received the Q4 16 royalty receipts of £11.3m in full and paid the 2016 interim dividend of £5.1m. As a result, the Group was in a net cash position prior to the Denison transaction. With dividend cover now established, the borrowing facility should be used solely for acquisitions moving forward.

As part of the Denison transaction, the Group took the opportunity to refinance and extend by two years its existing borrowing facility, which was due to mature in February 2018. A key criterion in refinancing was the creation of a flexible borrowing feature. As such, although the committed amount remains unchanged at $30m, there is an accordion feature which allows for this to potentially increase to $40m for an acceptable accretive investment opportunity.

The refinancing also presented the Group with the opportunity to engage with other lenders. We decided that, with the Denison transaction imminent, that it was the opportune time to establish a syndicate of lenders with the view that having two blue chip banks involved should result in greater borrowing capacity as the business grows. Accordingly, we were pleased to welcome Investec as our banker alongside Barclays.

Given the increasing level of cash flow generation expected over the coming years, primarily from Kestrel, and the increasing level of macroeconomic volatility, the Group has commenced a policy of hedging the currencies in which it receives its royalty income. This became particularly attractive immediately after the EU referendum. The Group will look to continue hedging a proportion of its forecast next twelve months cash flow.

Free cash flow per share

The structure of the Denison transaction will result in a significant amount of cash flow being reported as loan principal repayment, which will not be included in the income statement. As such, we have decided to introduce a key performance indicator measuring the cash generated by the Group. This is important as in addition to the Group assessing dividend cover by making reference to the adjusted earnings per share, the Group will also consider the free cash flow per share as a means of assessing the sustainability of the Group's dividend.

During 2016, the free cash flow generated by the Group was £13.2m (2015: £4.7m) versus dividend payments of £11.8m (2015: £11.9m). Most of the group's royalty income for 2016 was earned in the final quarter, and so not received until Q1 17. As such free cash flow, and associated dividend cover, in 2017 is expected to be considerably higher than 2016. With mining expected to be firmly within the Group's private royalty land at Kestrel from Q2 2017, the cash flow profile is expected to be much smoother than it has been over the past few years, which saw most of the revenue generated in the second half of the year. Refer to note 33 in the 2016 Annual Report and Accounts for further detail details of the free cash flow per share.

Consolidated Income Statement

	2016 £'000	2015 £'000
Royalty income	19,705	8,683
Amortisation of royalties	(2,869)	(2,573)
Operating expenses	(4,130)	(4,060)

Operating profit before impairments, revaluations and gains on disposals	**12,706**	**2,050**
Gain/(Loss) on sale of mining and exploration interests	2,449	(484)
Impairment of mining and exploration interests	(29)	(930)
Impairment of royalty and exploration intangible assets	(2,009)	(4,414)
Revaluation of royalty financial instruments	(4,939)	-
Revaluation of coal royalties (Kestrel)	17,900	(27,201)
Finance income	2,347	712
Finance costs	(1,086)	(629)
Other income	973	416
Profit/(Loss) before tax	**28,312**	**(30,480)**
Current income tax charge	(594)	(1,009)
Deferred income tax (charge)/credit	(1,356)	8,913
Profit/(Loss) attributable to equity holders	**26,362**	**(22,576)**
Earnings/(Loss) per share		
Basic and diluted earnings/(loss) per share	15.60p	(14.06p)

Consolidated Statement of Comprehensive Income

	2016	2015
	£'000	£'000
Profit/(Loss) attributable to equity holders	**26,362**	**(22,576)**
Items that will not be reclassified to profit or loss	-	-
Items that have been or may be subsequently reclassified to profit or loss		
Available-for-sale investments		
Revaluation of available-for-sale investments	9,184	857
Reclassification to income statement on disposal of available-for-sale investments	(2,449)	484
Reclassification to income statement on impairment	29	930
Deferred tax relating to items that have been or may be reclassified	27	159
Net exchange gain/(loss) on translation of foreign operations	26,125	(8,597)
Other comprehensive income/(expense) for the year, net of tax	**32,916**	**(6,167)**
Total comprehensive income/(expense) attributable to equity holders for the year	**59,278**	**(28,743)**

Consolidate Balance Sheet

	2016	2015
	£'000	£'000

Non-current assets		
Property, plant and equipment	77	113
Coal royalties (Kestrel)	116,885	82,649
Royalty financial instruments	13,556	6,534
Royalty and exploration intangible assets	80,047	71,491
Mining and exploration interests	17,062	10,898
Deferred costs	1,370	1,013
Other receivables	-	10,132
Deferred tax	9,126	3,094
	238,123	185,924
Current assets		
Trade and other receivables	12,090	5,106
Derivative financial instruments	711	-
Cash and cash equivalents	5,331	5,708
	18,132	10,814
Total assets	**256,255**	**196,738**
Non-current liabilities		
Borrowings	6,167	7,272
Other payables	1,491	1,193
Deferred tax	36,637	24,546
	44,295	33,011
Current liabilities		
Income tax liabilities	465	574
Trade and other payables	1,357	1,170
	1,822	1,744
Total liabilities	**46,117**	**34,755**
Net assets	**210,138**	**161,983**
Capital and reserves attributable to shareholders		
Share capital	3,399	3,399
Share premium	49,211	49,211
Other reserves	63,600	29,976
Retained earnings	93,928	79,397
Total equity	**210,138**	**161,983**

Consolidated Statement of Changes in Equity

	Share capital £'000	Share premium £'000	Other reserves: Merger reserve £'000	Warrant reserve £'000	Investment revaluation reserve £'000	Share based payment reserve £'000	Foreign currency translation reserve £'000	Special reserve £'000	Investment in own shares £'000	Retained earnings £'000	Total equity £'000
Balance at January 1, 2015	2,329	29,328	9,453	143	1,487	678	6,040	632	(2,601)	113,761	161,250
Loss for the year	-	-	-	-	-	-	-	-	-	(22,576)	(22,576)
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	-	-	-	-	857	-	51	-	-	-	908
Transferred to income statement on disposal	-	-	-	-	484	-	-	-	-	-	484
Transferred to income statement on impairment	-	-	-	-	930	-	-	-	-	-	930
Deferred tax	-	-	-	-	159	-	1	-	-	-	160
Foreign currency translation	-	-	-	-	-	-	(8,649)	-	-	-	(8,649)
Total comprehensive expense	**-**	**-**	**-**	**-**	**2,430**	**-**	**(8,597)**	**-**	**-**	**(22,576)**	**(28,743)**
Dividends	-	-	-	-	-	-	-	-	-	(11,901)	(11,901)
Issue of ordinary shares	1,070	19,883	19,681	-	-	-	-	-	-	-	40,634
Value of employee services	-	-	-	-	-	630	-	-	-	113	743
Total transactions with owners of the company	**1,070**	**19,883**	**19,681**	**-**	**-**	**630**	**-**	**-**	**-**	**(11,788)**	**29,476**
Balance at December 31, 2015	**3,399**	**49,211**	**29,134**	**143**	**3,917**	**1,308**	**(2,557)**	**632**	**(2,601)**	**79,397**	**161,983**
Balance at January 1, 2016	3,399	49,211	29,134	143	3,917	1,308	(2,557)	632	(2,601)	79,397	161,983
Profit for the year	-	-	-	-	-	-	-	-	-	26,362	26,362
Other comprehensive income:											
Available-for-sale investments											
Valuation movement taken to equity	-	-	-	-	9,184	-	57	-	-	-	9,241
Transferred to income statement on disposal	-	-	-	-	(2,449)	-	-	-	-	-	(2,449)
Transferred to income statement on impairment	-	-	-	-	29	-	-	-	-	-	29
Deferred tax	-	-	-	-	27	-	1	-	-	-	28

Foreign currency translation	-	-	-	-	-	-	26,067	-	-	-	26,067
Total comprehensive income	**-**	**-**	**-**	**-**	**6,791**	**-**	**26,125**	**-**	**-**	**26,362**	**59,278**
Dividends	-	-	-	-	-	-	-	-	-	(11,831)	(11,831)
Value of employee services	-	-	-	-	-	708	-	-	-	-	708
Total transactions with owners of the company	**-**	**-**	**-**	**-**	**-**	**708**	**-**	**-**	**-**	**(11,831)**	**(11,123)**
Balance at December 31, 2016	**3,399**	**49,211**	**29,134**	**143**	**10,708**	**2,016**	**23,568**	**632**	**(2,601)**	**93,928**	**210,138**

Consolidated Statement of Cashflows

	2016	2015
	£'000	£'000
Cash flows from operating activities		
Profit/(Loss) before taxation	28,312	(30,480)
Adjustments for:		
Finance income	(82)	(301)
Finance costs - excluding foreign exchange gains/losses	1,086	629
Other income	(973)	(416)
(Gain)/Loss on disposal of mining and exploration interests	(2,449)	484
Impairment of mining and exploration interests	29	930
Impairment of royalty and exploration intangible assets	2,009	4,414
Revaluation of royalty financial instruments	4,939	-
Revaluation of coal royalties (Kestrel)	(17,900)	27,201
Depreciation of property, plant and equipment	36	40
Amortisation of royalty intangible assets	2,869	2,573
Share based payment	708	840
	18,584	5,914
(Increase)/Decrease in trade and other receivables	(8,613)	(2,653)
Increase/(Decrease) in trade and other payables	282	(1,767)
Cash generated from/(used in) operations	10,253	1,494
Income taxes refunded/(paid)	63	(1,466)
Net cash generated from/(used in) operating activities	**10,316**	**28**
Cash flows from investing activities		
Proceeds on disposal of mining and exploration interests	3,431	1,722
Purchases of royalty and exploration intangible assets	-	(41,587)
Proceeds from royalty financial instruments	246	213
Other royalty related repayments	352	2,868
Prepaid acquisition costs	(155)	-
Sundry income	63	203
Finance income	82	301
Net cash generated from/(used in) investing activities	**4,019**	**(36,280)**
Cash flows from financing activities		
Drawdown of revolving credit facility	8,000	10,853
Repayment of revolving credit facility	(9,256)	(3,326)
Proceeds from issue of share capital	-	37,326
Dividends paid	(11,831)	(11,901)
Finance costs	(1,086)	(629)
Net cash used in/(generated from) financing activities	**(14,173)**	**32,323**
Net increase/(decrease) in cash and cash equivalents	**162**	**(3,929)**
Cash and cash equivalents at beginning of year	**5,708**	**8,769**

Unrealised foreign currency (loss)/gain	(539)	868
Cash and cash equivalents at end of year	**5,331**	**5,708**