

Anglo Pacific Group PLC

Report and Accounts

2007

Anglo Pacific Group PLC

Annual Report 2007

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DIRECTORS

Executive

P.M. BOYCOTT (*Chairman*)
M.J. TACK (*Finance Director*)
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

1ST FLOOR, SENTINEL HOUSE, SENTINEL SQUARE, BRENT STREET, LONDON NW4 2EP
Registered in England No. 897608

AUDITORS

GRANT THORNTON UK LLP
Grant Thornton House, Melton Street, London NW1 2EP

BANKERS

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

REGISTRARS

CAPITA REGISTRARS LIMITED
Northern House
Woodsome Park
Fenay Bridge, Huddersfield
Yorkshire HD8 0LA

STOCKBROKERS

NUMIS SECURITIES LIMITED
10 Paternoster Square
London EC4M 7LT

LISTINGS

LONDON STOCK EXCHANGE
Full Listing
Symbol APF

AUSTRALIAN STOCK EXCHANGE
Dual Listing
Symbol AGP

WEBSITE

www.anglo-pacificgroup.com

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CHAIRMAN'S REVIEW

In the year under review, I am pleased to report record earnings for the Group and increased dividends to shareholders.

Financial Highlights

- Australian coal royalty independent valuation of £60.9 million (2006: £47.9 million)
- Total mining and exploration interests and cash increased by 49% to £114.7 million (2006: £77.2 million)
- Realised profits from mature mining interests increased by 92% to £25.6 million (2006: £13.3 million)
- Earnings increased by 50% to 28.72p per share (2006: 19.12p)
- Proposed final dividend increased by 16% to 4.35p per share (2006: 3.75p)
- Total dividend for the year increased by 16% to 7.35p (2006: 6.35p)
- Profit before tax increased by 53% to £33,768,000 (2006: £22,109,000)
- Profit after tax increased by 54% to £29,740,000 (2006: £19,298,000)
- Coal royalties for the year of £8.4 million (2006: £10.5 million)
- Cash of £18.9 million (2006: £9.8 million)

Operational Highlights

- New royalty packages acquired in Canada
- Substantial increase in value of strategic quoted interests
- Increased exposure to coal energy and uranium projects
- Increase in gold, base metal and PGM projects
- No debt and increased cash reserves

2007 Review and Results

During the first half of 2007 world stock markets were strong, driven by double digit rates of growth in developing economies. The demand for metals, oil and other energy products enabled many mining stocks to reach record levels. Later in the year the sub-prime problems in the USA and in the UK at Northern Rock have caused large write-offs in the banking and financial sectors and the subsequent liquidity crisis has raised fears of recession in the USA and other developed economies. This has been exacerbated by inflationary fears due to higher raw material and energy costs associated with continuing demand from the emerging third world economies.

Against this background and despite the substantial correction in junior mining markets during the second half of 2007, Anglo Pacific Group has nevertheless managed to increase its strategic investments and cash by a further 15% since the end of June 2007.

Inflationary worries and geopolitical tensions have driven gold and precious metals prices to new highs. Platinum group metal prices have continued to rise due to dollar weakness and supply shortages caused by safety concerns and power shortages in South Africa.

Uranium prices have remained steady while ever increasing demand for coal products has resulted in thermal coal prices increasing by well over 50% in the last six months. Furthermore, coking coal supplies have remained tight in the face of buoyant demand in the Far East causing prices to escalate.

The Group's exposure to gold, uranium and coal products has enabled it to produce record earnings of 28.72p per share in 2007 against 19.12p in 2006.

In 2007 gains on disposal of non-core interests were £25.6 million (2006: £13.3 million) while coal royalties declined to £8.4 million due to production delays at both mines and reducing output from the Crinum mine as mining exhausts the reserves on the Group's private ground. However, due to increasing coal prices, the value of the Group's coal royalty interests has increased over the year from £48 million to £61 million as at 31st December 2007.

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CHAIRMAN'S REVIEW

These record results have enabled the Group to increase the total dividends for 2007 to 7.35p per share, an increase of 16% over last year.

The Group's private mining interests remain in the financial statements at cost and together with quoted stakes in mining projects at 31st December 2007 total £96 million compared to £67 million a year ago. Furthermore the Group had no borrowings and nearly £19 million of cash in the bank at 31st December 2007.

The Group's successful and rigorous active management of its mining interests has again produced impressive results.

Strategy and Progress

The Group's overriding corporate strategy remains to maximise shareholder value by:-

- Developing royalty flows from its strategic mining interests
- Increasing the value and diversification of those interests
- Pursuing a progressive dividend policy

The Group has made substantial progress in all three areas during 2007:-

- On 23rd August 2007 the Group announced the acquisition of a package of royalty interests in the Athabasca Basin in Canada. The properties covered by the royalty interests total approximately 4.8 million acres and are currently operated by a number of listed Canadian companies. The Athabasca Basin is considered to be highly prospective for uranium exploration and production and currently hosts large, high grade uranium mines and deposits. The Group issued 3.125 million new shares in consideration for these assets. More recently, the Group has invested in a number of projects using a form of non-redeemable loan stock convertible either into equity or future royalties on development of a mine.
- The Group's strategic investments and cash have increased in value by nearly 50% from £77 million to £115 million as at 31st December 2007. The recent valuation of the Group's coal royalties raises the Group's total assets to £178 million with no debt. This does not include any excess over cost attributable to the real value of the Group's substantial private coal and other mining interests in British Columbia and Australia.
- The Group's strategy of paying a substantial proportion of its earnings as dividends to shareholders continues with a final dividend of 4.35p per share, an increase of 16% over last year. As in previous years a scrip dividend alternative will be available to shareholders. The Directors continue to increase their investment in the Group by opting to take shares rather than cash on a substantial proportion of their holdings.

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 £73 million in twenty different holdings. The balance of quoted holdings of £13 million is made up of a further thirty incubator investments. All the Group's equity disclosures can be accessed on the Group's website at www.angloapacificgroup.com.

The Group continues its active, merchant banking approach to projects by providing specific business and financial support to management thereby reducing some of the risks associated with the mining industry.

Outlook

The extent to which internal demand within the Chinese and Indian economies can supplement their exports to Europe and the USA will dictate future demand for metals and therefore the outlook for the mining sector. In this respect the Group remains confident in its strategy of exposure to a range of energy, precious and base metal opportunities.

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CHAIRMAN'S REVIEW

The recent setbacks in the markets due to liquidity problems and fears of recession have made investors more risk averse and mining finance harder to raise from conventional lenders. In this regard, the Group's increased liquidity and active management policy leave it well positioned to secure new royalty flows and to continue to develop its mining interests. As part of this strategy the Group is in the process of expanding its in-house mining and technical team.

The Group is confident that recent higher prices for coal will be maintained for the medium term which should be reflected in the Group's coal royalty receipts.

In conclusion, I would like to thank shareholders for their continued support and the directors and staff for all their hard work during the year and for another record set of results.

P.M. BOYCOTT
Chairman
27th February 2008

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DIRECTORS' REPORT

The directors submit their report and the Group financial statements of Anglo Pacific Group PLC for the year ended 31st December 2007.

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: -

Australian 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 7% of the invoiced value of the coal, without deduction for any costs pertaining to rail and road freight, or any other costs incurred in relation to the sale or disposal of the coal other than port and related charges.

Mining and exploration interests

At 31st December 2007 Group owned a number of strategic mining and exploration interests held for the purposes of generating additional royalty flows including:

- a. A number of quoted and unquoted coal, energy, gold, diamond, base metals and PGM mining projects.
- b. Mineral licences in the Groundhog and Peace River Coal deposits in British Columbia, Canada.
- c. Royalty rights to mineral exploration tenures covering approximately 4.8m acres of the Athabasca Basin, Canada.
- d. Participation in a joint venture to identify opportunities for some of the Group's licences in the Groundhog deposits in British Columbia, Canada.
- e. A joint venture with Core Resources to identify mining opportunities in Australia as well as carrying out detailed investigations into a potential new coal area in Australia.
- f. A substantial talc deposit in Shetland.

Results and dividends

The consolidated income statement is set out on page 28 of the financial statements.

The Group profit after tax increased by 54% to £29,740,000 (2006: £19,298,000)

The Directors recommend a final dividend of 4.35p per share for the year ended 31st December 2007 which with the interim dividend of 3.00p per share paid on 1st February 2008 will make a total for 2007 of 7.35p per share (2006: 6.35p). The Board proposes to pay the final dividend on 1st August 2008 to shareholders on the Company's share register at the close of business on 20th June 2008. As with the interim dividend, shareholders will be given the opportunity to elect to receive a scrip dividend instead of cash.

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 5. The Key Performance Indicators and Principal Risks and Uncertainties laid out on pages 9 and 10 also form part of this review.

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DIRECTORS' REPORT

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 November 1994.

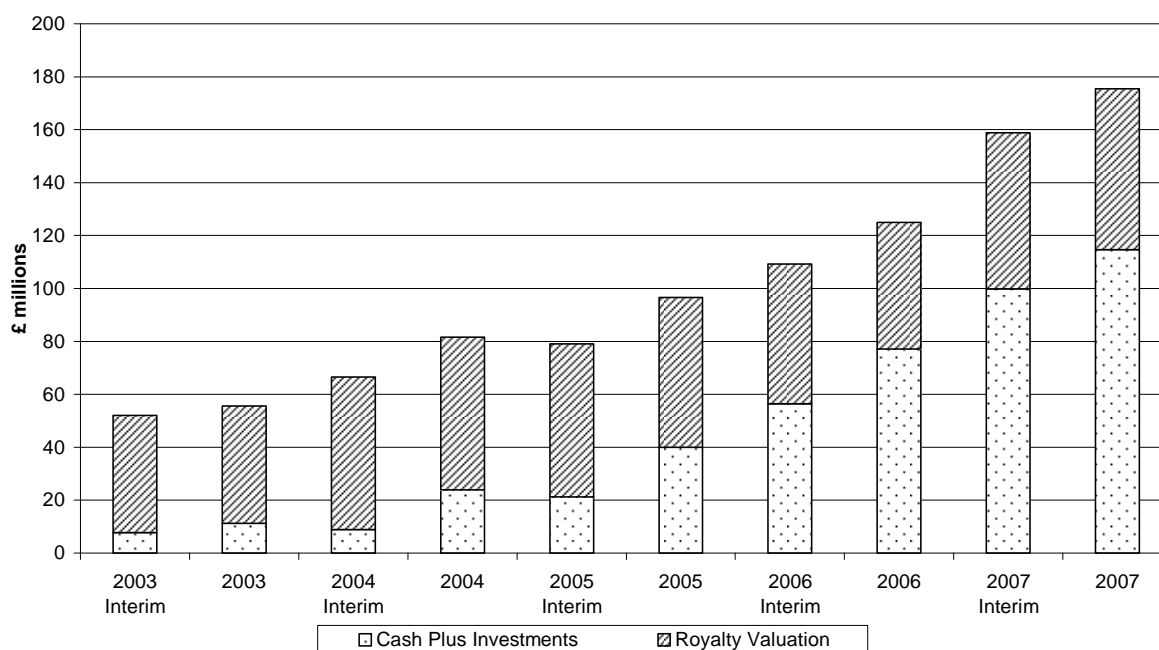
Financial Review

Group profits before tax for the year ended 31st December 2007 were £33,768,000 compared to £22,109,000 for the previous year. Earnings per share for the year increased by 50% to 28.72p (2006: 19.12p). The Group had realised capital gains of £25,612,000 (2006: £13,322,000) from its various mining interests.

The Group's Australian coal royalty interests have been independently valued at £60.9 million as at 31st December 2007 (2006: £47.9 million). The change in the valuation compared to last year has been credited to the revaluation reserve after accounting for deferred tax.

The Group's private mining operational interests and quoted stakes in mining projects were valued at 31st December 2007 at £95.8 million after having realised profits of £25.6 million over the year. This valuation included an additional unrealised profit over book value of £35.7 million, which included a valuation gain for foreign exchange movements. The Group had cash of £18.9 million at 31st December 2007 (2006: £9.8 million) with no borrowings. The Group still has unused capital losses of approximately £3.6 million to offset against these gains.

5 Year Royalty and Investment History

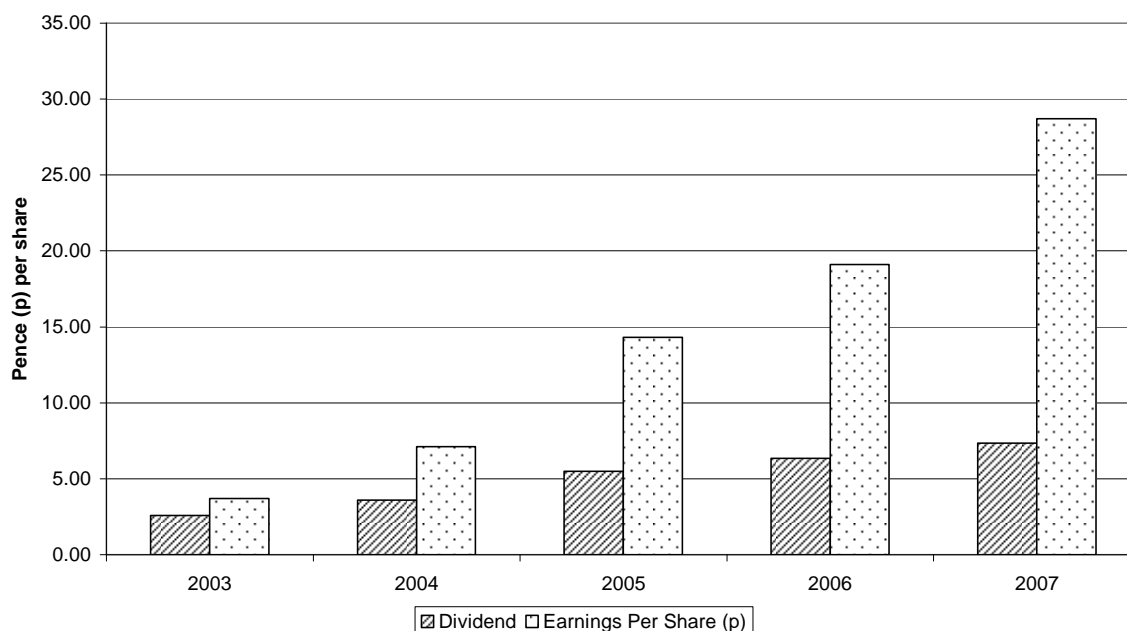


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DIRECTORS' REPORT

5 Year Earnings per share and Dividend Performance



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 £8,439,000 (2006: £10,472,000).

The independent valuation of these interests at the year-end was A\$139 million (£60.9 million) compared to A\$119 million (£47.9 million) at 31st December 2006 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 4% to 7% in April 2000. The legislation applies to both ground owned by the Crown and certain other privately owned areas in which the Group participates. During 2007 royalties declined to £8 million due to production delays and reducing output from the Crinum mine as mining exhausts the reserves on the Group's private ground. Due to increasing coal prices, however, the value of the Group's coal royalty interests increased over the year and the Group is confident that recent higher prices for coking coal will be maintained for the medium term.

Other Coal Interests

The Group retains the licences and tenancies of both its Groundhog and Peace River deposits. At the Upper and Lower Discovery deposits within the Groundhog field, final access approval from local First Nations tribal interests remains outstanding, causing delays to the implementation of the Group's drill plans. In July 2007 completion of the phase 1 feasibility study for the Alaska Canada Rail Link was announced. This study considered the establishment of a rail connection through Alaska, Yukon and Northern B.C. linking North Pacific Rim markets in the shortest trade corridor between North Asia and North America via a U.S. port, and concluded that the mutually dependent economics of large-scale northern resource projects and such a railway development are compelling. The study plans suggest utilisation of an existing railbed adjacent to the Group's Groundhog tenancies. The implementation of such a project would transform the economics of developing the Group's deposits and the Group will continue to monitor these developments closely.

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DIRECTORS' REPORT

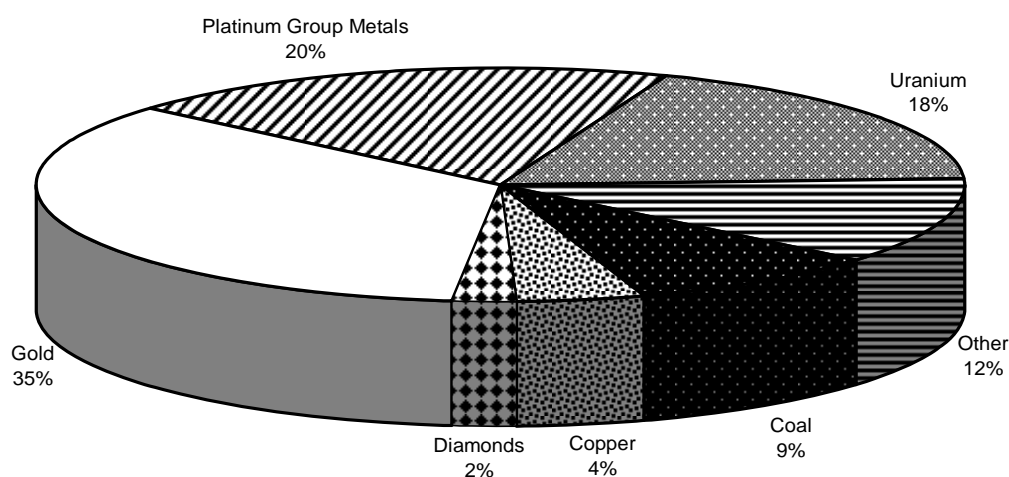
The Group retains its 19.8% interest in Core Resources Pty Limited, the private Australian based resource group. Core continues to work on the Vasse coal project in Western Australia following its acquisition from Rio Tinto. Core remains an agent for Xstrata for the Albion process, a technology for use in recovery of base and precious metals from complex or refractory ores. Further work continues on the Tiaro coal project where Hudson Resources Ltd is funding additional exploration and development work, while retaining Core as project manager. The Group also has a number of coal and coal mine methane interests.

Other Metal Interests

The Group's other metal interests continue to be focused on precious metals and energy. The Group has increased its holdings in a number of gold mining companies in Nevada USA, Canada, Brazil and Australia in situations where operational costs remain under control. The Group retains a sizeable interest in Platinum Australia which continues to make strong progress with its platinum group metals projects in Australia and South Africa.

During the period the Group announced the acquisition of a package of royalty interests in the Athabasca Basin in Canada. The properties covered by the royalty interests total approximately 4.8 million acres and are currently operated by a number of listed Canadian companies. The Athabasca Basin is considered to be highly prospective for uranium exploration and production and currently hosts large, high grade uranium mines and deposits. Holdings in, inter alia, Forum Uranium, Mantra Resources and Top End Uranium provide the Group with additional exposure to the uranium market. Other mining interests include several copper, zinc and iron ore projects.

Strategic Mining Interests By Commodity



Key Performance Indicators

There are four main key performance indicators, all of which are financial:-

- Total value of mining and exploration interests and cash excluding the coking coal royalty
- Realised profits on non-core mining and exploration interests
- Earnings per share
- Dividends per share

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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 measured so do not form part of the Group's KPIs.

Risks and uncertainties

There are four main economic risks that could affect the Group's performance:-

- A major slow down in the world economy
- A reduction in commodity prices
- A tightening of interest rates
- Currency volatility

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

- Daily mining project management meetings and discussions
- Regular documented project review meetings
- An increased cash position
- A spread of projects covering a number of commodities
- 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

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

Future developments

The directors consider that the current strategy of the Group will continue to provide positive returns for shareholders and that the joint ventures undertaken by the Group are essential to the development of the Group's unlisted interests. Management policies will continue to be reviewed in the light of changing commodity markets and macroeconomic conditions.

Financial instruments

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 summarised below, while detailed discussion and sensitivity analysis relating to these risks is contained in note 18 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. 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.

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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 created a derivative financial instrument during the year to provide finance to an unlisted mining development company (note 14). 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 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.

Functional currency of operation	Net Foreign currency monetary asset/(liability)		
	AUD £'000	CAD £'000	Total £'000
2007			
Sterling	1,118	3,348	4,466
2006			
Sterling	785	5,864	6,649

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 holds a number of listed and unlisted strategic mining and exploration interests for the purposes of generating additional royalties. These interests are not held for trading; 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.

Management

Directors

The following directors have held office since 1st January 2007:

P.M. Boycott	(Executive Chairman)
M.J. Tack	(Finance Director)
B.M. Wides	(Chief Executive)
M.H. Atkinson	(Non-Executive Director)
J.G. Whellock	(Non-Executive Director)
A.H. Yadgaroff	(Non-Executive Director)

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DIRECTORS' REPORT

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

The biographical details of Dr Whellock and Mr Yadgaroff are as follows:

Dr. John Whellock (Non-Executive Director), a Ph.D. in Chemical Engineering, was appointed as a director on 3rd March 2003. He has 30 years experience in the development and implementation of extractive metallurgy, mineral and chemical plants and projects for major international mining groups. His firm, JW Technologies, has been responsible for the implementation of several innovative furnace designs and processes. Applications include alternative power, treatment of various hazardous wastes, cement industry by-products and production of nano-materials.

Anthony Yadgaroff (Non-Executive Director) is a former equity analyst and manager of small pension funds and was appointed as a director on 3rd March 2003. In 1984 he founded Allenbridge Group plc, a FSA regulated company which researches fund managers' performance and provides a rating service of hedge funds for institutional clients. As a result, he has considerable experience of the interests of shareholders and related compliance issues.

Biographies for all directors are available at www.anglopacifigroup.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 six directors (three of whom are non-executive) and one additional staff member, 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 Chief Executive have distinct roles with a clear division of responsibilities.

Directors' interests

The beneficial interests of the directors in office at 1st January 2007 and 31st December 2007 in the issued share capital of the Company are as follows:

		Ordinary shares of £0.02 each	
	20 th February 2008	31 st December 2007	31 st December 2006
P.M. Boycott (Chairman)	3,170,291	3,129,944	3,062,237
B.M. Wides (Chief Executive)	3,661,443	3,647,792	3,589,828
M.J. Tack (Finance Director)	24,852	24,456	13,576
M.H. Atkinson (Non-executive)	3,622	3,556	3,492
J.G. Whellock (Non-executive)	10,084	10,084	10,084
A.H. Yadgaroff (Non-executive)	162,492	159,502	146,931

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Advisory board

To assist the Board of Directors and outside consultants in evaluating projects, the company has the following three man panel of advisers: -

Professor M. Johnson

Prof. Johnson is an Emeritus Professor at Liverpool University. He is also Chairman of Glebe Mines Ltd., Land Regeneration Management and Ettrick Holdings Ltd., companies connected with land management or mineral extraction. He is on the Board of Directors of Minmet plc. Prof. Johnson holds a number of advisory positions with professional institutes, national governments, and international agencies. He is also an external advisor on environmental matters to Rio Tinto plc., New Boliden-Outokumpu SA and KimCor Diamonds plc. He is particularly experienced in the scoping and management of environmental assessments and audits, the implementation of environmental management strategies in the mining industry and the development of programmes for the restoration and revegetation of decommissioned mine sites.

Mr J. Prochnau

Mr Prochnau is a mining engineer and geologist with degrees from the University of Washington, Seattle, U.S.A., and McGill University, Montreal, Canada. He has held management positions with the Selection Trust Group and Billiton International Metals B. V. of the Netherlands. He formed his consulting company in 1984 and subsequently managed a number of private exploration syndicates and publicly listed mineral companies responsible for several gold and base metal discoveries and mine developments. He was founder of Brancote Holdings plc of which he was managing director until 1999 and is currently Executive Chairman of Hidefield Gold plc.

Mr L. Hansen

Mr Hansen, BSc (Geology and Metallurgy), MBA, FAusIMM, FAICD, has more than 35 years experience in senior positions in the mining industry. His career has spanned exploration, mine operations and development, corporate finance, stockbroking, fund management and investment banking. His most recent position was Executive Director of Corporate Finance (Mining) at HSBC Bank Australia with regional responsibility for resources finance, equity investment appraisals and underwriting transactions. He has also been a director of a public listed gold exploration and development company.

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 18 to 21. The directors' remuneration report, as set out on pages 22 to 25, will be proposed for approval at the AGM to be held on 23rd April 2008. In accordance with the Directors' Remuneration Report Regulations 2002, 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.

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 (2006: nil).

No political donations were made during the year (2006: nil).

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Policy on payment of creditors

The Group'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;
- pay suppliers in accordance with contractual and legal obligations.

During the year to 31st December 2007 the Group took an average of 16 days to settle its bills with suppliers (2006: 15 days). The Group 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 environment associated with its operations, where appropriate.

The Group acknowledges that, while its activities have little direct environmental impact, it does have 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 remain 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.

Essential Contracts

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

Capital Structure

The structure of the Group's ordinary capital at 20th February 2008 is as follows:

	Issued No.	Nominal value per shares £	Total £	% of total capital
Ordinary shares	106,172,139	0.02	2,123,443	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.

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DIRECTORS' REPORT

Restrictions on transfer of holdings

There are restrictions on the transfer of 3,125,000 ordinary £0.02 shares held by the principals of the Advance Royalty Corporation pursuant to the Group's acquisition of this company as announced on 23rd August 2007. 1,562,500 shares are subject to a holding period of 4 months from the date of the transaction, with the balance being subject to a holding period of 12 months from this date, subject to certain contractual exemptions covering circumstances such as a takeover bid for the Group or a buy-back 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 20th February 2008.

	Ordinary Shares of 2p each	Representing
AXA Investment Managers UK	10,831,475	10.20%
Ransomes Dock Ltd	9,054,965	8.53%
Rathbones Brothers PLC	7,522,664	7.09%
Legal and General Group PLC	5,529,013	5.21%

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 auditor.

Auditors

Grant Thornton UK LLP were appointed auditors during the period to fill a casual vacancy in accordance with section 388 (1) of the Companies Act 1985. A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the Annual General Meeting in accordance with section 385 of the Companies Act 1985.

Annual General Meeting

The notice of the Annual General Meeting (refer to page 56) contains ordinary and special resolutions detailed below.

Scrip Dividend Authority

Resolution 7 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.

Anglo Pacific Group PLC

Annual Report 2007

DIRECTORS' REPORT

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

Resolution 8 seeks a new authority, to replace the present authority and be effective until the earlier of 23rd April 2013 and the conclusion of the annual general meeting held in 2013, to authorise the Directors to allot relevant securities up to a maximum nominal amount of £707,814 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.

Resolution 9 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 £106,172 (5% of the issued share capital at the date of this report) or, if less, 5% 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 fifteen months from the date of passing of the resolution. No shares are currently held in treasury by the Company.

Authority to purchase own shares

Resolution 10 gives authority for the Company to purchase its own shares and specifies the maximum number of shares which may be acquired (10,617,213, 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 56,595 ordinary shares; they represent 0.05% of the current issued share capital and would represent 0.06% of the issued share capital if the full buy back authority was used and the shares so acquired cancelled. The proposed authority, if granted, will expire at the earlier of the next annual general meeting of the Company or eighteen months from the date of passing of the resolution. At 31st December 2007 the Company still had authority to acquire 10,180,648 shares under Resolution 10 passed at the last Annual General Meeting.

Adoption of new Articles of Association and subsequent amendments to the Articles in respect of directors' conflicts of interest

The Articles of Association of the Company were adopted in their current form in 1991 and have not been revised since that time. During the intervening period, and particularly since 2000, there have been a significant number of legislative, regulatory and best practice developments relating to the constitutional documents of UK listed companies. Accordingly, the Board considers it prudent to replace the Company's existing Articles of Association with new Articles which take account of those developments (the "New Articles") and Resolution 11 is put to the meeting in order to adopt the New Articles. Resolution 12 then updates the New Articles in relation to directors' conflicts of interest provisions with effect from 1st October 2008 to give effect to provisions of the Companies Act 2006 (the "2006 Act") which come into force on that date.

A summary of the material changes brought about by the proposed adoption of the New Articles is set out in the Appendix to the Notice of Annual General Meeting on pages 62 to 64 of this document. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act have not been noted in the Appendix.

Anglo Pacific Group PLC

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DIRECTORS' REPORT

Further amendments to the New Articles may be required in the coming years as a result of the implementation of the 2006 Act. The 2006 Act represents a major reform of UK companies' legislation and is being brought into force in stages, beginning in January 2007 with full implementation scheduled by October 2009. At this year's Annual General Meeting the Company proposes to adopt provisions which reflect changes in the law brought about by the 2006 Act in respect of, among other things, electronic communications, notice periods for meetings, proxy voting and directors' conflicts of interest. Over the course of the next year the Company intends to conduct a further review of the New Articles in order to identify any additional amendments that might be necessary following the full implementation of the 2006 Act in October 2009. It is the Board's intention that any further amendments will be put to shareholders at the 2009 AGM.

A copy of the New Articles will be available for inspection from the date of this document until the conclusion of the Annual General Meeting during normal business hours on any weekday at the registered office of the Company and at its offices at 17 Hill Street, London W1J 5NZ. The New Articles will also be available for inspection at any time until the conclusion of the Annual General Meeting on the Company's website (www.anglopacifigroup.com) and shall be available at the venue of the Annual General Meeting from 15 minutes prior to and until the conclusion of the 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
1st Floor,
Sentinel House, Sentinel Square,
Brent Street
London
NW4 2EP

By Order of the Board

M.J. Tack C.A.
Company Secretary

7th March 2008

Anglo Pacific Group PLC

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CORPORATE GOVERNANCE

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") 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 and three independent non-executive directors. A statement of directors' responsibilities in respect of the financial statements is set out on page 26. 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 and thereafter every 3 years. 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 and will review the situation at regular intervals.

Under the terms of the Company's Memorandum and Articles of Association, all directors retire by rotation on the basis of one-third their number each year, and are required to be re-appointed by the shareholders at an Annual General Meeting. In effect this means that all directors are subject to re-election by shareholders at least every 3 years. Biographies of all directors are available at www.anglo-pacificgroup.com.

Committees of the Board

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

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 22 to 25.

Anglo Pacific Group PLC

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CORPORATE GOVERNANCE

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 are also 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 was formed during the year. The 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. As the committee was formed towards the end of the year and there were no Board vacancies for consideration no meetings of the committee were held during the period.

Senior Independent Director

Mr M.H. Atkinson was appointed as Senior Independent Director (SID) during the year. 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 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.

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CORPORATE GOVERNANCE

Attendance

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

	Audit	General	Remuneration	Nomination
Total meetings held:	2	13	1	-
Attendance:				
P.M. Boycott	1	12	-	-
M.J. Tack	2	12	1	-
B.M. Wides	1	11	-	-
M.H. Atkinson	2	8	1	-
J.G. Whellock	2	6	1	-
A.H. Yadgaroff	2	9	1	-

Internal Control

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

The Board has designed the Group's system of internal control in order to provide the directors with reasonable assurance that its assets are safeguarded, that transactions are authorised and properly recorded and that material errors and irregularities are either prevented or would be detected within a timely period. However, no system of internal control can eliminate the risk of failure to achieve business objectives or provide absolute assurance against material misstatement or loss.

The key elements of the control system in operation are:

- The Board meets regularly with a formal schedule of matters reserved to it for decision and has put in place an organisational structure with clear lines of responsibility defined and with appropriate delegation of authority;
- There are established procedures for planning, approval and monitoring of capital expenditure and information systems for monitoring the Group's financial performance against approved 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 modification 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 31st December 2007 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.

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CORPORATE GOVERNANCE

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 40% 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 and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions.

This year's Annual General Meeting will be held on 23rd April 2008. The notice of the Annual General Meeting may be found on page 56.

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.

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DIRECTORS' REMUNERATION REPORT

The Remuneration Committee comprises:

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

The Remuneration Committee is constituted in accordance with the recommendations of the Combined Code. The members of the committee are all independent non-executive directors and the committee is chaired by A.H. Yadgaroff.

The Policy and objectives

The committee's policy is to attract, retain and motivate quality senior management with a competitive salary package. The principal components of the package are salary and performance related bonus awards for individuals annually at the discretion of the committee. In light of its latest review the committee decided to adjust the balance between salary and bonus to align it more closely with small company practice.

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 and benefits

Basic salaries and benefits in kind are reviewed within the policy on an annual basis. There are no agreements between the Company and its directors resulting in compensation for loss of office or employment that may occur as a result of a takeover bid.

(ii) Share schemes

The Executive Share Option Scheme is an unapproved scheme and in accordance with its terms senior employees including executive directors, have received options at current market value to be exercised, in normal circumstances, between three and seven years after grant.

(iii) Elements of remuneration

The components of remuneration are:

Salary – Fixed sum paid monthly. The committee reviews salaries annually against those of directors of comparable companies.

Pension – Executive directors are eligible to participate in the Executive Pension Scheme, described below.

Bonus – A scheme has been established which creates a bonus pool divisible between all executive directors in proportions to be determined by the committee from time-to-time. The committee believes that the scheme should be based on enhancement in shareholder value over the coming year, measured by the profit and asset growth as well as the Company's share price performance.

Share schemes – Executive directors are eligible to participate in all executive share schemes.

(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, 1 director accrued benefits under the scheme.

Anglo Pacific Group PLC

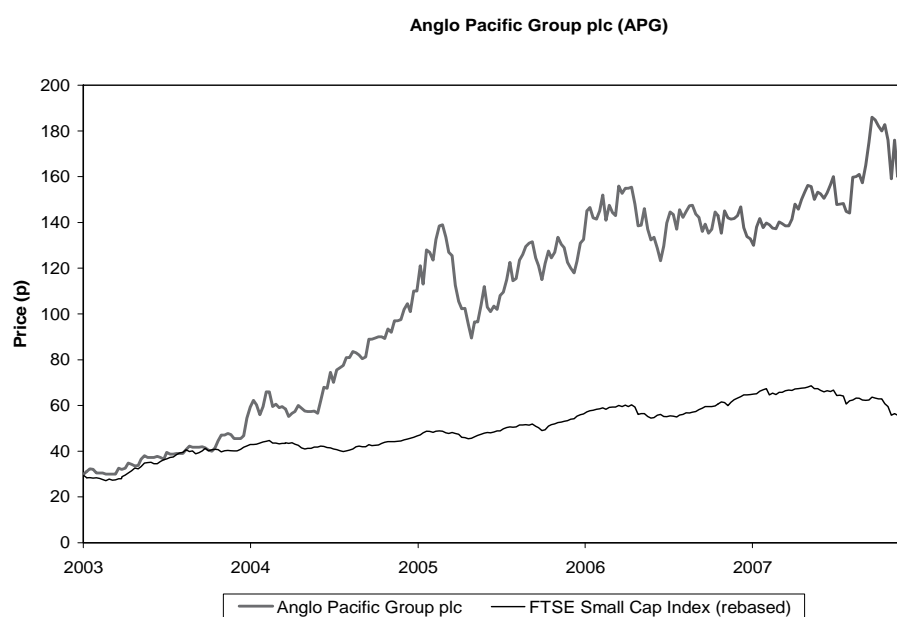
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DIRECTORS' REMUNERATION REPORT

(v) Service contracts

Service contracts remain in force for P.M. Boycott, B.M. Wides and M.J. Tack. It is the Company's policy that executive directors should have contracts with an indefinite term providing for a period of notice of twelve months. In the event of early termination, the directors' contracts provide for compensation for this period. The Board considers that this provision is appropriate in a competitive market place.

(vi) Share Price Performance



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.

(vii) Directors' emoluments and compensation

	2007	2006
	£	£
Salaries	327,500	196,484
Bonus	660,000	695,000
Fees	94,500	86,750
	<u>1,082,000</u>	<u>978,234</u>

Anglo Pacific Group PLC

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DIRECTORS' REMUNERATION REPORT

The remuneration of the directors was as follows:-

	M.H. Atkinson	P.M. Boycott	M.J. Tack	J.G. Whellock	B.M. Wides	A.H. Yadgaroff	Total £
	£	£	£	£	£	£	£
Salary	-	122,500	82,500	-	122,500	-	327,500
Bonus	-	280,000	100,000	-	280,000	-	660,000
Fees	31,500	-	-	31,500	-	31,500	94,500
12 months to 31 st December 2007	31,500	402,500	182,500	31,500	402,500	31,500	1,082,000
12 months to 31 st December 2006	26,750	409,467	72,317	30,000	409,700	30,000	978,234

During the year the Group paid pension contributions in respect of P.M. Boycott and M.J. Tack of £nil (2006: £233) and £4,125 (2006: £1,616) respectively.

No options were exercised during the year.

(viii) Executive Share Option Scheme

No executive share options have been granted to directors since 1999 and no options are currently exercisable under the scheme.

The vesting period for the option scheme is either 3 or 5 years. In any event, if an option under the scheme remains unexercised after a period of 7 years from the date of grant, the option will lapse. The exercise condition of the option scheme 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 if it is 3 years or 4% in excess of the RPI over the vesting period if it is 5 years.

The market price of the shares at 31st December 2007 was 179p and the range during the year was 128p to 193p.

(ix) Approved Share Option Scheme

The Group operates an Inland Revenue approved Company Share Option Plan.

The options of the directors at 31st December 2007 under this scheme were as undernoted for which nil has been paid.

	No. of Shares		Exercisable	Exercise
	2007	2006	between	price
M.J. Tack	36,923	36,923	04/10/07 – 04/10/14	81.25p

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.

Anglo Pacific Group PLC

Annual Report 2007

DIRECTORS' REMUNERATION REPORT

Non-executive directors' remuneration

The fees of non-executive directors are determined by the Board as a whole 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.

Audit

Under Part 3 of Schedule 7A of the Companies Act 1985 items (ii), (iv), (vii) and (viii) of the executive directors' remuneration section have been audited.

Approval

This report was approved by the Board of Directors and authorised for issue on 7th March 2008 and signed on its behalf by:

M.J. Tack C.A.
Company Secretary

7th March 2008

Anglo Pacific Group PLC

Annual Report 2007

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

UK company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group financial statements in accordance with International Financial Reporting Standards (“IFRS”) adopted by the European Union (“EU”) and have elected to prepare the company financial statements in accordance with IFRS.

The Group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the Group and Company Financial Statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. for the Group and Company Financial Statements, state whether they have been prepared in accordance with IFRSs adopted by the EU, subject to an material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors, to the best of their knowledge, state that:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Directors' 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 it faces.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Anglo Pacific Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Anglo Pacific Group PLC

Annual Report 2007

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

We have audited the consolidated and parent company financial statements (the "financial statements") of Anglo Pacific Group plc for the year ended 31st December 2007 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements, the consolidated and parent company statements of changes in members' equity, and notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the consolidated financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

*GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS
LONDON*

7th March 2008

Anglo Pacific Group PLC

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007 £'000	2006 £'000
Royalty income	2	8,439	10,472
Other operating income	2	191	266
Profit on sale of mining and exploration interests	2	25,612	13,322
Finance income	2,5	623	232
		<u>34,865</u>	<u>24,292</u>
Net operating expenses	3	<u>(1,097)</u>	<u>(2,183)</u>
Profit before tax	3	33,768	22,109
Tax	6	<u>(4,028)</u>	<u>(2,811)</u>
Profit attributable to equity holders	21	<u>29,740</u>	<u>19,298</u>
Basic earnings per share	8	<u>28.72p</u>	<u>19.12p</u>
Fully diluted earnings per share	8	<u>28.72p</u>	<u>19.11p</u>

Anglo Pacific Group PLC

CONSOLIDATED BALANCE SHEET AND COMPANY BALANCE SHEET AS AT 31 DECEMBER 2007

	Notes	Consolidated		Company	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Non-current assets					
Property plant and equipment	10	832	838	832	838
Coal royalties	13	60,874	47,868	-	-
Investments in subsidiary undertakings	11	-	-	6,341	1,312
Mining and exploration interests	14	95,750	67,317	79,598	57,345
		<u>157,456</u>	<u>116,023</u>	<u>86,771</u>	<u>59,495</u>
Current assets					
Trade and other receivables	15	1,874	1,834	854	136
Cash at bank	18	18,904	9,836	2,035	922
		<u>20,778</u>	<u>11,670</u>	<u>2,889</u>	<u>1,058</u>
Total assets		<u><u>178,234</u></u>	<u><u>127,693</u></u>	<u><u>89,660</u></u>	<u><u>60,553</u></u>
Current liabilities					
Taxation	16	2,538	1,414	2,249	8
Trade and other payables	16	262	255	85	70
		<u>2,800</u>	<u>1,669</u>	<u>2,334</u>	<u>78</u>
Non-current liabilities					
Deferred tax	17	19,252	14,530	393	-
		<u>19,252</u>	<u>14,530</u>	<u>393</u>	<u>-</u>
Total liabilities		<u><u>22,052</u></u>	<u><u>16,199</u></u>	<u><u>2,727</u></u>	<u><u>78</u></u>
Capital and reserves attributable to shareholders					
Share capital	19	2,113	2,032	2,113	2,032
Share premium	19	17,742	12,112	17,742	12,112
Coal royalty revaluation reserve		40,899	35,403	-	-
Investment revaluation reserve		33,104	27,078	29,258	23,010
Share based payment reserve		48	27	48	27
Foreign currency translation reserve		2,224	(1,930)	82	82
Special reserve	20	632	632	632	632
Retained Earnings	21	59,420	36,140	37,058	22,580
		<u>156,182</u>	<u>111,494</u>	<u>86,933</u>	<u>60,475</u>
Total equity and liabilities		<u><u>178,234</u></u>	<u><u>127,693</u></u>	<u><u>89,660</u></u>	<u><u>60,553</u></u>

The financial statements on pages 28 to 54 were approved by the Board of Directors and authorised for issue on 7th March 2008 and are signed on its behalf by:

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

Anglo Pacific Group PLC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2007

	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
Balance at 1st January 2006	2,005	11,338	41,211	5,180	12	1,321	632	22,361	84,060
<i>Changes in equity for 2006</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	(5,792)	-	-	(3,055)	-	-	(8,847)
Deferred tax on valuation	-	-	(16)	-	-	726	-	-	710
Available-for-sale investments:									
Valuation movement taken to equity	-	-	-	28,349	-	(575)	-	-	27,774
Deferred tax on valuation	-	-	-	(1,382)	-	(63)	-	-	(1,445)
Transferred to income statement on disposal	-	-	-	(5,069)	-	-	-	-	(5,069)
Foreign currency translation	-	-	-	-	-	(284)	-	-	(284)
Net income recognised direct into equity	-	-	(5,808)	21,898	-	(3,251)	-	-	12,839
Profit for the period	-	-	-	-	-	-	-	19,298	19,298
Total recognised income and expenses	-	-	(5,808)	21,898	-	(3,251)	-	19,298	32,137
Dividends	-	-	-	-	-	-	-	(5,519)	(5,519)
Scrip Dividend	9	580	-	-	-	-	-	-	589
Issue of share capital on exercise of options	18	194	-	-	-	-	-	-	212
Equity share options issued	-	-	-	-	15	-	-	-	15
Balance at 1st January 2007	2,032	12,112	35,403	27,078	27	(1,930)	632	36,140	111,494
<i>Changes in equity for 2007</i>									
Coal Royalties:									
Royalties valuation movement taken to equity	-	-	8,759	-	-	4,247	-	-	13,006
Deferred tax on valuation	-	-	(3,263)	-	-	(1,134)	-	-	(4,397)
Available-for-sale investments:									
Valuation movement taken to equity	-	-	-	24,778	-	937	-	-	25,715
Deferred tax on valuation	-	-	-	(319)	-	15	-	-	(304)
Transferred to income statement on disposal	-	-	-	(18,433)	-	-	-	-	(18,433)
Foreign currency translation	-	-	-	-	-	89	-	-	89
Net income recognised direct into equity	-	-	5,496	6,026	-	4,154	-	-	15,676
Profit for the period	-	-	-	-	-	-	-	29,740	29,740
Total recognised income and expenses	-	-	5,496	6,026	-	4,154	-	29,740	45,416
Dividends	-	-	-	-	-	-	-	(6,460)	(6,460)
Scrip Dividend	18	1,350	-	-	-	-	-	-	1,368
Issue of share capital	63	4,280	-	-	-	-	-	-	4,343
Equity share options issued	-	-	-	-	21	-	-	-	21
Balance at 31st December 2007	2,113	17,742	40,899	33,104	48	2,224	632	59,420	156,182

Anglo Pacific Group PLC

COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE TWO YEARS ENDED 31 DECEMBER 2007

	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
Balance at 1st January 2006	2,005	11,338	4,546	12	82	632	13,184	31,799
<i>Changes in equity for 2006</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	21,917	-	-	-	-	21,917
Transferred to income statement on disposal	-	-	(3,453)	-	-	-	-	(3,453)
Net income recognised direct into equity	-	-	18,464	-	-	-	-	18,464
Profit for the period	-	-	-	-	-	-	14,915	14,915
Total recognised income and expenses	-	-	18,464	-	-	-	14,915	33,379
Dividends	-	-	-	-	-	-	(5,519)	(5,519)
Scrip Dividend	9	580	-	-	-	-	-	589
Issue of share capital on exercise of options	18	194	-	-	-	-	-	212
Equity share options issued	-	-	-	15	-	-	-	15
Balance at 1st January 2007	2,032	12,112	23,010	27	82	632	22,580	60,475
<i>Changes in equity for 2007</i>								
Available-for-sale investments:								
Valuation movement taken to equity	-	-	21,158	-	-	-	-	21,158
Deferred tax on valuation	-	-	(393)	-	-	-	-	(393)
Transferred to income statement on disposal	-	-	(14,517)	-	-	-	-	(14,517)
Net income recognised direct into equity	-	-	6,248	-	-	-	-	6,248
Profit for the period	-	-	-	-	-	-	20,938	20,938
Total recognised income and expenses	-	-	6,248	-	-	-	20,938	27,186
Dividends	-	-	-	-	-	-	(6,460)	(6,460)
Issue of share capital	18	1,350	-	-	-	-	-	1,368
Scrip Dividend	63	4,280	-	-	-	-	-	4,343
Equity share options issued	-	-	-	21	-	-	-	21
Balance at 31st December 2007	2,113	17,742	29,258	48	82	632	37,058	86,933

Anglo Pacific Group PLC

CONSOLIDATED CASH FLOW STATEMENT AND COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	Consolidated		Company	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
Cash flows from operating activities					
Profit before taxation		33,768	22,109	23,174	14,915
Adjustments for:					
Interest received	5	(623)	(232)	(585)	(203)
Unrealised foreign currency loss / (gain)		89	(284)	-	-
Depreciation of property, plant and equipment	3	10	10	10	10
(Gain) on disposal of mining and exploration interests		(25,612)	(13,322)	(21,362)	(9,561)
Inter-company dividends		-	-	(650)	(5,871)
Share based payments	24	21	15	21	15
		<u>7,653</u>	<u>8,296</u>	<u>608</u>	<u>(695)</u>
(Increase) / Decrease in trade and other receivables excluding amounts due from subsidiary companies		(40)	715	13	34
Increase / (Decrease) in trade and other payables		<u>7</u>	<u>(340)</u>	<u>15</u>	<u>(27)</u>
Cash generated from operations		<u>7,620</u>	<u>8,671</u>	<u>636</u>	<u>(688)</u>
Income taxes paid		<u>(2,883)</u>	<u>(2,990)</u>	<u>-</u>	<u>-</u>
Net cash flows from operating activities		<u>4,737</u>	<u>5,681</u>	<u>636</u>	<u>(688)</u>
Cash flows from investing activities					
Proceeds on disposal of mining and exploration interests		44,945	30,024	39,456	23,467
Purchase of mining and exploration interests		(36,145)	(27,180)	(34,390)	(24,831)
Interest received	5	<u>623</u>	<u>232</u>	<u>585</u>	<u>203</u>
Net cash flows from investing activities		<u>9,423</u>	<u>3,076</u>	<u>5,651</u>	<u>(1,161)</u>
Cash flows from financing activities					
Proceeds from issue of share capital		-	212	-	212
Dividends paid		(5,092)	(4,930)	(5,092)	(4,930)
Net financing of related entities		<u>-</u>	<u>-</u>	<u>(82)</u>	<u>5,962</u>
Net cash flows from financing activities		<u>(5,092)</u>	<u>(4,718)</u>	<u>(5,174)</u>	<u>1,244</u>
Net increase / (decrease) in cash and cash equivalents		9,068	4,039	1,113	(605)
Cash and cash equivalents at beginning of period	18	<u>9,836</u>	<u>5,797</u>	<u>922</u>	<u>1,527</u>
Cash and cash equivalents at end of period	18	<u>18,904</u>	<u>9,836</u>	<u>2,035</u>	<u>922</u>

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. Accounting policies

The financial statements have been prepared on the historical cost basis, except for items carried at fair value in accordance with IAS 39. The principal accounting policies adopted are set out below.

Basis of preparation and presentation of financial statements

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). These financial statements are presented in Sterling since that is the currency in which the majority of the Group's transactions are denominated.

Standards and Interpretations effective in the current period

The following Standards and Interpretations have become mandatory for reporting periods beginning on 1st January 2007 or later:

IFRS 7	Financial Instruments: Disclosures (replacing IAS 32 Financial Instruments: Presentation and Disclosure)
IFRIC 7:	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8:	Scope of IFRS 2
IFRIC 9:	Reassessment of Embedded Derivatives

These Standards and Interpretations have been applied by the Group in its 2007 consolidated financial statements. All disclosures including comparative information have been updated to reflect the new requirements. The first-time application of these Standards and Interpretations have not resulted in any prior-period adjustments.

Issued International Financial Reporting Standards (“IFRSs”) that are not yet effective

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but are not yet effective:

IFRS 8:	Operating Segments
IFRIC 10:	Interim Financial Reporting and Impairment
IFRIC 11:	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12:	Service Concession Arrangements
IFRIC 11	IFRS 2 Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRIC 13	Customer Loyalty Programmes
IAS 23	Borrowing Costs (revised 2007)

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.

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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements. It has concluded that there is no significant risk of these estimates and assumptions causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Information about the estimates and judgements made by the Group are contained in the accounting policies and/or the notes to the financial statements, and the key areas are summarised below:

- Classification of mining and exploration interests – note 1 (h) and note 14
- Review of fair values of assets treated as fair value through profit and loss – note 1 (h) and note 14
- Impairment review of assets treated as available for sale – note 1 (h) and note 14
- Recognition of deferred tax liabilities and the continued application of relevant exemptions – note 1(g), note 6 and note 17
- Recoverability of deferred tax assets – note 1 (g) and note 17

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 December each year.

In the accounts of Anglo Pacific Group PLC investments in subsidiaries are shown at cost less any provision for impairment. The results of subsidiaries are included in the consolidated income statement.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(a) Revenue recognition

The turnover of the Group comprises royalty income from the Kestrel and Crinum mines and amounts receivable from external customers for goods sold excluding value added tax and other sales related taxes. It is measured at the fair value of the consideration received or receivable.

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.

(b) Foreign currencies

Transactions in currencies other than pounds sterling are recorded in pounds sterling at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the income statement for the period, except for exchange differences on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

The financial accounts are presented in pounds sterling, which is the Group's presentational currency.

(c) Business combinations

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

(d) Investments in 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.

(e) Property, plant and equipment

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Producing assets, including land	Unit 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.

(f) Leased assets

Rentals receivable under operating leases are credited to income on a straight-line basis over the term of the lease and are recognised in the income statement as and when they fall due.

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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax attributable to current profits.

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.

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.

(h) 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.

Trade receivables

Trade receivables do not carry any interest and are stated at their fair value, as reduced by appropriate allowances for estimated irrecoverable amounts. All receivables are considered for impairment.

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 cost, 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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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.

All mining and exploration interests 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.

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.

Equity instruments

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

(i) 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. 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.

(j) 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 from the opening carrying values, excluding 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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

(k) Segment reporting

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 segment reporting the Group does not have separate geographical reporting segments.

(l) 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 7th November 2002 that were unvested as of 1st 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 a binomial 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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

2. Business and geographical segments

For reporting purposes the Group is currently organised into two primary operating segments – royalty and mining and exploration interests.

The royalty 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, disposition and continuing 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 purposes of segment reporting the Group does not have separate geographical reporting segments. Segment information is presented below.

	Year ended 31st December 2007			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
Revenue	8,439	-	191	8,630
Operating profit	8,439	-	(896)	7,543
Profit on sale of mining and exploration interests	-	25,612	-	25,612
Interest received	-	-	623	623
Depreciation	-	-	(10)	(10)
Tax	-	-	(4,028)	(4,028)
Segment Result	8,439	25,612	(4,311)	29,740
Segment Assets	60,874	95,750	21,610	178,234
Segment Liabilities	(19,252)	-	(2,800)	(22,052)
Net Segment Assets	41,622	95,750	18,810	156,182
Capital Expenditure	-	-	3	3
	Year ended 31st December 2006			
	Royalty £'000	Mining Interests £'000	Unallocated £'000	Total £'000
Revenue	10,472	-	266	10,738
Operating profit	10,472	-	(1,907)	8,565
Profit on sale of mining and exploration interests	-	13,322	-	13,322
Interest received	-	-	232	232
Depreciation	-	-	(10)	(10)
Tax	-	-	(2,811)	(2,811)
Segment Result	10,472	13,322	(4,496)	19,298
Segment Assets	47,868	67,317	12,508	127,693
Segment Liabilities	(14,530)	-	(1,669)	(16,199)
Net Segment Assets	33,338	67,317	10,839	111,494
Capital Expenditure	-	-	1	1

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

3. Profit from operations

	2007	2006
	£'000	£'000
Profit before tax is stated after charging:—		
Net realised foreign exchange (gains) / losses	(675)	329
Depreciation of property plant and equipment (note 10)	10	10
Staff costs (note 4)	1,220	1,089
Audit of the company and consolidated financial statements	40	36
Audit of the subsidiary companies	14	7
	<u>14</u>	<u>7</u>

4. Staff costs

	2007		2006	
	Consolidated	Company	Consolidated	Company
	£'000	£'000	£'000	£'000
Wages and salaries	1,137	667	1,031	481
Social security costs	77	77	54	54
Other pension costs	6	6	4	4
	<u>1,220</u>	<u>750</u>	<u>1,089</u>	<u>539</u>

	Consolidated and Company	
	2007	2006
	Number	Number
Executive directors	3	3
Administration	2	1
	<u>5</u>	<u>4</u>

5. Investment Income

	2007	2006
	£'000	£'000
On bank deposits and other loans	623	232
	<u>623</u>	<u>232</u>

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

6. Income tax expense

	2007	2006
	£'000	£'000
Total corporation tax charge	2,888	3,680
Deferred tax charged to income – current year (note 17)	(23)	(169)
Arising from retranslation of deferred tax – current year (note 17)	1,163	(700)
Tax on profit on ordinary activities	<u>4,028</u>	<u>2,811</u>
	2007	2006
	£'000	£'000
Factors affecting the tax charge for the year:		
Profit on activities before tax	<u>33,768</u>	<u>22,109</u>
Prima facie tax payable at UK and Australian rate of 30% (2006: 30%)	10,130	6,633
Adjustment for tax exempt income	(2,146)	(423)
Investment allowances	(330)	(71)
Utilisation of losses brought forward	(3,389)	(3,846)
Adjustment for foreign taxed income	(105)	572
Non-deductible expenses	26	16
Utilisation of previously unrecognised deferred tax assets	(158)	(70)
Total income tax expense	<u>4,028</u>	<u>2,811</u>

Refer to note 17 for information regarding the Group's deferred tax assets and liabilities.

7. Dividends

On 2nd February 2007 an interim dividend of 2.60 pence per share was paid to shareholders in respect of the year ended 31st December 2006. On 3rd August 2007 a final dividend of 3.75 pence per share was paid to shareholders to make a total dividend for the year of 6.35 pence per share.

On 1st February 2008 an interim dividend of 3.00 pence per share was paid to shareholders in respect of the year ended 31st December 2007. This dividend has not been included as a liability in these financial statements. The directors propose that a final dividend of 4.35 pence per share be paid to shareholders on 1st August 2008, to make a total dividend for the year of 7.35 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 2007 is payable to all shareholders on the Register of Members on 20th June 2008. The total estimated dividend to be paid is £4.62 million. This will be reduced to the extent that shareholders elect to receive scrip instead of cash under the Company's scrip dividend alternative.

8. Earnings per share

Earnings per ordinary share is calculated on the Group's profit after tax of £29,740,000 (2006: £19,298,000) and the weighted average number of shares in issue during the year of 103,546,147 (2006: 100,949,018).

The diluted earnings per ordinary share is calculated on a profit after tax of £29,740,000 (2006: £19,298,000) and 103,565,904 shares (2006: 100,963,278). The numbers used in calculating basic and diluted earnings per share are restated below:

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Net profit attributable to shareholders	2007	2006
	£'000	£'000
Earnings—basic	29,740	19,298
Earnings—diluted	29,740	19,298
	<hr/>	<hr/>
Weighted average number of shares in issue	Number	Number
Ordinary shares in issue	103,546,147	100,949,018
Executive Share Option Scheme	-	-
Employee Share Option Scheme	19,757	14,260
	<hr/>	<hr/>
	<u>103,565,904</u>	<u>100,963,278</u>

9. Results of Anglo Pacific Group Plc

Included in the consolidated profit attributable to the shareholders of Anglo Pacific Group PLC is a profit of £20,938,000 (2006: £14,915,000), which has been dealt with in the accounts of the holding company. Anglo Pacific Group PLC has taken advantage of the Companies Act dispensation allowing it not to publish a separate profit and loss account.

10. Property plant and equipment Group and Company

	Producing assets £'000	Equipment and Fixtures £'000	Total £'000
Cost or valuation:			
At 1st January 2006	821	139	960
Additions	-	1	1
At 31st December 2006	<hr/> 821	<hr/> 140	<hr/> 961
Additions	-	4	4
At 31st December 2007	<hr/> 821	<hr/> 144	<hr/> 965
Depreciation:			
At 1st January 2006	1	112	113
Charge for the year	1	9	10
At 31st December 2006	<hr/> 2	<hr/> 121	<hr/> 123
Charge for the year	-	10	10
At 31st December 2007	<hr/> 2	<hr/> 131	<hr/> 133
Net book value:			
At 1st January 2006	<hr/> 820	<hr/> 27	<hr/> 847
At 31st December 2006	<hr/> 819	<hr/> 19	<hr/> 838
At 31st December 2007	<hr/> 819	<hr/> 13	<hr/> 832

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 (2006: £0.8 million) plus additions which are carried at cost. This valuation was carried out on 26th March 2001. At the date of transition to IFRS, the Group elected to use this valuation as deemed cost at that date.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

11. Investments in subsidiary undertakings

	Shares in subsidiary undertakings £'000
Cost:	
At 1st January 2006	1,657
Additions:	-
At 31st December 2006	<u>1,657</u>
Additions	<u>5,029</u>
At 31st December 2007	<u><u>6,686</u></u>
Provisions:	
At 1st January 2006	345
Additions	-
At 31st December 2006	<u>345</u>
Additions	-
At 31st December 2007	<u><u>345</u></u>
Net book value:	
At 1st January 2006	<u>1,312</u>
At 31st December 2006	<u>1,312</u>
At 31st December 2007	<u><u>6,341</u></u>

On 23rd August 2007 the Group announced the acquisition of 100% of the issued shares in the Canadian registered Advance Royalty Corporation from the Saskatchewan Syndicate. The total cost of the acquisition includes the components below. The Group issued 3.125 million new shares in consideration for the purchase price.

	£'000
Purchase price	4,343
Due diligence	<u>5</u>
Total cost of acquisition	<u><u>4,348</u></u>

The value of the purchase price is based on the price of the Group's shares on 17th August 2007, the date of signing of the agreement.

Advance Royalty Corporations holds rights to a package of royalty interests in the Athabasca Basin in Canada. The properties covered by the royalty interests total approximately 4.8 million acres and are currently operated by a number of listed Canadian companies. The Athabasca Basin is considered to be highly prospective for uranium exploration and production and currently hosts large, high grade uranium mines and deposits. Advance Royalty Corporation had not valued these royalty interests in its financial statements and no other assets or liabilities were acquired in the acquisition. The fair value of the royalty interests acquired is equivalent to the cost of the acquisition. Advance Royalty Corporation did not make any contribution to the consolidated profit of the Group after the date of acquisition and there would have been no impact on Group consolidated profit if Advance Royalty Corporation had been acquired on 1st January 2007. There will be no disposals as a result of the acquisition.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

	Country of registration and operation	Principal activity	Proportion of shares held at 31st December 2007
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% †
Shetland Talc Ltd	Scotland	Mineral exploration	100%
APGM Ltd	England	Investments	100%
Advance Royalty Corporation	Canada	Owner of uranium royalties	100%
Groundhog Coal Corporation	Canada	Holder of coal tenures	100%
Trefi Coal Corporation	Canada	Holder of coal tenures	100%

† Denotes held by a subsidiary company.

12. 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:

	2007 £'000	2006 £'000
Non-current assets	1	1
Current assets	15	3
Non-current liabilities	-	-
Current liabilities	6	7
Income	8	-
Expenses	-	87

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

13. Coal Royalties

	Consolidated £'000	Company £'000
At 1st January 2006	56,715	-
Revaluation adjustment	(5,792)	-
Foreign currency translation	(3,055)	-
At 1st January 2007	47,868	-
Revaluation adjustment	8,759	-
Foreign currency translation	4,247	-
At 31st December 2007	60,874	-

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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

The coal royalty was valued during December 2007 at £60.9 million (A\$139 million) by Resource Management International Pty Limited, coal industry advisors, on a net present value of the pre-tax cash flow discounted at a rate of 7%. The net royalty income from this investment is currently taxed in Australia at a rate of 30%. This valuation is incorporated in the accounts and the above revaluation amount represents the difference between the opening carrying value and the external valuation, excluding the effects of foreign currency changes. Were the coal royalty to be realised at the revalued amount there are £3.6 million (A\$8.2 million) of capital losses potentially available to offset against taxable gains. These losses have been included in the deferred tax calculation (note 17). The Directors do not presently have any intention to dispose of the coal royalty.

14. Mining and Exploration Interests

(a) Available for sale	Consolidated £'000	Company £'000
At 1st January 2006	34,135	27,955
Additions	27,038	24,691
Disposals	(21,630)	(17,218)
Revaluation adjustment	28,349	21,917
Foreign currency translation	(575)	-
At 1st January 2007	<u>67,317</u>	<u>57,345</u>
Additions	38,235	32,138
Disposals	(36,577)	(32,103)
Revaluation adjustment	24,778	21,158
Foreign currency translation	937	-
Fair value at 31st December 2007	<u>94,690</u>	<u>78,538</u>
Quoted investments	86,040	75,403
Unquoted investments	8,650	3,135
	<u>94,690</u>	<u>78,538</u>

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) Fair value through profit and loss	Consolidated £'000	Company £'000
At 1st January 2006	-	-
Additions	-	-
Disposals	-	-
Revaluation adjustment	-	-
At 1st January 2007	<u>-</u>	<u>-</u>
Additions	1,060	1,060
Disposals	-	-
Revaluation adjustment	-	-
Fair value at 31st December 2007	<u>1,060</u>	<u>1,060</u>

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A non-repayable convertible instrument was created by the Group during the year. 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. Group has no present intention of exercising the conversion of the instrument in the next 12 months.

	2007		2006	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Total mining and exploration interests	<u>95,750</u>	<u>79,598</u>	<u>67,317</u>	<u>57,345</u>

15. Trade and other receivables

	2007		2006	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Trade receivables	3	3	4	4
Other receivables (including royalties receivable)	1,831	-	1,787	7
Amounts due from subsidiary companies	-	824	-	93
Prepayments and accrued income	40	27	43	32
	<u>1,874</u>	<u>854</u>	<u>1,834</u>	<u>136</u>

Trade and other receivables principally comprise amounts relating to royalties receivable for the quarter 1st October to 31st December 2007. The directors consider that the carrying amount of trade and other receivables is approximately their fair value. All amounts are considered short term and none are past due.

16. Trade and other payables

	2007		2006	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Income tax payable	2,238	2,238	-	-
Other taxation and social security payable	300	11	1,414	8
Trade payables	50	32	18	16
Other payables	178	19	208	25
Accruals and deferred income	34	34	29	29
	<u>2,800</u>	<u>2,334</u>	<u>1,669</u>	<u>78</u>

Trade and other payables principally comprise amounts outstanding for taxation, investment purchases and ongoing costs. The average credit period taken for trade purchases is 16 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.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

17. Deferred tax

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

	2007		2006	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
At 1 January	14,530	-	14,001	-
Released to income for the year	(23)	-	(169)	-
Charge to equity for the year	3,582	393	1,398	-
Foreign currency translation	1,163	-	(700)	-
At 31 December	<u>19,252</u>	<u>393</u>	<u>14,530</u>	<u>-</u>

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

	Accrual of royalty receivable £'000	Revaluation of coal royalty £'000	Revaluation of mining interests £'000	Effects of Tax losses £'000	Total £'000
At 1st January 2006	728	16,501	288	(3,516)	14,001
Released to income for the year (note 6)	(169)	-	-	-	(169)
Charge to equity for the year	-	(1,738)	1,382	1,754	1,398
Foreign currency translation	(37)	(916)	63	190	(700)
At 31st December 2006	<u>522</u>	<u>13,847</u>	<u>1,733</u>	<u>(1,572)</u>	<u>14,530</u>
Released to income for the year (note 6)	(23)	-	-	-	(23)
Charge to equity for the year	-	2,628	319	635	3,582
Foreign currency translation	<u>44</u>	<u>1,274</u>	<u>(15)</u>	<u>(140)</u>	<u>1,163</u>
At 31st December 2007	<u>543</u>	<u>17,749</u>	<u>2,037</u>	<u>(1,077)</u>	<u>19,252</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 13. Temporary differences arising in connection with interests in associates and joint ventures are insignificant.

18. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 created a derivative financial instrument during the year to provide finance to an unlisted mining development company (note 14). 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 program in place at this time.

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

	2007		2006	
	AUD	CAD	AUD	CAD
	£'000	£'000	£'000	£'000
Financial assets	1,118	3,348	785	5,864
Financial liabilities	452	-	1,589	-
Short term exposure	<u>666</u>	<u>3,348</u>	<u>(804)</u>	<u>5,864</u>

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.

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It assumes a +/- 10% change of the Sterling / Australian Dollar exchange rate for the year ended 31st December 2007 (2006: 10%). A +/- 10% is considered for the Sterling / Canadian Dollar exchange rate (2006: 10%). Both of these percentages have been determined based on the approximate average market volatility in exchange rates in the previous 12 months. 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:

	2007			2006		
	AUD £'000	CAD £'000	Total £'000	AUD £'000	CAD £'000	Total £'000
Net result for the year	1,478	1,013	2,491	422	790	1,212
Equity	5,322	2,991	8,313	3,524	2,651	6,175

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

	2007			2006		
	AUD £'000	CAD £'000	Total £'000	AUD £'000	CAD £'000	Total £'000
Net result for the year	(1,478)	(1,013)	(2,491)	(422)	(790)	(1,212)
Equity	(5,322)	(2,991)	(8,313)	(3,524)	(2,651)	(6,175)

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.

In relation to listed equity securities, determining a meaningful average volatility for the year has not proven practicable. An analysis of security prices within the Group's holdings produced a volatility of 7%. However, considering the nature of mining and exploration markets, the Group has adopted a more conservative approach and 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 £2,561,000 (2006: £1,332,000). Equity would have changed by £8,604,000 (2006: £7,540,000).

The Group is exposed to other price risk through its convertible instrument (note 14) 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. No specific hedging activities are undertaken in relation to these interests. The investments are continuously monitored and voting rights arising from these equity instruments are utilised in the Group's favour.

Interest rate risk

The Group is exposed to interest rate risk in respect of the cash balances held with banks and other highly rated counterparties. If the interest rate the Group received had increased/decreased by half a percent during the year, the net result for the year would have been increased / reduced by £62,000 (2006: £23,000). There would have been no impact on equity.

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	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2007				
Assets				
Cash	4.49%	18,904	-	18,904
Trade debtors		-	3	3
Other debtors		-	1,870	1,870
Total Financial Assets		18,904	1,873	20,777
Liabilities				
Trade creditors		-	50	50
Other creditors		-	2,750	2,750
Total Financial Liabilities		-	2,800	2,800
Net Financial Assets		18,904	(927)	17,977
	Weighted average effective interest rate	Fixed interest rate £'000	Non interest bearing £'000	Total £'000
2006				
Assets				
Cash	3.97%	9,836	-	9,836
Trade debtors		-	4	4
Other debtors		-	1,831	1,831
Total Financial Assets		9,836	1,835	11,671
Liabilities				
Trade creditors		-	18	18
Other creditors		-	1,651	1,651
Total Financial Liabilities		-	1,669	1,669
Net Financial Assets		9,836	166	10,002

Financial Assets

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

	2007		2006	
	Consolidated £'000	Company £'000	Consolidated £'000	Company £'000
Cash at bank and in hand	18,904	2,035	9,836	922

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

19. Called up share capital and share premium

Authorised share capital

At 1st January 2007 and 31st December 2007 — 500,000,000 ordinary shares of 2p each	£'000 10,000
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Allotted, called up and fully paid share capital

At 1st January 2007 — 101,580,251 ordinary shares of 2p each	2,032
Scrip dividends	18
Issue of share capital	63
At 31st December 2007 — 105,626,626 ordinary shares of 2p each	<u>2,113</u>

Share premium

At 1st January 2006	11,338
Scrip dividends	580
Issue of share capital	194
At 1st January 2007	<u>12,112</u>
Scrip dividends	1,350
Issue of share capital	4,280
At 31st December 2007	<u>17,742</u>

Share option schemes

Shares under option to directors in office at 31st December 2007 within the Anglo Pacific Group PLC unapproved Executive Share Option Scheme are disclosed within the Directors' Remuneration Report. There were no shares under option within this scheme at the year end. The Group operates a further 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 granted under this scheme and a total of 56,595 options remain outstanding at 31st December 2007.

20. 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 30th June 2002. At 31st December 2007, this reserve remains unavailable for distribution.

	Consolidated	Company
	£'000	£'000
At 1st January 2007 and 31st December 2007	<u>632</u>	<u>632</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

21. Retained Earnings

	Consolidated	Company
	£'000	£'000
Balance at 1st January 2007	36,140	22,580
Dividends paid	(6,460)	(6,460)
Profit for the financial year	29,740	20,938
Balance at 31st December 2007	<u>59,420</u>	<u>37,058</u>

22. 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:

	2007	2006
	£'000	£'000
Within one year	18	-
In the second to fifth years inclusive	-	72
After five years	550	528
	<u>568</u>	<u>600</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 £578,000 (2006: £215,000) in respect of purchases of quoted investments. The Group's share of capital commitments of joint ventures at the balance sheet date amounted to £nil (2006: £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.

23. 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 £5,900 (2006: £4,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31st December 2007, contributions of £2,700 (2006: £800) due in respect of the current reporting period had not been paid over to the schemes.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

24. Share based payments

The Group has an unapproved Executive Share Option Scheme and an Inland Revenue approved Company Share Option Plan. Both the option scheme and the option plan provide 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.

The vesting period for the option scheme is either 3 or 5 years. In any event, if an option under the scheme remains unexercised after a period of 7 years from the date of grant, the option will lapse. The exercise condition of the option scheme 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 if it is 3 years or 4% in excess of the RPI over the vesting period if it is 5 years.

	2007		2006	
	Options	Weighted average exercise price (£)	Options	Weighted average exercise price (£)
Outstanding at 1 January	36,923	0.8125	936,923	0.2578
Granted during the year	19,672	1.5250	-	-
Exercised during the year	-	-	900,000	0.2350
Outstanding at 31 December	<u>56,595</u>	<u>1.0602</u>	<u>36,923</u>	<u>0.8125</u>
Exercisable at 31 December	<u>36,923</u>	<u>0.8125</u>	<u>-</u>	<u>-</u>

The options outstanding at 31st December 2007 had a weighted average exercise price of £1.06 and a weighted average remaining contractual life of 7.7 years.

The Group recognised total expenses of £21,800 (2006: £15,400) relating to equity-settled share-based payment transactions.

25. Related party transactions

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

	Subsidiaries	
	2007 £'000	2006 £'000
Funding transactions	(93)	6,743
Management fee	(909)	(682)
Amounts owed by related parties at year end	824	47

All transactions were made in the course of funding the Group's continuing activities.

Anglo Pacific Group PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 22 to 25.

	2007	2006
	£'000	£'000
Short-term employee benefits	1,214	1,085
Post-employment benefits	6	4
Share-based payment	21	15
	<u>1,241</u>	<u>1,104</u>

Directors' transactions

Related party transactions in the year ended 31st December 2007 were payments of £29,500 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 accommodation (2006: £23,500). At 31st December 2007 a total of £nil was owing to Allenbridge Group plc (2006: £8,225). No guarantees have been given or received in relation to payment.

Anglo Pacific Group PLC

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SHAREHOLDER STATISTICS

(a) Size of Holding (at 20th February 2008)

Category	Number of		Number	
UK and Australia	Shareholders	%	of Shares	%
1 – 1,000	545	27.14	311,275	0.29
1,001 – 5,000	768	38.25	1,913,664	1.80
5,001 – 10,000	253	12.60	1,901,379	1.79
10,001 – and over	442	22.01	102,045,821	96.12
	<u>2,008</u>	<u>100.00</u>	<u>106,172,139</u>	<u>100.00</u>

(b) The percentage of total shares held by or on behalf of the twenty largest shareholders as at 20th February 2008 was 53.13%.

Anglo Pacific Group PLC

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NOTICE OF ANNUAL GENERAL MEETING

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

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Anglo Pacific Group PLC (the "Company") will be held at 17 Hill Street, London W1J 5NZ, United Kingdom on Wednesday 23rd April, 2008 at 9.30 am to consider and, if thought fit, to pass the following resolutions of which resolutions 1 to 8 will be proposed as ordinary resolutions and resolutions 9 to 12 will be proposed as special resolutions:-

1. To receive the Accounts for the year ended 31st December 2007 together with the Directors' and Auditors' Reports thereon.
2. To approve the Directors' Remuneration Report for the year ended 31st December 2007.
3. To declare a final dividend of 4.35p per ordinary share of the Company.
4. To re-elect as a director J.G. Whellock, who retires by rotation in accordance with the Company's articles of association.
5. To re-elect as a director A.H. Yadgaroff, who retires by rotation in accordance with the Company's articles of association.
6. 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.
7. 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 31st December 2007 and all other dividends declared up to the beginning of the next annual general meeting of the Company.
8. THAT the Board of Directors of the Company (the "Directors") be and they are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £707,814 provided that this authority (unless previously revoked or renewed) shall expire on the earlier of 23rd April 2013 and the conclusion of the annual general meeting of the Company held in 2013, 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 relevant securities to be allotted after such expiry and the Directors may allot relevant securities 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 26th April 2006 to the extent unused and shall supersede and revoke any other earlier authorities under section 80 of the Act.
9. THAT the Board of Directors of the Company (the "Directors") be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) 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 80 of the Act, as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited:—

Anglo Pacific Group PLC

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NOTICE OF ANNUAL GENERAL MEETING

-
- (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 equity securities 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 £106,172;

and this power shall (unless renewed, varied or revoked by the Company) expire on the date being fifteen months from the passing of this resolution 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.

10. THAT the Company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make one or more market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of 2p each in the capital of the Company ("Ordinary Shares") on such terms 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 10,617,213;
- (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 2009 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.
11. THAT the draft regulations produced to the meeting and, for the purposes of identification, initialled by the Chairman of the meeting be adopted as the articles of association of the Company in substitution for, and to the entire exclusion of, the existing articles of association of the Company.
12. THAT, subject to resolution 11 set out in the notice of Annual General Meeting of the Company convened for 23rd April 2008 being passed and with effect from 12.01 a.m. on 1st October 2008 (or such later date as section 175 of the Companies Act 2006 shall be brought into force), Article 99 of the Company's articles of association adopted pursuant to such resolution 11 be deleted in its entirety and replaced by the following new Article 99:-

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“99. Permitted interests and voting

Paragraphs (A) to (I) of this Article are subject to the provisions of the Statutes and to the provisions of paragraphs (J) to (P).

- (A) No director or proposed or intending director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any contract in which any director is in any way interested be liable to be avoided, nor shall any director who is so interested be liable to account to the Company or the members for any remuneration, profit or other benefit realised by the contract by reason of the director holding that office or of the fiduciary relationship thereby established.
- (B) A director may hold any other office or place of profit with the Company (except that of Auditor) in conjunction with his office of director for such period (subject to the provisions of the Statutes) and upon such other terms as the Board may decide, and may be paid such extra remuneration for so doing (whether by way of salary, commission, participation in profits or otherwise) as the Board or any committee authorised by the Board may decide, and either in addition to or in lieu of any remuneration provided for by or pursuant to any other Article.
- (C) A director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested or as regards which it has any power of appointment, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in the other company. The Board may also cause any voting power conferred by the shares in any other company held or owned by the Company or any power of appointment to be exercised in such manner in all respects as it thinks fit, including the exercise of the voting power or power of appointment in favour of the appointment of the directors or any of them as directors or officers of the other company, or in favour of the payment of remuneration to the directors or officers of the other company.
- (D) A director may act by himself or his firm in a professional capacity (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director.
- (E) A director shall not vote on or be counted in the quorum in relation to any resolution of the Board concerning his own appointment, or the settlement or variation of the terms or the termination of his own appointment, as the holder of any office or place of profit with the Company or any other company in which the Company is interested but, where proposals are under consideration concerning the appointment, or the settlement or variation of the terms or the termination of the appointment, of two or more directors to offices or places of profit with the Company or any other company in which the Company is interested, a separate resolution may be put in relation to each director and in that case each of the directors concerned shall be entitled to vote and be counted in the quorum in respect of each resolution unless it concerns his own appointment or the settlement or variation of the terms or the termination of his own appointment or the appointment of another director to an office or place of profit with a company in which the Company is interested and the director seeking to vote or be counted in the quorum owns one per cent. or more of it.
- (F) Save as otherwise provided by these Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board in respect of any actual or proposed transaction or arrangement with the Company in which he has an interest (taken together with any interest of any person connected with him) which is an interest of which he is aware, or ought reasonably to be aware, does conflict, or can reasonably be regarded as likely to give rise to a conflict, with the interests of the Company and, if he shall do so, his vote shall not be counted, but this prohibition shall not apply to any resolution where that material interest arises only from one or more of the following matters:
 - (i) the giving to him of any guarantee, indemnity or security in respect of money lent or obligations undertaken by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;

Anglo Pacific Group PLC

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NOTICE OF ANNUAL GENERAL MEETING

- (ii) the giving to a third party of any guarantee, indemnity or security in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
 - (iii) where the Company or any of its subsidiary undertakings is offering securities in which offer the director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the director is to participate;
 - (iv) any contract in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company;
 - (v) any contract concerning any other company (not being a company in which the director owns one per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;
 - (vi) any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to directors and employees of the Company or of any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
 - (vii) any contract for the benefit of the employees of the Company or of any of its subsidiary undertakings under which he benefits in a similar manner to the employees and which does not accord to any director as such any privilege or advantage not accorded to the employees to whom the contract relates; and
 - (viii) any contract for the purchase or maintenance of insurance against any liability for, or for the benefit of, any director or directors or for, or for the benefit of, persons who include directors.
- (G) A company shall be deemed to be one in which a director owns one per cent. or more if and for so long as (but only if and for so long as) he, taken together with any person connected with him, is to his knowledge (either directly or indirectly) the holder of or beneficially interested in one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company. For the purpose of this paragraph of this Article 99 there shall be disregarded any shares held by the director or any such person as bare trustee or custodian and in which he has no beneficial interest, any shares comprised in a trust in which his, or any such person's, interest is in reversion or remainder if and so long as some other person is entitled to receive the income of the trust and any shares comprised in an authorised unit trust scheme in which he, or any such person, is interested only as a unit holder.
- (H) Where a company in which a director owns one per cent. or more is interested in a contract, he also shall be deemed interested in that contract.
- (I) If any question shall arise at any meeting of the Board as to whether the interest of a director gives rise to a conflict, or could reasonably be regarded as likely to give rise to a conflict, with the interests of the Company or as to the entitlement of any director to vote or be counted in the quorum and the question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, the question shall be decided by a resolution of the Board (for which purpose the director in question shall not be counted in the quorum and provided that the resolution was agreed to without the director in question voting or would have been agreed if their votes had not been counted) and the resolution shall be conclusive except in a case where the nature or extent of the interest of the director (so far as it is known to him) has not been fairly disclosed to the Board.

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- (J) A director who is in any way, whether directly or indirectly, interested in an actual or proposed transaction or arrangement with the Company shall declare the nature and extent of his interest at the meeting of the Board at which the question of entering into the contract is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he knows that he is or has become so interested. For the purposes of this Article, a general notice to the Board by a director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract which may after the date of the notice be made with that company or firm or (b) he is to be regarded as interested in any contract which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.
- (K) References in this Article to a contract include references to any proposed contract and to any transaction or arrangement whether or not constituting a contract.
- (L) In respect of any situation in which a director has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, the Board may authorise the matter, on such terms as they may determine, provided that:
- (i) the director has declared the full nature and extent of the situation to the Board; and
 - (ii) it is proposed (either by the director in question or another) that the Board authorise the matter and upon the resolution to do so the requirement for the quorum is met without counting the director in question and the resolution was agreed to without such director voting or would have been agreed to if that conflicted director's vote had not been counted.
- (M) Any terms determined by the Board under paragraph (L) of this Article may be imposed at the time of authorisation or may be imposed subsequently and may include (without limitation):
- (i) the exclusion of the interested director in question from all information and discussion by the Company of the situation in question; and
 - (ii) (without prejudice to the general obligations of confidentiality) the application to the interested director of a strict duty of confidentiality to the Company for any confidential information of the Company in relation to the situation in question.
- (N) An interested director under this Article 99 must act in accordance with any terms determined by the Board pursuant to paragraphs (L) or (M) of this Article.
- (O) Any authorisation given by the Board under paragraph (L) of this Article may provide that, where the interested director obtains (other than through his position as a director of the Company) information that is confidential to a third party, he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs in circumstances where to do so would amount to a breach of that confidence.
- (P) Subject to the provisions of the Statutes, the Company may by ordinary resolution suspend or relax the provisions of this Article to any extent or ratify any contract not properly authorised by reason of a contravention of this Article provided that nothing in this Article shall permit the Company to cease to comply with the Listing Rules of the UKLA."

Registered Office
1st Floor,
Sentinel House, Sentinel Square,
Brent Street
London
NW4 2EP

By Order of the Board

M.J. Tack C.A.
Company Secretary

7th March 2008

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NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the above meeting may appoint one or more persons as his proxy to attend, speak and vote instead of him at the meeting. If multiple proxies are appointed they must not be appointed in respect of the same shares. A proxy need not be a member of the Company. A form of proxy is enclosed with this Notice. Completion and return of the form of proxy will not prevent a member from attending the meeting and voting in person if he so wishes. A member present in person or by proxy shall have one vote on a show of hands and on a poll every member present in person or by proxy shall have one vote for every ordinary share of which he is the holder.
2. In order to be valid, forms of proxy for the meeting and the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or authority must be received, not later than 48 hours before the time fixed for the meeting, at the office of the Company's Registrars: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, UK.
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. The message must, in order to be valid, be transmitted so as to be received by the Company's agent (ID RA 10) 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 6th March 2008 (being the last business day prior to the publication of this Notice) the Company's issued share capital amounted to 106,172,139 ordinary shares carrying one vote each. Therefore the total voting rights in the Company as at 6th March 2008 were 106,172,139 votes.
8. A copy of the draft regulations proposed to be adopted as the new articles of association of the Company will be available for inspection during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) from the date of this Notice until the close of the Annual General Meeting at the registered office of the Company and at 17 Hill Street London W1J 5NZ. The directors' service contracts and the letters of appointment of the non-executive directors will be available for inspection on the date of the Annual General Meeting at 17 Hill Street, London W1J 5NZ from 9.15 am until the conclusion of the meeting.
9. 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 9.30 am on 21st April 2008 (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 9.30 am on the day which is two 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.
10. In order to facilitate voting by corporate representatives at the Annual General Meeting, arrangements will be put in place at the meeting so that: (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that corporate shareholder present at the meeting then, on a poll, those corporate representatives will give voting directions to the Chairman of the meeting and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives in attendance on behalf of the corporate shareholder who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk - for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in paragraph (i) of this Note 10.

Anglo Pacific Group PLC

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NOTICE OF ANNUAL GENERAL MEETING

Appendix

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

The principal changes arising from the adoption of the New Articles are set out below. References to Article numbers are references to a particular Article in the New Articles.

Articles that duplicate statutory provisions

Certain provisions in the current Articles which replicate provisions contained in companies legislation are in the main amended to bring them into line with the 2006 Act. Certain examples of such provisions, including provisions as to convening general meetings and proxies, are detailed below.

Treasury Shares

Since 1 December 2003, listed companies that buy back shares out of distributable profits have been able to hold up to 10% of the nominal value of their issued share capital in treasury, rather than having to cancel them. Treasury shares can provide some useful flexibility to companies as they may sell treasury shares in small amounts and without the need to incur the costs of a new share issue in order to raise additional capital. Consequential amendments have been made in the New Articles to reflect the treasury shares regime.

Uncertificated Shares

The existing Articles do not contain provisions dealing with the holding of shares in uncertificated form and the rules governing the CREST uncertificated securities system set out in the Uncertificated Securities Regulations 2001 (the "2001 Regulations"). Various provisions are therefore included in the New Articles to accommodate this matter (in particular, Articles 14 and 34). However, there is nothing in the New Articles which obliges shareholders to hold their shares through CREST and shareholders may continue to hold their shares in certificated form should they so wish.

Electronic Communications and CREST

The New Articles contain a number of provisions designed to maximise the Company's ability to use electronic systems for communication with shareholders and for dealing in shares through CREST.

Companies have been able to communicate with shareholders by electronic means (i.e. email) in respect of certain types of information for some years. However, the 2006 Act extends this to all shareholder information (including company notices, documents and other information) and enables the Company to invite shareholders to agree that information may be supplied by means of a website. The New Articles allow the Company to take advantage of the changes in the 2006 Act which may lead to administrative cost savings in the future.

The 2006 Act enables the Company to use electronic communications with shareholders as the default position by placing documents on the Company's website unless shareholders expressly elect to receive hard copy documents. It is important to note that before implementing the default position the Company is required to write to all shareholders to give them the opportunity to decide whether they would prefer to receive documentation in hard copy form. Various provisions are included in the New Articles to allow the Company to communicate with shareholders via electronic means and to give the directors the discretion to use electronic communications to distribute notices of meetings, annual reports, accounts and summary financial statements. The New Articles also reflect the 2001 Regulations and the 2006 Act by permitting members holding uncertificated shares to appoint, instruct, amend and revoke proxy appointments using the CREST system.

In addition, the New Articles simplify procedures for transacting the business of the Board by permitting the convening of meetings, serving of notice of resignation, appointment of alternates and execution of directors' resolutions by electronic means.

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Form of resolution

The existing Articles contain provisions referring to "extraordinary" resolutions and "extraordinary" general meetings. These concepts have been abolished under the 2006 Act. Meetings of shareholders other than annual general meetings are referred to simply as general meetings. Any resolution requiring a 75% majority will be a "special" resolution. Where for any purpose an ordinary resolution is required a special resolution shall also be effective.

Convening of general meetings and annual general meetings

The provisions of the existing Articles dealing with the convening of general meetings and annual general meetings and the length of notice required to convene such meetings are amended in the New Articles to conform to the new provisions of the 2006 Act. In particular, general meetings to consider special resolutions can now be convened on 14 clear days' notice whereas previously 21 clear days' notice was required. An annual general meeting still requires 21 clear days' notice.

Votes of members

Under the 2006 Act proxies are entitled to vote on a show of hands whereas under the existing Articles proxies are only entitled to vote on a poll. The time limits for the appointment of proxies have also been altered by the 2006 Act so that weekends and bank holidays do not need to be counted in determining the time limits for lodging of proxies. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share or class of shares held by the shareholder.

Corporate representatives

The 2006 Act permits a corporate shareholder to appoint multiple corporate representatives who can attend, speak, vote and count towards a quorum at any general meeting. However, where multiple corporate representatives exercise votes in different ways, the 2006 Act provides that no votes have been exercised. The New Articles reflect the provisions of the 2006 Act.

Age of directors on appointment

The existing Articles require the Company to give notice to the members of the age of any potential appointee to the Board of Directors where that appointee is 70 years old or more. This has been deleted in the New Articles as it may fall foul of age discrimination legislation.

Retirement of directors by rotation

The Combined Code on Corporate Governance recommends that all directors must submit themselves for election at every third annual general meeting following the meeting at which they were elected or last re-elected. The New Articles reflect this position.

Conflicts of interest

The New Articles retain the provisions of the existing Articles in relation to directors' conflicts of interest. However, it is intended that with effect from 1 October 2008 these provisions will be amended to reflect new provisions of the 2006 Act in relation to directors' conflicts of interests which are expected to come into force on that date.

The 2006 Act sets out directors' general duties which largely codify the existing law but with some changes. Under the 2006 Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or may conflict, with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, insofar as the articles of association contain a provision to this effect. The 2006 Act also allows articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty.

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There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and the availability of board papers to protect a director being in breach of duty if a conflict of interest or a potential conflict of interest arises.

It is proposed that the New Articles will, with effect from 1 October 2008, contain provisions giving the directors authority to approve situations involving directors' conflicts of interest and to allow conflicts of interest to be dealt with by the Board. The new provisions are contained in Resolution 12 set out in the notice of the Annual General Meeting.

Borrowing powers

The extent to which the Board may exercise the powers of the Company to borrow moneys without shareholder resolution is set out in Article 101 of the New Articles. This largely reflects the provisions of the existing Articles which prohibit borrowing in excess of four times the adjusted capital and reserves. However, the New Articles contain minor amendments in relation to the calculation of adjusted capital and reserves designed to give more flexibility to the Company and include taking into account any adjustments that the auditors wish to make and excluding reserves relating to pension surplus or deficit.

Directors' fees

It is proposed that the cap on individual directors' fees (currently being £30,000 per annum per director) be increased by £60,000 to £90,000 per annum per director. The Board considers that the change is required to allow the Company sufficient flexibility in accommodating any increase in the number of directors as well as fair and reasonable increases in fees that may arise during the course of the next few years as the Company grows further. Shareholders should note that this cap effectively applies to non-executive directors' fees only. The remuneration of executive directors is not subject to this cap and is the responsibility of the Remuneration Committee.

Indemnity

The 2006 Act allows companies to indemnify their directors and other officers and to provide to their directors funds to cover the costs of defending legal proceedings brought against them on an "as incurred" basis. In addition, a company may indemnify the directors of an associated company and a company that is a trustee of an occupational pension scheme can now indemnify a director against any liability incurred in connection with the company's activities as trustee of the scheme. Since directors are increasingly being added as defendants in actions against companies and litigation is often very lengthy and expensive, the Board believes the risk of directors being placed under significant financial strain is increasing. This may impact on the ability of the Company to recruit and retain members of the Board of an appropriate calibre. Accordingly, the New Articles take advantage of the new law. The Board believes that the power of the Company to indemnify its directors in the manner described above is fair and reasonable and introduces a more appropriate balance of risk and reward.

