



ANNUAL REPORT

For the year ended 31 March 2019

Company registration number: 54697

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Company summary

Duke Royalty Limited provides alternative capital solutions to a diversified range of profitable and long-established businesses in Europe and abroad.

Duke Royalty is the only UK quoted, commercial royalty company, which provides corporate royalty finance to UK and European SME businesses.

Duke Royalty's experienced team delivers financing solutions to private companies that are in need of capital but whose owners wish to maintain equity control of their business.

We believe great businesses are best left in the hands of those who built them.

Duke Royalty's royalty investments are intended to provide robust, stable, long term returns to its shareholders.

Duke Royalty Limited ("Duke Royalty" or the "Company") is a Guernsey registered investment holding company incorporated with limited liability. Its shares are traded on the AIM market of the London Stock Exchange ("AIM").

On 1 February 2019 the Company acquired the entire issued share capital of Capital Step Holdings Limited and Capital Step Investments Limited and their wholly owned subsidiaries, Capital Step Funding Limited and Capital Step Funding 2 Limited.

During the year the Company established The Duke Royalty Employee Benefit Trust to hold shares issued under the Group's Long Term Incentive Plan.

The "Group" is defined as the Company, its subsidiaries Duke Royalty UK Limited, Capital Step Holdings Limited, Capital Step Funding Limited, Capital Step Investments Limited and Capital Step Funding 2 Limited and The Duke Royalty Employee Benefit Trust.

6+% Annualised dividend



Quarterly dividend payments

TOP 5% of AIM dividend yields



Well diversified portfolio

Snapshot of Investment Highlights:

£81m of invested capital



Significant increase in operating cash flow



A suite of blue-chip investors



Investment team and committee with extensive royalty experience

DUKE ROYALTY'S ROYALTY INVESTMENTS ARE INTENDED TO PROVIDE ROBUST, STABLE, LONG TERM RETURNS TO ITS SHAREHOLDERS

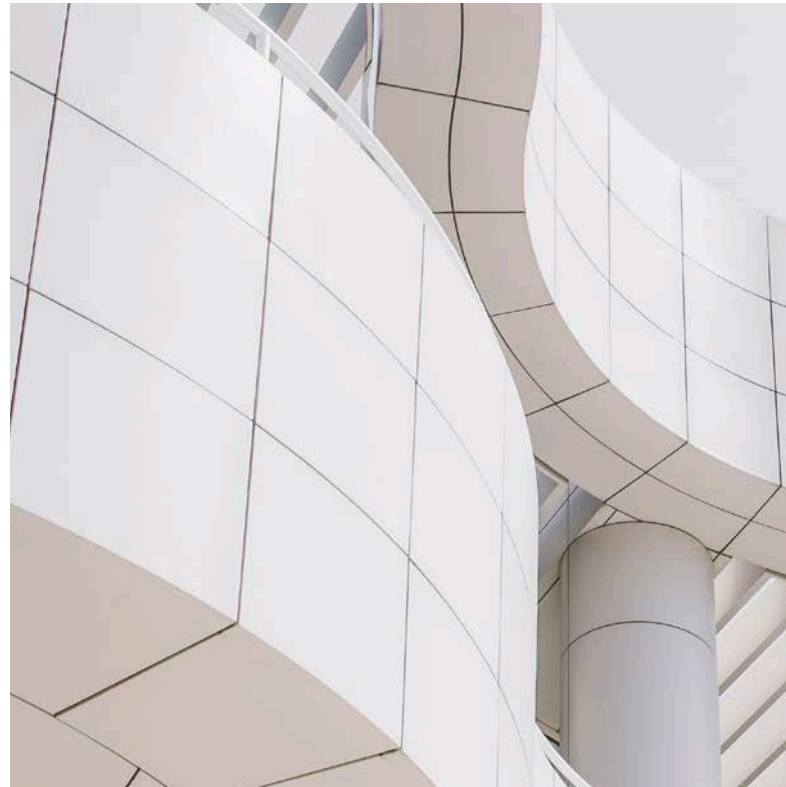
Our solution: Royalty finance

RECEIVE CAPITAL, RETAIN CONTROL

We provide capital to profitable, long-term businesses in exchange for rights to a small percentage of future revenues, truly aligning us to our royalty partners. Royalty financing is a long-term contractual interest which generates a consistent monthly cash flow stream, akin to a 'corporate mortgage'.

In providing our partners with a lump sum of capital with a term of 25-40 years and no bullet repayment, we allow business owners to retain control without dilution and remove re-financing risk. This enables management to focus on growth. The percentage payable is reset annually, subject to a ceiling and a floor, according to the revenue performance of our partners.

Royalty financing is a proven, flexible financing option used successfully by North American companies for decades as an alternative to equity and debt financing.



BENEFITS OVER EQUITY

Ownership Preservation – We provide a non-dilutive solution and we do not take a Board seat, allowing business owners to retain control

A Passive, Long term partner – No pressure for an exit or liquidity event, no focus on short term profit maximisation. We provide capital in return for a percentage of revenues on a term of 25+ years

Control over any Refinancing – Unlike private equity, the owners are in control of the timing of a refinancing event or exit

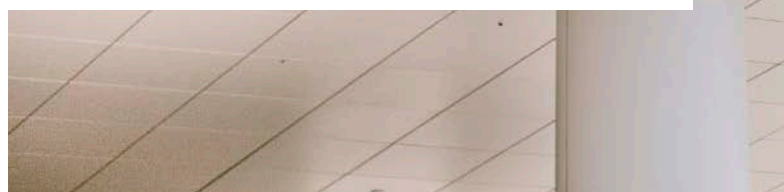
BENEFITS OVER DEBT

Variable Payment Structure – Distributions fluctuate with revenue, there is no repayment of principal at the end of the royalty's life and the term is extended over decades

Covenant Light Capital – Royalty finance is less restrictive and less intrusive than debt. It can subordinate to senior debt and requires no personal guarantees

Follow-on Financing – We are a partner to businesses and our listing on the London Stock Exchange means that we can provide an ongoing source of capital which can be made available in situations where traditional forms of debt are difficult to obtain

No Refinancing Risk – The business controls the timing of the refinancing event



Investing policy



The Group's investing policy is to invest in a diversified portfolio of royalty finance and related opportunities to build a stable and reliable income for Shareholders by seeking to invest in, without limitation and restrictions (including geographical restrictions):

- (i) Long term, revenue-based royalties in private and/or public companies; and/or
- (ii) Other alternative asset classes and/or financing instruments from time to time that bear similar risk and return characteristics to the investments in paragraph (i).

In order to deliver on its strategy to invest in opportunities which provide predictable, robust, long-term returns to shareholders, the Group has assembled a quality Board and set of advisers with substantial experience and a long term track record within a range of commercial businesses. The Company has been structured as an investment holding company in order to give the Board maximum flexibility to achieve its goals. Management, the Board and its advisers, will utilise their contacts and skills to attract suitable portfolio opportunities and to carry out appropriate due diligence.

Duke Royalty's investing policy provides investors with exposure to well-run private companies across a range of industries and geographies. Its risk averse investment strategy has attracted a suite of blue-chip investors through three successful placings undertaken since listing, raising almost £80m.






















In Fiscal 2019, Duke Royalty acquired a supportive and highly reputable debt partner, Pollen Street Capital, as part of the acquisition of Capital Step. This will enable the Company to continue investing in compelling opportunities before having to raise additional equity in the public markets.

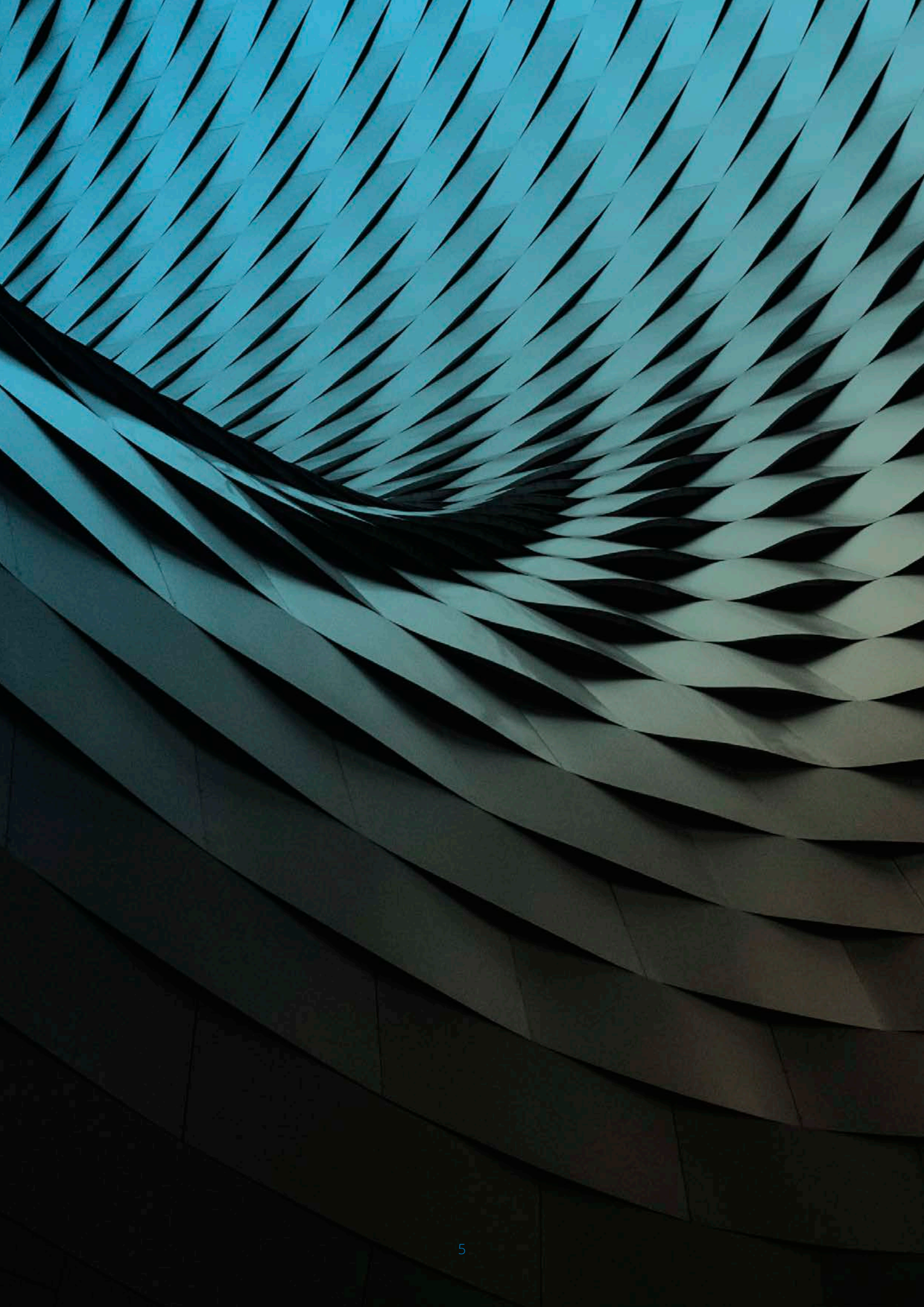
DIVIDEND POLICY

Duke Royalty has a policy of paying quarterly dividends based on cash flow generation, at the Board's discretion. Since implementing this policy in 2017 the Company has raised its quarterly dividend by 40% from 0.5 pence to 0.7 pence per share.

Royalty partners

Duke has deep and proven experience investing across a range of sectors, geographies and transaction types

| | | |
|--|---|--|
| <p>Temarca B.V. </p> <p>Leisure Growth Capital & Debt Refinancing</p>  | <p></p> <p>Business Services MBO/MBI</p>  | <p></p> <p>Telecoms Acquisition Capital & Debt Refinancing</p>  |
| <p>LYNX equity limited</p> <p>Business Services Acquisition Capital</p>  | <p>TRIMITE GLOBAL COATINGE</p> <p>Industrials Shareholder Buyout</p>  | <p></p> <p>Technology Acquisition Capital</p>  |
| <p></p> <p>Industrials Acquisition Capital & Debt Refinancing</p>  | <p></p> <p>Media Growth Capital & Debt Refinancing</p>  | <p></p> <p>Healthcare Growth Capital</p>  |
| <p>bhp Insurance</p> <p>Business Services MBO</p>  | <p></p> <p>Business Services MBO/MBI</p>  | <p></p> <p>Leisure MBI</p>  |



Chairman's report

Dear Shareholder,

I am pleased to report that the results for the Group for the financial year ended 31 March 2019 ("Fiscal 2019") demonstrate another period of significant progress, development and growth for Duke Royalty. The period under review included the completion of several new royalty investments, follow-on investments into existing royalty partners as well as a material acquisition. I am delighted to say that the result of these efforts means that the Group now sits with 12 core royalty partners in its portfolio, a large pipeline of new deal opportunities in late stage negotiation and a more diversified portfolio. Importantly, during Fiscal 2019, the Group grew its team of professionals to manage its growth and importantly, they are incentivised to continue to increase shareholder value in the future.

As a reminder to shareholders of the material events that occurred during the year under review, in April 2018 the Group entered into its fourth royalty financing agreement of £7.5 million with United Glass Group Limited ("UGG"), the holding company for a UK based group which represents one of the UK's leading independent glass merchants and processors.

In order to continue to grow and diversify its portfolio, during August 2018 the Company successfully raised £44.0 million in an oversubscribed offering from new and existing institutions at 44p per share. This was Duke Royalty's largest equity raise to date by some margin.

The first deployment of that new capital also occurred during August 2018 with the Group entering into a £10.0 million royalty financing agreement with InterHealth Canada Holding Corp ("IHC"), the Group's fifth and largest royalty partner. IHC is the wholly owned subsidiary of a 24-year-old Canadian-based organisation, InterHealth Canada Limited, that specialises in the development, commissioning and management of healthcare facilities in multiple jurisdictions around the world.

During February 2019, the Company announced the acquisition of the entire issued share capital of Capital Step Holdings Limited and Capital Step Investments Limited (together "Capital Step"), the Group's only known UK diversified royalty competitor. With an initial implied enterprise value of £21.7 million, it was the Group's largest transaction to date and represented a transformational and accretive deal which increased the Group's portfolio from

five to 11 royalty partners. Furthermore, the acquisition allowed the Group to strengthen its investment team via the retention of two senior Capital Step executives and also allowed the Group to inherit Capital Step's existing debt line with Honeycomb Investment Trust Plc.

Also in February 2019, the Group concluded its 12th core royalty financing with a £10.0 million royalty financing into the MRDB Holdings Limited Group ("Miriad"). Miriad is the largest privately-owned recreational vehicle ("RV") parts wholesale company in the UK, and was founded over 40 years ago.

In summary, Fiscal 2019 represented a very busy year for the Group, where it increased its core portfolio from three to 12 royalty partners, providing significant diversification and less concentration risk to its shareholders.

In regard to the dividend, the aggregate Fiscal 2019 effective dividend pay-out was in line with expectations at 2.8p per share, which showed an increase of 33% from the previous year's effective dividend of 2.1p per share. A stable and increasing dividend yield is a fundamental principle that the Company will continue to focus on in future years. I am pleased to report that at the current time the current dividend is well covered by operating cash flow and the Board will continue to monitor the ability to make further increases to the quarterly payout as additional accretive capital is deployed.

In regard to the Group's financial performance in Fiscal 2019, the Group saw the income generated from its royalty investment strategy increase significantly, which is a major step in the Group's development. I am pleased to report a total income for the year of £6.1 million, which is an increase of 238% from Fiscal 2018's £1.8 million, reflecting increased capital deployment, positive adjustment factors achieved on existing investments and the acquisition of Capital Step. It is also pleasing to note that Fiscal 2019 saw the Group's inaugural profit for a full year. In Fiscal 2019, total comprehensive income for the year increased to £1.8 million, from a £0.9 million loss for Fiscal 2018.

Due to the nature of IFRS 9 reporting, the Group's royalty investments are classified at fair value through profit or loss which leads to both non-cash movements in the fair values of every investment at each reporting date as well as requiring all transaction and various other costs to be expensed immediately. Adding to this, the Group has various

Chairman's report *continued*

material transaction costs that have been expensed during Fiscal 2019 but which are payable over terms of up to 30 years such as the present values of the fees payable to the Group's management consultants on the UGG, ICHC and Miriad deals. Alone, these three fees amount to a current non-cash expense of £0.65 million being recorded in Fiscal 2019.

As a result of the above impacts on the income statement, and as mentioned in my Chairman's Statement of last year, I would urge investors to focus their attention on the Consolidated Statement of Cash Flows to obtain a clearer picture of the Group's operating performance. In Fiscal 2019, this showed a net cash inflow from operating activities of £4.1 million.

To further assist shareholders, the Group has for the first time published a non-IFRS measure of 'Adjusted Earnings.' Adjusted Earnings represents the Group's underlying operating performance from core activities. This provides shareholders with a detailed breakdown and reconciliation of the operating performance in note 6 to the Consolidated Financial Statements. It is worth noting that in the more mature Canadian royalty market, due to the IFRS guidelines in valuing financial instruments, many of the independent research analysts focus much more heavily on operating cash flow per share and adjusted earnings per share rather than on reported earnings per share.

Over the course of Fiscal 2019, the Company's operating, finance and investment teams have also been expanded to manage the significant growth of the Group, and I thank the core operating team for their considerable efforts during Fiscal 2019. I am pleased to report that the operating expenses paid during the year of £1.4 million were within budget. While some further additions may be required in the future, the Group's central operating cost is now reaching a sustainable level for the foreseeable future which allows for operating leverage. Therefore, as further capital is both raised and then deployed, a large proportion of the income generated from new investments will fall to the bottom line.

As always, I am appreciative of the ongoing support of our shareholders and am pleased to report the Chairman's statement for Fiscal 2019. The Group is well placed to continue to grow and I am glad to say that acceptance for the Group's product offering is gaining rapid support and momentum in the marketplace.

I look forward to being able to report on the Group's ongoing progress and development in future periods.

Nigel Birrell
Chairman

6 September 2019

Directors



MR. NIGEL BIRRELL (CHAIRMAN)

Nigel Birrell is a Non-Executive Director and Chairman of the Company and works with the Executive Directors on deal origination and overall strategy. He

has extensive public company experience and expertise in the gaming, media, banking and insurance sectors.

Mr. Birrell has been the group CEO of Lottoland since 2014. Lottoland is a Gibraltar based, multi territory regulated, fast growing gaming group with turnover in only its 6th year of approximately €400m, a workforce of 350 people in 11 countries and 10 million registered customers in its 13 markets. Prior to Lottoland Mr. Birrell was Group Director on the Executive Board at bwin.party digital entertainment plc (now GVC) the then world's leading on-line gaming business, where he was responsible for all its mergers and acquisitions, business development and managing its investment portfolio. From 2005-2013 he led all bwin.party's acquisitions, including their integration, its disposals around the world and was instrumental in devising, negotiating and transacting the £3bn plus merger between PartyGaming and Bwin, the then largest on-line gaming deal in history. Prior to bwin.party, Mr. Birrell was a main board director of the FTSE 250 media group HIT Entertainment PLC, leading its US\$1.1bn disposal in 2005. At HIT, as well as M&A, where Mr. Birrell led the acquisition of such well-known children's TV characters as Barney the Dinosaur, Thomas the Tank Engine, Guinness World Records, Art Attack, Sooty, Fireman Sam and Pingu, he was also responsible for investor relations, analyst and public relations and was the Board Director responsible for Guinness World Records and Fun Radio, of which he was also its first Chairman. He also served as CEO of Gullane plc during its integration with HIT. Prior to HIT, Mr. Birrell worked as an investment banker with both Dresdner Kleinwort Benson and later Donaldson, Lufkin & Jenrette (now Credit Suisse). Mr. Birrell is also currently Non-Executive Chairman of Southern Rock Insurance Company Limited as well as chairing both its audit and remuneration committee and its risk compliance and investment committee.

Mr. Birrell holds a Bachelor of Laws (LLB) from the University of London (Queen Mary College) and is a Solicitor of the Senior Courts of England and Wales.



MR. NEIL JOHNSON

Neil Johnson is an Executive Director and Duke Royalty's Chief Executive Officer with responsibility for the overall strategic direction and performance of the Group. Working closely with the other members of the Management

team, Board members and the Investment Committee, he leads all deal origination, due diligence and structuring.

Mr. Johnson has over 25 years of experience in investment banking, merchant banking and research analysis in both the Canadian and UK capital markets. In 2012 he co-founded and became Chief Executive Officer of Difference Capital Financial, a Canadian publicly listed merchant bank. For the previous 19 years he worked for Canaccord Genuity, first in Canada and later at Canaccord London rising to the positions of Head of Corporate Finance (Europe), Global Head of Technology, and a member of the Global Executive Committee. Mr. Johnson was instrumental in the firm becoming authorised as a nominated adviser for AIM and regulated in the UK and London Stock Exchange Main Market listings; he spearheaded the firm's diversification into the technology industry, and led Canaccord's initiative to attract North American firms to list in London.

During his tenure the Canaccord European operation grew revenues from less than £5 million to over £50 million, completed over 100 transactions and raised in excess of £3 billion for North American companies listed in London.

Mr. Johnson is a graduate of the Richard Ivey School of Business at the University of Western Ontario and holds the designation of Chartered Financial Analyst (CFA) Charterholder.



MR. CHARLES CANNON BROOKES

Charlie Cannon Brookes is an Executive Director of the Company and works alongside the CEO on deal origination, due diligence and structuring. In addition, Mr. Cannon

Brookes is Duke Royalty's liaison with UK institutions/ advisors and has oversight of the Group's corporate governance and compliance with AIM Rules.

Mr. Cannon Brookes has over 20 years investment experience. He is the Investment Director of FCA authorised

Directors *continued*

and regulated Arlington Group Asset Management Limited having jointly acquired the business in October 2004. Through Arlington, Mr. Cannon Brookes has been active in a variety of different investment management mandates and corporate finance transactions. In addition, he has successfully led a number of IPO and RTO transactions on the London markets. Prior to Arlington he worked for Arlington Group plc, an AIM quoted investment company, where he managed its entire public equity portfolio. Mr. Cannon Brookes has also worked for Jupiter Asset Management, ABN Amro and Barclays de Zoete Wedd. He has extensive fund management experience and has advised and sat on the board of a number of different funds, trust and other operating public companies.

Mr. Cannon Brookes holds a BA Honours degree in Economics & Politics from the University of Exeter.



MR. JUSTIN COCHRANE

Justin Cochrane is a Non-Executive Director of the company. He works with the Executive Directors on deal origination and structuring and is a member of the Investment Committee.

Mr. Cochrane is the President and Chief Operating Officer of Cobalt 27 Capital Corp. Prior to that he was the Executive Vice President of Corporate Development for Sandstorm Gold Ltd. At Sandstorm, Mr. Cochrane was responsible for sourcing, negotiating and executing royalty and stream financing transactions across the globe. Mr. Cochrane was a key part of Sandstorm's team as it grew into one of the largest royalty and stream financing companies in Canada. Prior to Sandstorm Mr. Cochrane was a Vice President at National Bank Financial where he spent some nine years working in the investment banking group. As Vice President, Mr. Cochrane managed primary coverage of BC based clients in the diversified, paper & forest products, power & utilities, resources, cleantech and other sectors. Mr. Cochrane specialised in providing advice to clients on merger and acquisition transactions and equity and debt financing opportunities.

Mr. Cochrane holds the designation of Chartered Financial Analyst (CFA) Charterholder and received a Bachelor of Commerce degree, with honours, from the University of

British Columbia, Vancouver, Canada. Mr. Cochrane is a government ambassador at the Multiple Sclerosis Society of Canada and is a director of Nevada Copper Corp.



MR. MARK LE TISSIER

Mark Le Tissier is a Non-Executive Director of the Company. He is responsible for the oversight of the Company's corporate obligations in Guernsey.

Mr. Le Tissier is the European Regional Director of Trident Trust with oversight over five offices, as well as the Managing Director of Trident Trust Company (Guernsey) Limited and has worked for Trident for over twenty years. He has extensive board-level experience and has an in-depth knowledge of Guernsey and other jurisdictions' corporate and investment regulations. Mr. Le Tissier is a Trust & Estate Practitioner who has also completed the IOD Programme in company direction and is resident in Guernsey.



MR. MATTHEW WRIGLEY

Matthew Wrigley is a Non-Executive Director of the Company and works with the Executive Directors on structuring and all legal matters relating to the Company.

Mr. Wrigley is a partner at asset management advisory firm, MJ Hudson. In his fifteen years in alternative assets, he has gained experience through a mix of legal and commercial roles. This has included serving as General Counsel for a fund management company listed on the Australian Securities Exchange with AUD1.3 billion assets under management, Chief Operating Officer of an investment trust listed on the Singapore Securities Exchange with a market capitalisation of SGD600 million, and with leading global law firm, Baker McKenzie. He also sits on several fund and general partner boards, with strategies spanning private equity, infrastructure and real estate.

Mr. Wrigley is a Solicitor of the Supreme Court of Queensland Australia, holds a Bachelor of Laws (LL.B) from the University of Queensland and is a resident of Guernsey.



Directors' report

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2019.

Status and activity

The Company is an investment holding company incorporated on 22 February 2012 with limited liability in Guernsey under the Companies (Guernsey) Law, 2008. The Company has the following wholly owned subsidiaries: Duke Royalty UK Limited, Capital Step Holdings Limited and Capital Step Investments Limited. Capital Step Holdings Limited and Capital Step Investments Limited own the entire issued share capital of Capital Step Funding Limited and Capital Step Funding 2 Limited, respectively. All of these subsidiaries are registered in England and Wales. The Company also controls The Duke Royalty Employee Benefit Trust.

As detailed in the Investing Policy section on page 3, the Group's principal activity is that of investment in a diversified portfolio of royalty finance and related opportunities.

Equity issuance

On 16 July 2018, the Company announced that 100 million new Ordinary Shares had been successfully placed or subscribed for at a price of 44 pence per share. This raised net proceeds of approximately £42 million after commission. Importantly, it also brought a number of new institutions onto the register, as well as support from a number of existing institutions.

Deployments of capital

During the year the Group entered into or acquired (as outlined below under 'Acquisition of Competitor') nine new royalty financing agreements, with three of the royalties also incorporating senior debt facility agreements. The significant financing agreements completed by the Group in the first Fiscal quarter include a £6.5 million royalty agreement in April 2018 with UGG, the holding company for a UK-based group which represents one of the UK's leading independent glass merchants and processors and a third-tranche royalty investment of £2.0 million in April 2018 with Lynx Equity (U.K.) Limited ("Lynx"), a pre-existing royalty partner of the Group with a business focused on acquiring small and medium-sized mature, old-economy businesses.

Financing agreements entered into by the Group during the second Fiscal quarter include a £10.0 million royalty agreement in August 2018 with ICHC, a mature and privately-owned Canadian company with a business focused on services in the healthcare space that specialises in the development, commissioning and infrastructure and clinical operations of healthcare facilities located internationally. In September 2018, the Group entered into an additional £1.0 million royalty agreement with Lynx, reflecting the fourth-tranche investment as a royalty partner and total royalty financing proceeds of £10.0 million provided by the Group as of the date of this report.

Excluding the transformative acquisition detailed below, financing agreements completed by the Group in the third and fourth quarter include a second-tranche royalty agreement of £1.0 million with UGG in December 2018, and a £10.0 million royalty agreement in February 2019 with Miriad, the largest privately-owned RV parts wholesale company in the UK.

The Group's strategy is to contribute additional capital to existing royalty partners and the Group has completed or is evaluating a number of situations. As an example, since the year end the Group completed a second-tranche royalty agreement of £1.4 million with Welltel (Ireland) Limited in May 2019, a telecommunications solutions provider for over 3,000 customers in Ireland and internationally.

Acquisition of competitor

On 1 February 2019, the Company acquired the entire issued share capital of Capital Step Holdings Limited and Capital Step Investments Limited (together "Capital Step"), the only known UK-based diversified royalty competitor to the Group of which management is aware, for an initial consideration of £21.65 million (the "Acquisition"). The Acquisition comprised of an initial £10 million of cash consideration (being £4.4 million in respect of the share capital and £5.6 million paid to settle loans assumed as part of the Acquisition) and the assumption of £11.65 million of debt. Further cash of £0.3 million was paid in respect of working capital acquired. After payment of £0.2 million in cash, deferred consideration

Directors' report *continued*

is payable up to a maximum of £1.3 million subject to the achievement of certain performance-related milestones in the period ended 31 March 2020. Capital Step's portfolio includes six Royalty Partners which substantially fit the Group's stated investment criteria. The Board believes the Acquisition is an important step in the development of the Group's growth. The Group's royalty portfolio now consists of 12 core royalty partners that reflect an underlying sixteen separate and profitable businesses conducive to the Group's long-term growth strategy.

The Company announced the assumption of £11.65 million of debt in conjunction with the Acquisition. The debt facility assumed is with Honeycomb Investment Trust Plc ("Honeycomb"), a credit fund with Pollen Street Capital as Investment Manager. Pollen Street Capital was a spin-out of RBS in 2013 and currently manages £2.6 billion of assets. This facility will enable the Group to fund future investments via debt before having to raise additional equity, thus avoiding dilution to its shareholders and excess cash on its balance sheet.

Healthcare collaboration

On 14 June 2018 the Company announced that it has mutually agreed with Oliver Wyman to end the exclusive healthcare collaboration that was entered into in August 2015. The work that the two firms have undertaken together while developing the Group's existing royalty portfolio has adhered to the economic framework of the original agreement. However, the sector focus has been broader than originally envisaged by either party. As such, the necessity of the exclusive relationship in potential healthcare investments was deemed to be no longer relevant by either party, given that the Group's future pipeline transactions are mostly outside of this sector.

Going forward, the Group intends to continue working with Oliver Wyman on a non-exclusive basis. It also plans to supplement Oliver Wyman's due diligence efforts with relationships with additional global consulting firms which demonstrate expertise and local knowledge for each investment opportunity. The expansion of the Group's investment team discussed below also allows for greater transaction origination and royalty investment execution to be done by internal personnel.

Expansion of Group's dedicated personnel

In October 2018, the Company announced the appointments of Steve Russo and Ajay Shivdasani to join Abingdon Capital

Corporation, one of the Group's support services providers, on a full-time basis. Both Mr. Russo and Mr. Shivdasani provide support to the Group and will add to the investment evaluation and due diligence resources.

Following the Company's acquisition of Capital Step in February 2019, the Group further enhanced its investment team with the addition of Rael Sarembock and Alex Hibbard, who joined the Group. Mr. Sarembock and Mr. Hibbard are both London-based and are employed by Capital Step Holdings Limited. The additions to the UK-based personnel also allow the continuation of Capital Step's origination function and pipeline for the benefit of the Group.

Jonathan Schneider, the Founder and Executive Chairman of Capital Step, entered into a consultancy agreement up to a minimum term ending on 31 March 2020. The agreement was formed for the provision of services for which Mr. Schneider will receive consulting fees and commission on successfully concluded transactions. Mr. Schneider will continue *inter alia* to assist in the origination and agreement of royalty transactions, portfolio management and debt negotiations.

Since the year end, the Group has hired Hugo Evans, who has had prior relevant experience in AIM listed investment companies, in the newly formed role of Vice-President of Finance. Mr. Evans will be primarily responsible for the treasury and finance function of the Group.

Employee Benefit Trust

During the year the Company established The Duke Royalty Employee Benefit Trust to hold shares issued under the Group's Long Term Incentive Plan.

Results and dividends

The Group's performance during the year is discussed in the Chairman's Report on page 6. The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 22, which shows a profit for the year of £1.8 million and basic earnings per share of 1.10 pence.

The Board considers operating cash flow to be the most important measure of the Group's performance. An analysis of operating cash flows is set out in the table opposite:

Directors' report *continued*

| | 2019 £ | 2018 £ |
|--|------------------|----------------|
| Receipts from royalty investments | 5,096,698 | 987,192 |
| Receipts of interest from loan investments | 257,460 | - |
| Receipts from transaction costs reimbursed | 307,500 | 45,000 |
| Other interest income received | 1,355 | - |
| Payments for royalty participation fees | (160,964) | - |
| Operating expenses paid | (1,392,331) | (785,714) |
| Net cash inflow from operating activities | 4,109,718 | 246,478 |

Operating cash flow per share for the year was 2.52 pence (2018 – 0.40 pence).

The Board also uses the non-IFRS measure of Adjusted Earnings to determine the Group's underlying operating performance from core activities. Adjusted earnings is the total comprehensive income adjusted for unrealised and non-core fair value movements, non-cash items and transaction-related costs, including royalty participation fees, together with the tax effects thereon.

Valuation and other non-cash movements such as those outlined are not considered by management in assessing the level of profit and cash generation of the Group. Additionally, IFRS 9 requires transaction-related costs to be expensed immediately whilst the income benefit is over the life of the asset. As such, an adjusted earnings measure is used which reflects the underlying contribution from the Group's core activities during the year.

The Group's Adjusted Earnings for the year was £2,991,993 (2018 – £231,956). This gives rise to Adjusted Earnings per share of 1.83 pence (2018 – 0.37 pence).

At the year end the net assets attributable to the Ordinary Shareholders were £72,107,581 (2018: £32,243,946).

During the year, the Company's quarterly dividend policy was continued and dividends of £4,017,826 were paid during the financial year to 31 March 2019 (FY2018: £932,628). The Company's quarterly dividend was 0.7 pence per share paid in July 2018 (representing a 40% increase from the July 2017 dividend per share). Three further quarterly dividends of 0.7 pence per share were paid in October 2018, January 2019 and April 2019. Subsequent to year end, the Company paid a further quarterly dividend of 0.7 pence per share in July 2019.

Shareholder information

Up to date information regarding the Group and Company can be found on the Company's website, which is www.dukeroyalty.com.

Annual General Meeting

The Annual General Meeting is to be held on 16 October 2019 at 11am at 4th Floor, West Wing, Trafalgar Court, Admiral Park, St Peter Port, Guernsey, GY1 2JA. The notice and form of Proxy will accompany these financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and regulations.

Company law allows the Directors to prepare Consolidated Financial Statements for each financial year. The Directors have prepared the Consolidated Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The Directors are permitted by the Companies (Guernsey) Law, 2008 to prepare Consolidated Financial Statements for each financial period which give a true and fair view of the state of affairs of the Group and of the surplus or deficit of the Group for that period.

In preparing those Consolidated Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Consolidated Financial Statements; and
- prepare the Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the Consolidated Financial Statements.

Directors' report *continued*

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the Financial Statements comply with the Companies (Guernsey) Law, 2008. The Directors are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors who held office at the date of approval of this report confirm that, so far as each of the Directors is aware, there is no relevant audit information of which the

Company's auditor is unaware, having taken all the steps that the Directors ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors

The Directors of the Company, who served during the year, and subsequently, are shown below:

| | |
|------------------------|-----------------|
| Nigel Birrell | Justin Cochrane |
| Neil Johnson | Mark Le Tissier |
| Charles Cannon Brookes | Matthew Wrigley |

The Directors held the following interest in the share capital of the Company either directly or beneficially:

| | Ordinary Shares 2019 No. | Ordinary Shares 2018 No |
|------------------|--------------------------------|-------------------------------|
| N Birrell | 844,500 | 650,000 |
| N Johnson | 3,507,193 | 3,207,193 |
| C Cannon Brookes | 5,400,000 | 5,000,000 |
| J Cochrane | 740,000 | 740,000 |
| M Le Tissier | - | - |
| M Wrigley | 27,000 | - |

The Directors held the following interest in share options and Long Term Incentive Plan ("LTIP") awards either directly or beneficially (further information relating to these awards can be found in note 13 to the Consolidated Financial Statements):

| | LTIPs held at 31 Mar | | Share options held at 31 Mar | |
|------------------|----------------------|-------------|------------------------------|-------------|
| | 2019 No. | 2018 No. | 2019 No. | 2018 No. |
| N Birrell | - | - | 85,000 | 85,000 |
| N Johnson | 1,350,000 | 500,000 | 85,000 | 85,000 |
| C Cannon Brookes | 950,000 | 350,000 | 85,000 | 85,000 |
| J Cochrane | 175,000 | 175,000 | 70,000 | 70,000 |
| M Le Tissier | - | - | - | - |
| M Wrigley | - | - | - | - |

The Directors received the following remuneration (including LTIP expenses and share awards) during the year:

| | Basic fees | Share-based payments | Total | Basic fees | Share-based payments | Total |
|------------------|------------|----------------------|-----------|------------|----------------------|-----------|
| | 2019 £ | 2019 £ | 2019 £ | 2018 £ | 2018 £ | 2018 £ |
| N Birrell | 24,000 | 20,337 | 44,337 | 12,000 | - | 12,000 |
| N Johnson | 149,995 | 95,408 | 245,403 | 50,000 | 2,715 | 52,715 |
| C Cannon Brookes | 105,000 | 67,055 | 172,055 | 35,000 | 1,900 | 36,900 |
| J Cochrane | 35,000 | 17,421 | 52,421 | 17,500 | 950 | 18,450 |
| J Ryan * | - | - | - | 6,000 | - | 6,000 |
| M Le Tissier | - | - | - | - | - | - |
| M Wrigley | 24,000 | 12,339 | 36,339 | 6,000 | - | 6,000 |
| Total | 337,995 | 212,560 | 550,555 | 126,500 | 5,565 | 132,065 |

* resigned 28 September 2017

Directors' report *continued*

Directors' authority to buy back shares

A Shareholder resolution, which took effect upon Admission to AIM, has been passed granting the Board authority to make market purchases of up to 14.99 per cent of the Ordinary Shares in issue during any 12 month period. Any repurchase of Ordinary Shares will be made in accordance with the Articles of Association of the Company and the Companies (Guernsey) Law, 2008, as amended, and within guidelines established from time to time by the Board and will be at the absolute discretion of the Board, and not at the option of the Shareholders.

This authority will lapse on the date of the Company's next Annual General Meeting. Subject to Shareholder authority for proposed repurchases, general purchases of up to 14.99 per cent of the Ordinary Shares in issue will only be made through the market.

Shareholders' significant interests

At 4 September 2019 the following interests of shareholders in excess of 3% have been notified to the Company:

| Shareholder/Nominee Account | Ordinary shares held | % of the Ordinary Share capital |
|-----------------------------|----------------------|---------------------------------|
| Hargreave Hale | 30,583,000 | 15.30% |
| Blackrock | 20,071,002 | 10.04% |
| AXA Investment Managers | 18,250,000 | 9.13% |
| Downing | 12,727,000 | 6.37% |
| GLG Partners | 10,214,989 | 5.11% |
| Janus Henderson | 9,000,000 | 4.50% |
| Partners Value Investments | 8,750,000 | 4.38% |
| Capital Group | 8,528,000 | 4.27% |
| Hadron | 6,671,504 | 3.34% |

Relations with Shareholders

The Directors place a great deal of importance on communication with Shareholders. The Annual Report and Consolidated Financial Statements are widely distributed to other parties who have an interest in the Group's performance. Shareholders and investors may obtain up to date information on the Group through the Company's website.

The Notice of the Annual General Meeting included within the Annual Report and Consolidated Financial Statements is sent out 14 working days in advance of the meeting. All shareholders have the opportunity to put questions to the Board formally at the Company's Annual General Meeting. The Company Secretary and representatives from Arlington Group Asset Management Limited and Abingdon Capital Corporation are available to answer general queries.

The minimum price (exclusive of expenses) which may be paid for an Ordinary Share is £0.01 per share and the maximum price (exclusive of expenses) which may be paid for an Ordinary Share shall be not more than five per cent above the average of the middle market quotation for the Ordinary Shares for the five business days before the purchase is made.

Any repurchase by the Company of 15 per cent or more of any class of its shares (excluding shares of that class held in treasury) will be effected by way of a tender offer to all Shareholders of that class.

When Ordinary Shares trade at a substantial discount to the NAV per Ordinary Share and do not coincide with trading volumes in the market, the Directors may feel that it is appropriate to make such purchases.

Corporate governance

The Board of Directors is responsible for the corporate governance of the Company. As a Guernsey incorporated company and under the AIM Rules for Companies, the Company is not currently required to comply with The UK Corporate Governance Code published by the Financial Reporting Council ("UK Code"). However, the Directors place a high degree of importance on ensuring that high standards of Corporate Governance are maintained and as such the Company is committed to complying with the corporate governance obligations appropriate to the Company's size and nature of business.

In response to the changes to AIM Rule 26 requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the Quoted Companies Alliance Corporate Governance

Directors' report *continued*

Code (the Code"). The Company's compliance statement in respect of the Code can be found at www.dukeroyalty.com/investors/corporate-governance.

As a Guernsey incorporated company, the Company is required to comply with the Finance Sector Code of Corporate Governance issued by the Guernsey Financial Services Commission ("GFSC Code") introduced on 1 January 2012.

The Board

The Board, whose membership, and where relevant independence, is disclosed above, meets at least four times a year. Between the formal meetings there was regular contact with the Support Services Providers, the Company Secretary and the Investment Committee. The Directors are kept fully informed of investment and financial controls, and other matters that are relevant to the business of the Company and should be brought to the attention of the Directors. The Directors also have access to the Administrator and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Group. The Board is responsible for the appointment and monitoring of all service providers to the Company.

The Board has engaged specific individuals and external companies to undertake the investment management, administrative and custodial activities of the Group. Clear documented contractual arrangements are in place with these individuals and firms, which define the areas where the Board has delegated responsibility to them.

It remains the responsibility of the Board to assess whether the outsourced activities are being performed adequately, to ensure that the Group has adequate resources and to establish procedures, including compliance plans, to be able to monitor the performance of third parties performing the outsourced activities. The Directors believe that the Board has a balance of skills and experience which enables it to perform these assessments, to provide effective strategic leadership and proper governance of the Group. The Board has considered non-financial areas of risk such as disaster recovery and staffing levels, both within the Group and service providers and considers adequate arrangements to be in place.

The Group maintains insurance in respect of Directors' and officers' liability in relation to their acts on behalf of the Group. Suitable insurance is in place and has been renewed for the period until 30 November 2019.

Annual Report and Financial Statements

The Board of Directors is responsible for preparing the Annual Report and Financial Statements. The Audit Committee advises the Board on the form and content of

the Annual Report and Financial Statements, any issues which may arise and any specific areas which require judgement.

Internal control and financial reporting

The Board is responsible for establishing and maintaining the Group's system of internal controls. Internal control systems are designed to meet the specific needs of the Group and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss.

The key components designed to provide effective internal control are outlined below:

- Trident Trust Company (Guernsey) Limited ("TT") was responsible for the provision of administration and company secretarial duties for the period under review;
- the duties of managing the Group's royalty investments, administration / company secretarial and accounting are segregated. The procedures are designed to complement one another; and
- the Board reviews financial information and compliance reports produced by the Administrator on a regular basis.

The Board reviews the Group's risk management and internal control systems quarterly and are satisfied that the controls are satisfactory, given the size and nature of the Group.

Audit Committee

The Company's Audit Committee comprises Matthew Wrigley (Chairman), Nigel Birrell and Mark Le Tissier. The Audit Committee will meet as often as required and at least twice a year. The Audit Committee's main functions include, *inter alia*; reviewing the effectiveness of internal control systems and risk assessment, considering the need for an internal audit, making recommendations to the Board in relation to the appointment and remuneration of the Company's auditors and monitoring and reviewing annually their independence, objectivity, effectiveness and qualifications. The Audit Committee will also monitor the integrity of the Financial Statements of the Company including its annual and interim reports, preliminary announcements and any other formal announcement relating to financial performance. The Audit Committee will be responsible for overseeing the Company's relationship with the external auditors, including making recommendations to the Board on the appointment of the external auditors and their remuneration. The Audit Committee will consider the nature, scope and results of the auditors' work and reviews, and develop and implement policy on the supply of non-audit services that are to be provided by the external auditors. The Audit Committee will focus particularly on compliance

Directors' report *continued*

with legal requirements, accounting standards and the relevant AIM Rules for Companies and ensuring that an effective system of internal financial and non-financial controls is maintained. The ultimate responsibility for reviewing and approving the annual report and accounts will remain with the Board. The identity of the Chairman of the Audit Committee will be reviewed on an annual basis and the membership of the Audit Committee and its terms of reference will be kept under review. The Audit Committee will have no links with the Company's external auditors.

Investment Committee

The Company's Investment Committee, which is made up of members nominated by the Company, includes three independent members. The current members of the Investment Committee are Neil Johnson, Executive Director and Chief Executive Officer of Duke Royalty; Jim Webster, Chief Investment Officer of Duke Royalty; Justin Cochrane, Non-Executive Director of Duke Royalty; John Romeo, Managing Partner and Executive Committee and Risk Committee member at Oliver Wyman and Andrew Carragher, a founder and Managing Partner of DW Healthcare Partners, a private equity firm founded in 2002 with \$1.43 billion under management.

The Investment Committee is responsible for reviewing the pipeline of all proposed opportunities; assisting and advising on royalty terms; identifying and managing potential conflicts of interests; assessing the individual capital requirements for each potential opportunity; making recommendations to the Board and reviewing the performance and outlook of the portfolio.

The Investment Committee has no power to bind the Company to any potential transaction, and the Company is not bound to follow any advice or recommendation of the Investment Committee. Every proposed Royalty Financing will be decided by the Board.

Anti-bribery and corruption

The Board acknowledges that the Group's international operations may give rise to possible claims of bribery and corruption. In consideration of the UK Bribery Act the Board reviews the perceived risks to the Group arising from bribery and corruption to identify aspects of the business which may be improved to mitigate such risk. The Board has adopted a zero tolerance policy toward bribery and has reiterated its commitment to carry out business fairly, honestly and openly.

Financial risk profile

The Group's main financial instruments comprise royalty investments, secured loan investments, royalty participation liabilities, senior secured loans and cash. The main purpose of these instruments is the investment of Shareholders' funds. The most significant risks that these instruments are subject to are discussed in note 21 to the Consolidated Financial Statements.

Environment

The Group seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Group.

Going concern

After making all reasonable enquiries the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Consolidated Financial Statements as the Group has adequate financial resources to continue in operational existence for the foreseeable future.

Independent Auditor

The auditor, BDO Limited, has indicated its willingness to continue in office. Accordingly, a resolution for its reappointment will be proposed at the forthcoming Annual General Meeting.

The external auditors are required to rotate the audit engagement director responsible for the Group's audit every five years. In certain circumstances where there has recently been, or will soon be, a substantial change to the entity's business it is permitted under the Financial Reporting Council's Ethical Standards (paragraph 3.15) to extend that tenure by up to two years in order to safeguard audit quality. In light of this the Board has determined, with the agreement of BDO Limited, that it was necessary for the current audit engagement director to continue with his role for a seventh year, given his detailed understanding of the operations and systems at Duke Royalty which we believe are important at a time of significant change for the Group given the recent changes to the Group's Investment Strategy to a Royalty Finance Business.

Approved by the Board of Directors on 6 September 2019 and signed on behalf of the Board by:

Mark Le Tissier
Director

Matthew Wrigley
Director

Independent auditor's report

to the members of Duke Royalty Limited

Opinion

We have audited the consolidated financial statements of Duke Royalty Limited (the "parent company") and its subsidiaries (the "Group") for the year ended 31 March 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

to the members of Duke Royalty Limited *continued*

| Key Audit Matter | Audit Response |
|---|--|
| <p>Measurement of Royalty Instruments (notes 2.12, 3, 9 and 20) – As the Group's royalty instruments are classified at fair value through profit or loss the instruments are required to be revalued to fair value at each reporting date.</p> <p>The valuation models are a highly subjective area as management makes judgements as to expected cash flows, risk free rates, revenue growth rates, discount rates and other variables to arrive at the fair value of the investments.</p> <p>Any input inaccuracies or unreasonable bases used in the valuation judgements could result in a material misstatement of the Group statement of comprehensive income and the Group balance sheet and for this reason we considered this to be a key audit matter.</p> | <p>We obtained management's valuation models for the royalty instruments and:</p> <p>Assessed and challenged the reasonableness of management's inputs into the valuation models against our expectations by:</p> <p>A) Agreeing the future cash flows to the forecasts and gained an understanding where those forecasts were different from either those expected on day 1 / the previous year end as relevant.</p> <p>B) Assessing based on underlying supporting documentation of the investees' performance, whether managements consideration of the investees' actual performance against budgeted indicated a need to revise the cash flows.</p> <p>C) Reviewing investee performance since investment / the prior year to challenge whether the discount rates used by management remained appropriate.</p> <p>We have identified no material misstatements in the amounts reported in these financial statements.</p> |
| <p>Capital Step acquisition (notes 2.4, 2.10 and 22) – As reflected in note 22, during the year the Group acquired the entire share capital of Capital Step Holdings and Capital Step Investments groups.</p> <p>The company has applied IFRS 3 Business Combinations to the acquisition which required the company to apply significant judgement over:</p> <ul style="list-style-type: none"> ● identifying the purchase price. The contract contained deferred consideration which involved management making judgements over future performance; and ● calculating the fair value of the assets and liabilities acquired. The assets acquired included royalty instruments, loans advanced and private equity investments which were fair valued using models. The valuation models are highly subjective areas as management is required to make significant judgements and assumptions in the models. Any input inaccuracies or unreasonable bases used in the valuation judgements could result in a material misstatement to the carrying value of the acquired assets and liabilities together with the resulting goodwill and for this reason we considered this to be a key audit matter. | <p>We obtained and reviewed the sale and purchase agreement in order to identify the key terms of the transaction.</p> <p>We obtained management's detailed papers in relation to the business combination including amongst other considerations, their detailed workings on deferred consideration, their fair value considerations of the acquired assets and liabilities and their calculation of the resulting goodwill.</p> <p>For deferred consideration, we reviewed the terms of the deferred consideration to check that management's interpretation of the agreement was correctly applied in their model. The key input into the model was the revenue streams and we ensured that these agreed through to the work undertaken on the associated assets below.</p> <p>For the royalty instruments and loans advanced we performed the same procedures as detailed in the measurement of royalty instruments section above. We challenged the discount rate applied by considering the company's lending model and criteria together with how the overall transaction price was originally calculated by management.</p> <p>For equity instruments we obtained management's assessment of fair value and then reviewed their model and approach to ensure that the valuation was in compliance with the International Private Equity and Venture Capital Guidelines. We challenged management's use of inputs and assumptions by reviewing the financial performance of the underlying investee and considering comparable market data and multiples. We also obtained an understanding of the original investment made by Capital Step by reviewing the day 1 acquisition papers and then considering whether the movement between the day 1 entry multiples and the current multiples used by management are consistent with market movements that we obtained independently.</p> <p>We reviewed the disclosures within the financial statements against the requirements of IFRS 3.</p> <p>We have identified no material misstatements in the amounts reported in these financial statements.</p> |

Independent auditor's report

to the members of Duke Royalty Limited *continued*

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole to be £1,300,000 (2018: £600,000), which is based on a level of 1.50% (2018: 1.75%) of total assets. We considered total assets to be the most appropriate benchmark due to the nature of the Group being to make long term investments.

Performance materiality has been set at £780,000 (2018: 360,000) which is 60% (2018: 60%) of materiality. This has been set based upon the control environment in place, the directors' assessment of risk and our past experience of adjustments.

International Standards on Auditing (UK) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to sensitive fees including: broker fees, legal fees, audit fees, directors' fees, administration fees, consultancy fees, investment committee fees, support fees, nomad fees and directors travel and entertainment. We have also applied this lower level of materiality to receipts received under the royalty instrument agreements and loan agreements due to this being a focal point for investors given the stated dividend policy of the Group. We determined materiality for these areas to be £275,000.

We agreed with the audit committee that we would report to them all individual audit differences identified during the course of our audit in excess of £65,000 (2018: £30,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

We tailored the scope of our audit taking into account the nature of the Group's investments, involvement of the Group's service providers, the accounting and reporting environment and the industry in which the Group operates.

This assessment took into account the likelihood, nature and potential magnitude of any misstatement. As part of this risk assessment we considered the Group's interaction with the service providers. We assessed the control environment in place within the Group to the extent that it was relevant to our audit. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

As the Company's annual report does not include parent company only financial statements we concluded that the most effective audit approach to the Group was to audit the consolidated financial statements as if they were one entity, during which we have performed audit procedures on all key risk areas. The materiality applied was that calculated above which had been based on the consolidated financial information.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report

to the members of Duke Royalty Limited *continued*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of Directors

As explained more fully in the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

The engagement director on the audit resulting in this independent auditor's opinion is Justin Hallett.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the parent 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 parent company and the parent company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

BDO Limited
Chartered Accountants
Place du Pré
Rue du Pré
St Peter Port
Guernsey

6 September 2019

Consolidated statement of comprehensive income

For the year ended 31 March 2019

| | Note | 2019 £ | 2018 £ |
|---|---------|--------------------|--------------------|
| Income | | | |
| Net change in fair value on financial assets and financial liabilities at fair value through profit or loss | 9,16,20 | 5,675,525 | 1,554,518 |
| Loan interest receivable | 2.12,10 | 255,664 | - |
| Transaction costs reimbursed | 2.8 | 207,500 | 145,000 |
| Other interest receivable | | 1,355 | - |
| Net foreign currency gains | | - | 97,238 |
| Total income | | 6,140,044 | 1,796,756 |
| Expenses | | | |
| Support services administration fees | 19 | (310,000) | (806,537) |
| Directors' fees | 19 | (550,555) | (132,065) |
| Investment Committee fees | 19 | (127,217) | (37,500) |
| Personnel and other operating costs | | (348,122) | (112,289) |
| Legal and professional fees | | (508,915) | (229,723) |
| Transaction costs - royalty investments | 2.7 | (807,756) | (488,308) |
| Transaction costs - business combination | 22 | (700,548) | - |
| Royalty participation fees | 2.12,20 | (431,768) | (848,534) |
| Net foreign currency losses | | (41,596) | - |
| Total operating expenses | | (3,826,477) | (2,654,956) |
| Interest payable | 17 | (397,277) | (2) |
| Total non-operating expenses | | (397,277) | (2) |
| Total expenses | | (4,223,754) | (2,654,958) |
| Profit/(loss) for the financial year before tax | | 1,916,290 | (858,202) |
| Taxation expense | 5 | (119,053) | - |
| Total comprehensive income/(loss) for the year | | 1,797,237 | (858,202) |
| Basic earnings/(deficit) per share (pence) | 6 | 1.10 | (1.38) |
| Diluted earnings/(deficit) per share (pence) | 6 | 1.10 | (1.38) |

All income is attributable to the holders of the Ordinary Shares of the Company.

Consolidated statement of financial position

As at 31 March 2019

| | Note | 2019 £ | 2018 £ |
|--|------|-------------------|-------------------|
| Non-current assets | | | |
| Goodwill | 8 | 202,995 | - |
| Financial assets at fair value through profit or loss | 9 | 63,166,641 | 20,782,297 |
| Loans receivable | 10 | 8,993,465 | - |
| | | 72,363,101 | 20,782,297 |
| Current assets | | | |
| Financial assets at fair value through profit or loss | 9 | 8,064,939 | 2,786,501 |
| Loans receivable | 10 | 632,281 | - |
| Trade and other receivables | 11 | 177,578 | 6,687,020 |
| Cash and cash equivalents | | 5,893,813 | 3,165,221 |
| | | 14,768,611 | 12,638,742 |
| Total assets | | 87,131,712 | 33,421,039 |
| Equity | | | |
| Shares issued | 12 | 102,044,312 | 60,303,293 |
| Share-based payment reserve | 13 | 333,182 | 129,977 |
| Warrant reserve | 13 | 265,000 | 125,000 |
| Retained losses | 14 | (30,534,913) | (28,314,324) |
| Total equity | | 72,107,581 | 32,243,946 |
| Current liabilities | | | |
| Trade and other payables | 15 | 714,387 | 259,693 |
| Current tax liability | | 247,917 | - |
| Financial liabilities at fair value through profit or loss | 16 | 172,918 | 140,886 |
| Borrowings | 17 | 325,938 | - |
| | | 1,461,160 | 400,579 |
| Non-current liabilities | | | |
| Trade and other payables | 15 | 439,709 | - |
| Financial liabilities at fair value through profit or loss | 16 | 1,193,579 | 776,514 |
| Borrowings | 17 | 11,365,426 | - |
| Deferred tax liability | 18 | 564,257 | - |
| | | 13,562,971 | 776,514 |
| Total liabilities | | 15,024,131 | 1,177,093 |
| Total equity and liabilities | | 87,131,712 | 33,421,039 |

The Consolidated Financial Statements on pages 22 to 49 were approved and authorised for issue by the Board of Directors on 6 September 2019 and were signed on its behalf by:

Mark Le Tissier
Director

Matthew Wrigley
Director

Consolidated statement of cash flows

For the year ended 31 March 2019

| | Note | 2019 £ | 2018 £ |
|--|------|---------------------|---------------------|
| Cash flows from operating activities | | | |
| Receipts from royalty investments | | 5,096,698 | 987,192 |
| Receipts of interest from loan investments | | 257,460 | - |
| Receipts from transaction costs reimbursed | | 307,500 | 45,000 |
| Other interest income received | | 1,355 | - |
| Payments for royalty participation fees | | (160,964) | - |
| Operating expenses paid | | (1,392,331) | (785,714) |
| Net cash inflow from operating activities | | 4,109,718 | 246,478 |
| Cash flows from investing activities | | | |
| Royalty investments advanced | | (25,032,500) | (22,932,356) |
| Loan investments advanced | | (3,056,842) | - |
| Payment for acquisition of subsidiaries, net of cash acquired | 22 | (4,273,753) | - |
| Transaction costs paid – royalty investments | | (624,209) | (277,737) |
| Transaction costs paid – business combination | | (267,720) | - |
| Amounts advanced to agents pending royalty investment completion | | - | (6,467,500) |
| Payments to acquire equity investments | | (313) | (250) |
| Proceeds from disposal of equity investments | | 87,989 | - |
| Net cash outflow from investing activities | | (33,167,348) | (29,677,843) |
| Cash flows from financing activities | | | |
| Proceeds from share issue | | 44,010,000 | 19,840,275 |
| Share issue costs | | (2,398,366) | (765,613) |
| Dividends paid | | (4,023,189) | (925,468) |
| Proceeds from loans | 17 | 3,500,000 | - |
| Redemption of loans | 17 | (9,109,461) | - |
| Interest paid | | (172,146) | - |
| Net cash inflow from financing activities | | 31,806,838 | 18,149,194 |
| Net change in cash and cash equivalents | | 2,749,208 | (11,282,171) |
| Cash and cash equivalents at beginning of year | | 3,165,221 | 14,350,154 |
| Effect of foreign exchange on cash | | (20,616) | 97,238 |
| Cash and cash equivalents at the end of year | | 5,893,813 | 3,165,221 |

The notes on pages 26 to 49 form an integral part of these Consolidated Financial Statements.

Consolidated statement of changes in equity

For the year ended 31 March 2019

| | Note | Shares issued £ | Share-based payment reserve £ | Warrant reserve £ | Retained losses £ | Total equity £ |
|--|-------|--------------------|-------------------------------------|-------------------------|-------------------------|----------------------|
| At 1 April 2017 | | 40,905,094 | 124,412 | - | (26,523,494) | 14,506,012 |
| Total comprehensive loss for the year | | - | - | - | (858,202) | (858,202) |
| Transactions with owners | | | | | | |
| Shares issued for cash | 12 | 19,507,275 | - | - | - | 19,507,275 |
| Share issuance costs | 12 | (1,188,338) | - | - | - | (1,188,338) |
| Share-based payments | 12,13 | 1,079,262 | 5,565 | - | - | 1,084,827 |
| Warrants issued | 13 | - | - | 125,000 | - | 125,000 |
| Dividends | 7 | - | - | - | (932,628) | (932,628) |
| Total transactions with owners | | 19,398,199 | 5,565 | 125,000 | (932,628) | 18,596,136 |
| At 1 April 2018 | | 60,303,293 | 129,977 | 125,000 | (28,314,324) | 32,243,946 |
| Total comprehensive income for the year | | - | - | - | 1,797,237 | 1,797,237 |
| Transactions with owners | | | | | | |
| Shares issued for cash | 12 | 44,000,000 | - | - | - | 44,000,000 |
| Share issuance costs | 12 | (2,398,366) | - | - | - | (2,398,366) |
| Share-based payments | 12,13 | 139,385 | 203,205 | - | - | 342,590 |
| Warrants issued | 13 | - | - | 140,000 | - | 140,000 |
| Dividends | 7 | - | - | - | (4,017,826) | (4,017,826) |
| Total transactions with owners | | 41,741,019 | 203,205 | 140,000 | (4,017,826) | 38,066,398 |
| At 31 March 2019 | | 102,044,312 | 333,182 | 265,000 | (30,534,913) | 72,107,581 |

The notes on pages 26 to 49 form an integral part of these Consolidated Financial Statements.

Notes to the consolidated financial statements

For the year ended 31 March 2019

1. General Information

Duke Royalty Limited (“Duke Royalty” or the “Company”) is a closed-ended investment company with limited liability formed under the Companies (Guernsey) Law, 2008. The Company is domiciled in Guernsey. Its shares are traded on the AIM market of the London Stock Exchange. The Company’s registered office is shown on page 50.

Throughout the prior year, the Group comprised Duke Royalty Limited and its wholly owned subsidiary Duke Royalty UK Limited, a company registered in England and Wales. During the year, Duke Royalty Limited acquired the entire issued share capital of Capital Step Holdings Limited and Capital Step Investments Limited, which are both companies registered in England and Wales. Capital Step Holdings Limited owns the entire ordinary share capital of Capital Step Funding Limited, a company registered in England and Wales. Capital Step Investments Limited owns the entire ordinary share capital of Capital Step Funding 2 Limited, a company registered in England and Wales (see note 22 for further details). The Company also established The Duke Royalty Employee Benefit Trust during the year to hold shares issued under the Group’s Long Term Incentive Plan (see notes 12 and 13).

The Group’s investing policy is to invest in a diversified portfolio of royalty finance and related opportunities.

2. Significant accounting policies

2.1 Basis of preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”), to the extent that they have been adopted by the European Union, and applicable Guernsey law, and reflect the following policies, which have been adopted and applied consistently.

The Consolidated Financial Statements have been prepared on a historical cost basis, except for the following:

- royalty investments – measured at fair value through profit or loss;
- equity investments – measured at fair value through profit or loss; and
- royalty participation liabilities – measured at fair value through profit or loss.

2.2 New and amended standards adopted by the Group

IFRS 9 ‘Financial Instruments’ became mandatory for accounting periods commencing on or after 1 January 2018, however the Group elected to apply the standard early. Accordingly, the changes arising from IFRS 9 were reflected in the financial statements for the year ended 31 March 2018.

IFRS 15 ‘Revenue from Contracts with Customers’ was adopted during the year. The majority of the Group’s income is derived from royalty investments, loans and equity investments, which are outside the scope of IFRS 15 and therefore there has been no material change to the Consolidated Financial Statements as a result of the adoption of this standard.

There are no other new or amended standards adopted by the Group during the year that have had a material impact on these Consolidated Financial Statements.

2.3 New standards and interpretations not yet adopted

At the date of authorisation of these Consolidated Financial Statements, certain standards and interpretations were in issue but not yet effective and have not been applied in these Consolidated Financial Statements. The Directors do not expect that the adoption of these standards and interpretations will have a material impact on the Consolidated Financial Statements of the Group in future periods.

2.4 Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted across the Group.

The “Group” is defined as the Company, its subsidiaries Duke Royalty UK Limited, Capital Step Holdings Limited, Capital Step Investments Limited, Capital Step Funding Limited and Capital Step Funding 2 Limited and The Duke Royalty Employee Benefit Trust.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

2. Significant accounting policies (continued)

2.5 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, as a whole. The key measure of performance used by the Board to assess the Group's performance and to allocate resources is operating cash flow, as calculated under IFRS, and therefore no reconciliation is required between the measure of performance used by the Board and that contained in these Consolidated Financial Statements.

For management purposes, the Group's investment objective is to focus on one main operating segment, which is to invest in a diversified portfolio of royalty finance and related opportunities. At the end of the period the Group has 12 investments into this segment and has derived income from them. Due to the Group's nature it has no customers.

2.6 Foreign currency

Functional and presentation currency

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Consolidated Financial Statements are presented in pounds sterling, which is also the functional currency of the Company and its subsidiaries.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the reporting date.

Foreign exchange gains and losses relating to cash and cash equivalents are presented in the Consolidated Statement of Comprehensive Income within 'net foreign currency gains/losses'.

Foreign exchange gains and losses relating to the financial assets and liabilities carried at fair value through profit or loss are presented in the Consolidated Statement of Comprehensive Income within 'net change in fair value on financial assets and financial liabilities at fair value through profit or loss'.

2.7 Transaction costs

Transaction costs are costs incurred to acquire financial assets at fair value through profit or loss. They include finders' fees, legal and due diligence fees and other fees paid to agents and advisers. Transaction costs, when incurred, are recognised immediately in profit or loss as an expense.

2.8 Transaction costs reimbursed

Income relating to transaction costs reimbursed comprises one off fees charged to investee companies as a reimbursement of certain costs incurred by the Group in connection with the related investments (see note 2.7). The Group recognises transaction costs reimbursed when the costs have been incurred by the Group and the transaction to which they relate has completed.

2.9 Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

2. Significant accounting policies (continued)

2.9 Income tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.10 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition-date fair value of any previous equity interest in the acquired entity.

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the acquirer's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as financial liability are subsequently remeasured to fair value, with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.11 Goodwill

Goodwill is measured as described in note 2.10. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of the entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

2. Significant accounting policies (continued)

2.12 Financial instruments

Financial assets and financial liabilities are recognised in the Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are only offset and the net amount reported in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

Financial assets

The Group's financial assets are classified in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

At initial recognition, the Group measures a financial asset at its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets held at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. These assets are subsequently measured at amortised cost using the effective interest method.

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12 month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Group has elected to apply the simplified approach permitted by IFRS 9 in calculating ECLs. This approach requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group's financial assets held at amortised cost include loans receivable, trade and other receivables and cash and cash equivalents.

Cash and cash equivalents

Cash and cash equivalents comprise current accounts and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial assets at fair value through profit or loss

Royalty investments are debt instruments classified at fair value through profit or loss under IFRS 9. The return on these investments is linked to a fluctuating revenue stream and thus, whilst the business model is to collect contractual cash flows, such cash flows are not solely payments of principal and interest. Such assets are recognised initially at fair value and remeasured at each reporting date. The change in fair value is recognised in profit or loss and is presented within the 'net change in fair value on financial assets and financial liabilities' in the Consolidated Statement of Comprehensive Income. The fair value of these financial instruments is determined using discounted cash flow analysis. Further details of the methods and assumptions used in determining the fair value can be found in note 20.

Investments in equity instruments are classified at fair value through profit or loss. The Group subsequently measures all equity investments at fair value and the change in fair value is recognised in profit or loss and is presented within the 'net change in fair value on financial assets and financial liabilities' in the Consolidated Statement of Comprehensive Income. Dividends from such investments are recognised in profit or loss when the Group's right to receive payments is established.

Derecognition of financial assets

A financial asset (in whole or in part) is derecognised either (i) when the Group has transferred substantially all the risks and rewards of ownership; or (ii) when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or (iii) when the contractual right to receive cash flow has expired. Any gain or loss on derecognition is taken to other income/expenses in the Consolidated Statement of Comprehensive Income as appropriate.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

2. Significant accounting policies (continued)

2.12 Financial instruments (continued)

Financial liabilities

The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics.

All financial liabilities are initially recognised at fair value. Unless otherwise indicated the carrying amounts of the Group's financial liabilities are approximate to their fair values.

Financial liabilities measured at amortised cost

These consist of borrowings and trade and other payables. These liabilities are initially recognised at fair value, net of transaction costs incurred, and subsequently carried at amortised cost using the effective interest rate method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise royalty participation liabilities. These liabilities arise under a contractual agreement between the Group and a strategic partner for the provision of services in connection with the Group's royalty financing arrangements. Under this agreement services are provided in exchange for a percentage of gross royalties receivable. These instruments are classified at fair value through profit or loss on the basis that the liability is linked to the Group's royalty investments. Such liabilities are recognised initially at fair value with the costs being recorded immediately in profit or loss as 'royalty participation fees' and remeasured at each reporting date in order to avoid an accounting mismatch. The change in fair value is recognised in profit or loss and presented within 'net change in fair value on financial assets and financial liabilities'. The fair value of these financial instruments is determined using discounted cash flow analysis. Further details of the methods and assumptions used in determining the fair value can be found in note 20.

Derecognition of financial liabilities

A financial liability (in whole or in part) is derecognised when the Group has extinguished its contractual obligations, it expires or is cancelled. Any gain or loss on derecognition is taken to other income/expenses in the Consolidated Statement of Comprehensive Income.

Capital

Financial instruments issued by the Group are treated as equity if the holder has only a residual interest in the assets of the Group after the deduction of all liabilities. The Company's Ordinary Shares are classified as equity instruments.

The Group considers its capital to comprise its Ordinary Share Capital, share-based payment reserve, warrant reserve and retained losses.

Equity instruments

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from proceeds.

2.13 Share-based payment

The Group operates an equity settled Share Option Plan and a Long Term Incentive Plan for its Directors and key advisers.

The fair value of awards granted under the above plans are recognised in profit or loss with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the awards granted:

- including any market performance conditions (e.g. the entity's share price);
- excluding the impact of any service and non-market performance vesting conditions (e.g. increase in cash available for distribution, remaining a Director for a specified time period); and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Group also settles a portion of expenses by way of share-based payments. These expenses are settled based on the fair value of the service received as an expense with the corresponding amount increasing equity.

The Group issues warrants in return for services. These are measured based on the value of the service provided and are recognised as the service is delivered.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

3. Critical accounting judgements and estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods, if the revision affects both current and future periods. The following judgements, estimates and assumptions that may cause a material adjustment to the carrying amount of assets and liabilities are:

Fair value of royalty investments

Royalty investments are valued using a discounted cash flow analysis. The discount rate used in these valuations has been estimated to take account of market interest rates and the credit worthiness of the investee. Revenue growth has been estimated by the Directors and is based on unobservable market inputs.

Where the royalty investment contains a buy-back clause, the Directors have assessed the likelihood of this occurring. Where occurrence of the buy-back is deemed likely, this is built into the discounted cash flow at the appropriate point.

These assumptions are reviewed semi-annually. The Directors believe that the applied valuation techniques and assumptions used are appropriate in determining the fair value of the royalty investments and have made adjustments to the discount rates and estimated revenue growth where necessary. Further details of the methods and assumptions used in determining the fair value can be found in note 20.

Fair value of royalty participation liabilities

The payments falling due under the Group's contract for royalty participation fees are directly linked to the Group's royalty investments and thus the same assumptions have been applied in arriving at the fair value of these liabilities. The Directors have considered whether any increase in discount rate is required to represent the Group's credit risk as the payments are made by the Group rather than the investee and have concluded that none is required since payment under the contract is only due once the Group has received the gross amounts from the investee.

Fair value of equity investments

The Group's equity investments are not traded in an active market and thus the fair value of the instruments is determined using valuation techniques. The Group uses its judgement to select methods and make assumptions based on market conditions at the end of each reporting period. The key judgements that the Directors have made in arriving at the fair values are the price/earnings multiples to be applied to the investee entities' profits. These multiples have been estimated based on market information for similar types of companies.

Business combination – acquisition date fair values

The assets acquired and liabilities assumed as part of the business combination have been valued at fair value at the date of acquisition.

Royalty and loan investments

The fair values of the royalty and loan investments have been determined using a discounted cash flow model. The key judgements required include considerations of the forecast cash flow and appropriate discount rate. The discount rates have been determined based on market interest rates and the credit worthiness of the investee entities.

The discount rate applied in respect of the royalty investments was 13.2%. If the forecast cash flows were discounted at a rate of 12.8% the fair value on acquisition would have increased by £445,781. Conversely, if the discount rate increased to 13.6% the fair value would have fallen by £419,561.

4. Auditor's remuneration

| | 2019 £ | 2018 £ |
|--|-----------|-----------|
| Audit of the Consolidated Financial Statements | 63,760 | 28,500 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued***5. Income tax**

The Company has been granted exemption from Guernsey taxation. The Company's subsidiaries in the UK are subject to taxation in accordance with relevant tax legislation.

| | 2019 £ | 2018 £ |
|---|----------------|-----------|
| Current tax | | |
| Current tax on profits for the year | 242,584 | - |
| Deferred tax | | |
| Increase in deferred tax assets | (102,443) | - |
| Decrease in deferred tax liabilities | (21,088) | - |
| Total deferred tax benefit | (123,531) | - |
| Income tax expense | 119,053 | - |
| Factors affecting income tax expense for the year | | |
| Profit/(loss) on ordinary activities before tax | 1,916,290 | (858,202) |
| Tax using the Group effective tax rate of 10.53% (2018 – 14.27%) | 201,786 | (122,458) |
| Utilisation of tax losses not previously recognised | (97,268) | 122,458 |
| Differential in tax rate | 14,535 | - |
| | 119,053 | - |
| Tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | - | 644,517 |
| Potential tax benefit at 17% | - | 109,568 |

The unused tax losses were incurred by the Company's subsidiary Duke Royalty UK Limited and have been utilised during the current year.

6. Earnings/(deficit) per share

| | 2019 | 2018 |
|--|-------------|------------|
| Basic earnings/(deficit) per Ordinary Share | | |
| Profit/(loss) for the year (£) | 1,797,237 | (858,202) |
| Weighted average number of Ordinary Shares in issue, excluding treasury shares | 163,129,418 | 62,234,062 |
| Basic earnings/(deficit) per share (pence) | 1.10 | (1.38) |
| Diluted earnings/(deficit) per Ordinary Share | | |
| Profit/(loss) for the year (£) | 1,797,237 | (858,202) |
| Weighted average number of Ordinary Shares, diluted for warrants in issue | 163,244,319 | 62,234,062 |
| Diluted earnings/(deficit) per share (pence) | 1.10 | (1.38) |

The basic earnings per share is based on the Group profit for the year and on the weighted average number of Ordinary Shares in issue for the period, excluding treasury shares (see note 12).

2,000,000 warrants issued in the prior year have become dilutive this year. All other share options, warrants and Long Term Incentive Plan awards in issue are not dilutive at the year end but could become dilutive in future periods.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

6. Earnings/(deficit) per share (continued)

Adjusted earnings

Adjusted earnings represents the Group's underlying performance from core activities. Adjusted earnings is the total comprehensive income adjusted for unrealised and non-core fair value movements, non-cash items and transaction-related costs, including royalty participation fees, together with the tax effects thereon.

Valuation and other non-cash movements such as those outlined are not considered by management in assessing the level of profit and cash generation of the Group. Additionally, IFRS 9 requires transaction-related costs to be expensed immediately whilst the income benefit is over the life of the asset. As such, an adjusted earnings measure is used which reflects the underlying contribution from the Group's core activities during the year.

| | 2019 £ | 2018 £ |
|--|-------------|------------|
| Total comprehensive income/(loss) for the year | 1,797,237 | (858,202) |
| Adjusted for: | | |
| Unrealised fair value movements | (651,802) | (567,326) |
| Gain on exercise of warrants – non-recurring | (87,989) | – |
| Share-based payments | 482,590 | 717,102 |
| Transaction costs, net of transaction costs reimbursed | 1,160,804 | 273,308 |
| Royalty participation fees | 431,768 | 848,534 |
| Tax effect of the adjustments above at the Group's effective tax rate | (140,615) | (181,460) |
| Adjusted earnings | 2,991,993 | 231,956 |
| | 2019 | 2018 |
| Adjusted earnings per Ordinary Share | | |
| Adjusted earnings for the year (£) | 2,991,993 | 231,956 |
| Weighted average number of Ordinary Shares in issue, excluding treasury shares | 163,129,418 | 62,234,062 |
| Basic adjusted earnings per share (pence) | 1.83 | 0.37 |
| Diluted adjusted earnings per Ordinary Share | | |
| Adjusted earnings for the year (£) | 2,991,993 | 231,956 |
| Weighted average number of Ordinary Shares, diluted for warrants in issue | 163,244,319 | 62,234,062 |
| Diluted adjusted earnings per share (pence) | 1.83 | 0.37 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued***7. Dividends**

The Company implemented a quarterly dividend policy during the year ended 31 March 2018. The following interim dividends have been recorded and paid since the inception of this policy:

| Record date | Payment date | Dividend per share (pence) | Dividends payable £ |
|--|-----------------|-------------------------------|------------------------|
| 30 June 2017 | 27 July 2017 | 0.5 | 226,887 |
| 29 September 2017 | 19 October 2017 | 0.5 | 226,887 |
| 29 December 2017 | 12 January 2018 | 0.5 | 478,854 |
| Dividends payable for the year ended 31 March 2018 | | | 932,628 |
| 3 April 2018 | 12 April 2018 | 0.6 | 581,265 |
| 29 June 2018 | 12 July 2018 | 0.7 | 678,142 |
| 28 September 2018 | 12 October 2018 | 0.7 | 1,378,142 |
| 28 December 2018 | 11 January 2019 | 0.7 | 1,380,277 |
| Dividends payable for the year ended 31 March 2019 | | | 4,017,826 |

Further quarterly dividends were paid post year end, refer to Note 23 for further details.

Rights to dividends have been waived in respect of shares held by the Group's Employee Benefit Trust (see note 12).

8. Goodwill

| Years ended 31 March 2018 and 31 March 2019 | Goodwill £ |
|--|---------------|
| Opening net book amount at 1 April 2017 and 1 April 2018 | - |
| Arising on business combination (see note 22) | 202,995 |
| Closing net book amount | 202,995 |

9. Financial assets at fair value through profit or loss

| | 2019 £ | 2018 £ |
|---------------------|------------|------------|
| Non-current | | |
| Royalty investments | 61,989,172 | 20,782,047 |
| Equity investments | 1,177,469 | 250 |
| | 63,166,641 | 20,782,297 |
| Current | | |
| Royalty investments | 8,064,939 | 2,786,501 |
| | 71,231,580 | 23,568,798 |

A reconciliation of the movements in financial assets at fair value through profit or loss during the year is set out in note 20.

Net changes in fair value on financial assets at fair value through profit or loss:

| | 2019 £ | 2018 £ |
|------------------------|-----------|-----------|
| On royalty investments | 5,789,057 | 1,623,384 |
| On equity investments | 64,761 | - |
| Total net gains | 5,853,818 | 1,623,384 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

9. Financial assets at fair value through profit or loss (continued)

Net changes in fair value on financial assets at fair value through profit or loss:

| | 2019 £ | 2018 £ |
|------------------------|------------------|------------------|
| Realised | 5,184,687 | 987,192 |
| Change in unrealised | 669,131 | 636,192 |
| Total net gains | 5,853,818 | 1,623,384 |

Realised changes in fair value relate to cash amounts received under the Group's royalty financing agreements and cash amounts received from the exercise of certain warrants held.

Royalty investments

The Group's royalty investments comprise royalty financing agreements with 12 (2018 – 3) investees. Under the terms of these agreements the Group advances funds in exchange for annualised royalty distributions. The distributions are adjusted based on the change in the investees' revenues, subject to a floor and a cap. The financing is secured by way of fixed and floating charges over certain of the investees' assets. The investees are provided with buyback options, exercisable at certain stages of the agreements.

Equity investments

The Group's equity investments comprise unlisted shares and warrants in certain of its royalty investment companies.

The Group also still holds two (2018 – three) unlisted investments in mining entities from its previous investment objectives. During the year the Group disposed of one of the investments for proceeds of £87,989. The Board does not consider there to be any future cash flows from the remaining investments and were fully written down to nil value in prior years.

10. Loans receivable

| | 2019 £ | 2018 £ |
|--------------|------------------|-----------|
| Loans | | |
| Non-current | 8,993,465 | – |
| Current | 632,281 | – |
| | 9,625,746 | – |

The Group's loans receivable comprise secured loans advanced to five entities (2018 – nil) in connection with the Group's royalty investments. This includes three loans totalling £6,598,587 that were acquired as part of the business combination (see note 22).

The loans comprise fixed rate loans of £7,268,752 which bear interest at rates of between 5% and 16% and one variable rate loan of £2,356,994 which bears interest at 14.5% over LIBOR. The total interest receivable during the year was £255,664 (2018 – £nil).

The loans mature as follows:

| | 2019 £ | 2018 £ |
|-----------------------|------------------|-----------|
| In less than one year | 632,281 | – |
| In one to two years | 4,241,593 | – |
| In two to five years | 4,751,872 | – |
| | 9,625,746 | – |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued***11. Trade and other receivables**

| | 2019 £ | 2018 £ |
|--|----------------|------------------|
| Transaction costs reimbursed receivable | - | 100,000 |
| Prepayments and accrued income | 177,578 | 109,520 |
| Unpaid share capital | - | 10,000 |
| Amounts advanced to agents pending royalty investment completion | - | 6,467,500 |
| | 177,578 | 6,687,020 |

12. Share capital

| | External shares No. | Treasury shares No. | Total shares No. | £ |
|---|---------------------------|---------------------------|---------------------|--------------------|
| <i>Authorised</i> | | | | |
| Unlimited no. of shares of no par value | - | - | - | - |
| <i>Allotted, called up and fully paid</i> | | | | |
| At 1 April 2017 | 45,377,459 | - | 45,377,459 | 40,905,094 |
| Shares issued for cash during the year | 48,768,187 | - | 48,768,187 | 19,507,275 |
| Shares issued in settlement of share issuance costs | 1,231,813 | - | 1,231,813 | 492,725 |
| Share issuance costs | - | - | - | (1,188,338) |
| Shares issued in connection with support services agreement | 1,500,000 | - | 1,500,000 | 586,537 |
| At 1 April 2018 | 96,877,459 | - | 96,877,459 | 60,303,293 |
| Shares issued for cash during the year | 100,000,000 | - | 100,000,000 | 44,000,000 |
| Share issuance costs | - | - | - | (2,398,366) |
| Shares issued to Employee Benefit Trust during the year | - | 2,690,000 | 2,690,000 | - |
| Shares issued to directors and key advisers as remuneration | 305,000 | - | 305,000 | 139,385 |
| At 31 March 2019 | 197,182,459 | 2,690,000 | 199,872,459 | 102,044,312 |

There is a single class of shares. There are no restrictions on the distribution of dividends and the repayment of capital with respect to externally held shares. The shares held by The Duke Royalty Employee Benefit Trust are treated as treasury shares. The rights to dividends and voting rights have been waived in respect of these shares.

In August 2018 the Company issued 100 million new Ordinary Shares at 44 pence per share for cash. A total of £41,601,634 was raised, net of issuance costs.

The Company issued 2,690,000 shares for consideration of £nil into The Duke Royalty Employee Benefit Trust, under the terms of its Long Term Incentive Plan (LTIP). See note 13 for further details.

The Company issued 305,000 shares for consideration of £nil to certain directors and key advisers (see note 13).

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

13. Share-based payments

Warrant reserve

The following table shows the movements in the warrant reserve during the year:

| | Warrants £ |
|-----------------------------|---------------|
| At 1 April 2017 | – |
| Warrants issued in the year | 125,000 |
| At 1 April 2018 | 125,000 |
| Warrants issued in the year | 140,000 |
| At 31 March 2019 | 265,000 |

In November 2017 the Company issued 2,000,000 warrants to Partners Value Investments LP in consideration for services provided under a Strategic Advisory Agreement to subscribe for shares at 42 pence per share. The warrants are exercisable immediately and can be exercised within a period of five years from the date of the agreement. The fair value of the warrants was determined to be £125,000, being the value of services provided. This was recognised in profit or loss with £70,000 attributed to 'Transaction costs' and £55,000 to 'Legal and professional fees'.

In September 2018 the Company issued a further 2,375,000 warrants to Partners Value Investments LP to subscribe for shares at 50 pence per share. The warrants are exercisable immediately and can be exercised within a period of five years from the date of the agreement. The fair value of the warrants was determined to be £140,000, being the value of services provided. This was recognised within 'Transaction costs' in the Consolidated Statement of Comprehensive Income.

At the year end 4,375,000 warrants were outstanding and exercisable at a weighted average exercise price of 46 pence (2018 – 42 pence). The weighted average remaining contractual life of the warrants outstanding at the year end was 4.08 years (2018 – 4.58 years).

Share-based payment reserve

The following table shows the movements in the share-based payment reserve during the year:

| | Share options £ | LTIP awards £ | Total £ |
|-----------------------|-----------------------|---------------------|------------|
| At 1 April 2017 | 124,412 | – | 124,412 |
| LTIP awards | – | 5,565 | 5,565 |
| At 1 April 2018 | 124,412 | 5,565 | 129,977 |
| Share options granted | 11,778 | – | 11,778 |
| LTIP awards | – | 191,427 | 191,427 |
| At 31 March 2019 | 136,190 | 196,992 | 333,182 |

Share option scheme

The Group operates a share option scheme ("the Scheme"). The Scheme was established to incentivise Directors, staff and certain key advisers and consultants to deliver long-term value creation for shareholders.

Under the Scheme, the Board of the Company will award, at its sole discretion, options to subscribe for Ordinary Shares of the Company on terms and at exercise prices and with vesting and exercise periods to be determined at the time. However, the Board of the Company has agreed not to grant options such that the total number of unexercised options represents more than 4 per cent of the Company's Ordinary Shares in issue from time to time. Options vest immediately and lapse 5 years from the date of grant.

In October 2018 the Company issued 200,000 options at an exercise price of 50 pence under the terms of the Scheme. The Black-Scholes value of the options was assessed as £11,778. Since the options vested immediately, the full expense was recognised in profit or loss during the year.

At the year end 960,000 (2018 – 760,000) options were outstanding and exercisable at a weighted average exercise price of 70 pence (2018 – 75 pence). The weighted average remaining contractual life of the options outstanding at the year end was 2.09 years (2018 – 2.43 years).

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

13. Share-based payments (continued)

Long Term Incentive Plan

Under the rules of the Long Term Incentive Plan ("LTIP") the Remuneration Committee may grant Performance Share Awards ("PSAs") which vest after a period of three years and are subject to various performance conditions. The LTIP awards will be subject to a performance condition based 50 per cent on total shareholder return ("TSR") and 50 per cent on total cash available for distribution ("TCAD per share"). TSR can be defined as the returns generated by shareholders based on the combined value of the dividends paid out by the Company and the share price performance over the period in question. Upon vesting the awards are issued fully paid.

The fair value of the LTIP awards consists of (a) the fair value of the TSR portion; and (b) the fair value of the TCAD per share portion. Since no consideration is paid for the awards, the fair value of the awards is based on the share price at the date of grant, as adjusted for the probability of the likely vesting of the performance conditions. Since the performance condition in respect of the TSR portion is a market condition, the probability of vesting is not revisited following the date of grant. The probability of vesting of the TCAD per share portion, containing a non-market condition, is reassessed at each reporting date. The resulting fair values are recorded on a straight line basis over the vesting period of the awards.

On 6 March 2018 1,025,000 PSAs were granted to Directors with a fair value of £234,390. An expense of £5,565 was recognised in the Consolidated Statement of Comprehensive Income in 'Directors' fees'.

On 31 October 2018 1,665,000 PSAs were granted to Directors and key advisers with a fair value of £643,939. An expense of £89,388 was recognised in the Consolidated Statement of Comprehensive Income split between 'Directors' fees' and 'Investment Committee fees'. An expense of £102,039 in relation to the 1,025,000 PSAs granted in the prior year was recognised in 'Directors' fees'.

At the year end 2,690,000 (2018 – 1,025,000) LTIP awards were outstanding. The weighted average remaining vesting period of the LTIP awards outstanding at the year end was 2.33 years (2018 – 2.93 years).

Other share-based payments

During the prior year the Company issued 1,500,000 shares with a fair value of £586,537 in respect of its support services agreement (see note 19).

During the year the Company issued 305,000 shares to certain Non-Executive Directors, members of the Investment Committee and to new members ("New Joiners") of the Duke team. The shares issued to the Non-Executive Directors and Investment Committee members were in recognition of the significant contribution made during the previous financial year and for voluntarily forgoing service fees. The shares issued to New Joiners were as signing bonuses. The fair value of the shares was determined to be £139,395, being the share price at the date of the awards. The expense was recognised in full in profit or loss during the year.

14. Distributable reserves

Pursuant to the Companies (Guernsey) Law, 2008 (as amended), all reserves (including share capital) can be designated as distributable. However, in accordance with the Admission Document, the Company shall not make any distribution of capital profits or capital reserves except by means of capitalisation issues in the form of fully paid Ordinary Shares or issue securities by way of capitalisation of profits or reserves except fully paid Ordinary Shares issued to the holders of its Ordinary Shares.

15. Trade and other payables

| | 2019 £ | 2018 £ |
|---|------------------|----------------|
| Current | | |
| Trade payables | 159,252 | 178,761 |
| Consideration on business acquisition (note 22) | 320,811 | – |
| Transaction costs | 98,766 | – |
| Accruals and deferred income | 135,558 | 80,932 |
| | 714,387 | 259,693 |
| Non-current | | |
| Transaction costs | 439,709 | – |
| | 1,154,096 | 259,693 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

16. Financial liabilities at fair value through profit or loss

| | 2019 £ | 2018 £ |
|--|------------------|----------------|
| Royalty participation liability | | |
| Current | 172,918 | 140,886 |
| Non-current | 1,193,579 | 776,514 |
| | 1,366,497 | 917,400 |

Net changes in fair value on financial liabilities at fair value through profit or loss:

| | 2019 £ | 2018 £ |
|-------------------------|----------------|---------------|
| Realised | 160,964 | - |
| Change in unrealised | 17,329 | 68,866 |
| Total net losses | 178,293 | 68,866 |

17. Borrowings

| | 2019 £ | 2018 £ |
|----------------------------|-------------------|-----------|
| Secured loan | | |
| Current – accrued interest | 325,938 | - |
| Non-current | 11,365,426 | - |
| | 11,691,364 | - |

The secured loan has an interest rate of 9.5% over LIBOR per annum. The principal amount is repayable on 15 March 2023. The loan is secured by means of a fixed and floating charge over the assets of certain subsidiary companies. The loan was assumed as part of the business combination (see note 22).

The Group assumed further loans as part of the business combination totalling £5,609,461. These loans were repaid immediately following acquisition. During the year the Group received a short term loan of £3,500,000. The loan was interest bearing at 12% per annum. This loan was repaid during the year.

18. Deferred tax liability

| | Financial assets at fair value through profit or loss £ | Tax losses £ | Total £ |
|--------------------------------------|--|------------------|----------------|
| At 1 April 2017 and 1 April 2018 | - | - | - |
| Arising on business combination | 946,191 | (258,403) | 687,788 |
| Charged/(credited) to profit or loss | (155,248) | 31,717 | (123,531) |
| At 31 March 2019 | 790,943 | (226,686) | 564,257 |

The balance comprises temporary differences attributable to:

| | 2019 £ | 2018 £ |
|---|----------------|-----------|
| Financial assets at fair value through profit or loss | 790,943 | - |
| Tax losses | (226,686) | - |
| | 564,257 | - |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued***19. Related parties****Directors' fees**

The following fees were payable to the Directors during the year:

| | Basic fees 2019 £ | Share-based payments 2019 £ | Total 2019 £ | Basic fees 2018 £ | Share-based payments 2018 £ | Total 2018 £ |
|------------------|-------------------------|--------------------------------------|--------------------|-------------------------|--------------------------------------|--------------------|
| N Birrell | 24,000 | 20,337 | 44,337 | 12,000 | - | 12,000 |
| N Johnson | 149,995 | 95,408 | 245,403 | 50,000 | 2,715 | 52,715 |
| C Cannon Brookes | 105,000 | 67,055 | 172,055 | 35,000 | 1,900 | 36,900 |
| J Cochrane | 35,000 | 17,421 | 52,421 | 17,500 | 950 | 18,450 |
| J Ryan* | - | - | - | 6,000 | - | 6,000 |
| M Le Tissier | - | - | - | - | - | - |
| M Wrigley | 24,000 | 12,339 | 36,339 | 6,000 | - | 6,000 |
| | 337,995 | 212,560 | 550,555 | 126,500 | 5,565 | 132,065 |

* Resigned 28 September 2017

Fees relating to Charles Cannon Brookes are paid to Arlington Group Asset Management Limited.

During the prior year, the Directors voluntarily reduced their fees in order for the Company to implement and sustain its quarterly dividend policy. This reduction ceased during the year.

The above fees include the following expenses relating to shares issued as remuneration (see note 12):

| | 2019 £ | 2018 £ |
|-----------------|---------------|-----------|
| Nigel Birrell | 20,337 | - |
| Matthew Wrigley | 12,339 | - |
| | 32,676 | - |

The above noted fees include the following expenses relating to awards granted under the Group's Long Term Incentive Plan (see note 13):

| | 2019 £ | 2018 £ |
|------------------------|----------------|--------------|
| Neil Johnson | 95,408 | 2,715 |
| Charles Cannon Brookes | 67,055 | 1,900 |
| Justin Cochrane | 17,421 | 950 |
| | 179,884 | 5,565 |

Mark Le Tissier, a Director of Trident Trust Company (Guernsey) Limited, has waived his entitlement to a fee in relation to being Director of the Company.

At the year end a total of £33,250 of fees remained outstanding (2018 - £nil), of which £12,500 was due to Neil Johnson, £8,750 was due to Charles Cannon Brookes, £6,000 was due to Nigel Birrell and £6,000 was due to Matthew Wrigley. These fees have been settled subsequent to the year end.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

19. Related parties (continued)

Investment Committee fees

The Group's Investment Committee assist in analysing and recommending potential royalty transactions and its members are considered to be key management along with the Directors. The following fees were payable to the members of the Investment Committee during the year:

| | 2019 £ | 2018 £ |
|------------------|----------------|---------------|
| Andrew Carragher | 20,337 | - |
| John Romeo | 20,337 | - |
| Jim Webster | 86,543 | 37,500 |
| | 127,217 | 37,500 |

The above noted fees include the following expenses relating to shares issued as remuneration (see note 12):

| | 2019 £ | 2018 £ |
|------------------|---------------|-----------|
| Andrew Carragher | 20,337 | - |
| John Romeo | 20,337 | - |
| | 40,674 | - |

The above noted fees include the following expenses relating to awards granted under the Group's Long Term Incentive Plan (see note 13):

| | 2019 £ | 2018 £ |
|-------------|-----------|-----------|
| Jim Webster | 11,543 | - |

Jim Webster is also the Group's Chief Investment Officer and has an operational role in the Group beyond the Investment Committee, which is reflected in the level of his fee.

During the prior year, Andrew Carragher waived his entitlement to a fee in relation to being a member of the Group's Investment Committee, and Jim Webster agreed to voluntarily reduce his fee, in conjunction with the voluntary reductions of the Directors, in order for the Company to implement and sustain its quarterly dividend policy. During the year these reductions ceased.

At the year end a total of £12,500 remained outstanding (2018 – £nil) to Jim Webster. These fees have been settled subsequent to the year end.

Support services administration fees

The following amounts were payable to related parties during the year in respect of support services fees:

| | 2019 £ | 2018 £ |
|--|----------------|----------------|
| Payable to Abingdon Capital Corporation | | |
| Annual service fee | 248,000 | 196,000 |
| Share award | - | 415,818 |
| | 248,000 | 611,818 |
| Payable to Arlington Group Asset Management Limited | | |
| Annual service fee | 62,000 | 24,000 |
| Share award | - | 170,719 |
| | 62,000 | 194,719 |
| | 310,000 | 806,537 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued***19. Related parties (continued)****Support services administration fees (continued)**

Support Service Agreements with Abingdon Capital Corporation ("Abingdon"), a company of which Neil Johnson is a Director, and Arlington Group Asset Management Limited ("Arlington"), a company of which Charles Cannon Brookes is a Director, were signed on 16 June 2015. The services to be provided by both Abingdon and Arlington include global deal origination, vertical partner relationships and on-going investment management, including preparation of investment reports, performance data and compliance with the Company's investing policy.

The Support Services Agreements also entitled Abingdon and Arlington to be allotted up to 1,500,000 Ordinary Shares in the Company, in recognition of the execution of the royalty strategy, principally the completion of royalty investments by the Group. These conditions were met during the prior year and the shares were issued on 22 December 2017. This entitlement has now been satisfied in full and no further shares will be issued pursuant to the Support Services Agreements. The shares were valued at £586,537 based on the 20-day volume weighted average share prices preceding the dates on which Abingdon and Arlington became entitled to them in accordance with the terms of the agreement.

During the prior year, both Abingdon and Arlington agreed to voluntary reductions in their annual service fees in order for the Company to implement and sustain its quarterly dividend policy. These reductions ceased from October 2018.

Share options and LTIP awards

The Group's related parties have the following interests, either directly or beneficially, in share options issued under the Group's share option scheme and Long Term Incentive Plan:

| | Share options | | LTIP awards | |
|-------------------------------------|---------------|-------------|-------------|-------------|
| | 2019 No. | 2018 No. | 2019 No. | 2018 No. |
| Neil Johnson | 85,000 | 85,000 | 1,350,000 | 500,000 |
| Charles Cannon Brookes ¹ | 85,000 | 85,000 | 950,000 | 350,000 |
| Nigel Birrell | 85,000 | 85,000 | - | - |
| James Ryan | - | 85,000 | - | - |
| Justin Cochrane | 70,000 | 70,000 | 175,000 | 175,000 |
| Jim Webster | - | - | 215,000 | - |

¹ Includes share options issued to Arlington.

The following dividends were paid to related parties:

| | 2019 No. | 2018 No. |
|-------------------------------------|-------------|-------------|
| Neil Johnson ¹ | 90,794 | 33,636 |
| Charles Cannon Brookes ² | 139,200 | 58,000 |
| Nigel Birrell | 19,962 | 8,500 |
| Justin Cochrane | 19,980 | 10,600 |
| Matthew Wrigley | 189 | - |
| Andrew Carragher | 7,737 | - |
| John Romeo | 312 | - |

¹ Includes dividends paid to Abinvest Corporation, a wholly owned subsidiary of Abingdon.

² Includes dividends paid to Arlington.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

20. Fair value measurements

Fair value hierarchy

IFRS 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can readily observe.

Level 2: Inputs are inputs other than quoted prices included within level 1 that are observable for the asset, either directly or indirectly.

Level 3: Inputs that are not based on observable market data (unobservable inputs).

The Group has classified its financial instruments into the three levels prescribed as follows:

| | 2019 Level 3 £ | 2018 Level 3 £ |
|---|----------------------|----------------------|
| Financial assets | | |
| Financial assets at fair value through profit or loss | | |
| – Royalty investments | 70,054,111 | 23,568,548 |
| – Equity investments | 1,177,469 | 250 |
| Total financial assets at fair value through profit or loss | 71,231,580 | 23,568,798 |
| Financial liabilities | | |
| Financial liabilities at fair value through profit or loss | | |
| – Royalty participation liabilities | 1,366,497 | 917,400 |
| Total financial liabilities at fair value through profit or loss | 1,366,497 | 917,400 |

The following table presents the changes in level 3 items for the years ended 31 March 2018 and 31 March 2019:

| | Financial assets £ | Financial liabilities £ | Total £ |
|--|--------------------------|-------------------------------|-------------|
| At 1 April 2017 | – | – | – |
| Additions | 22,932,606 | (848,534) | 22,084,072 |
| Royalty income received | (987,192) | – | (987,192) |
| Net change in fair value | 1,623,384 | (68,866) | 1,554,518 |
| At 1 April 2018 | 23,568,798 | (917,400) | 22,651,398 |
| Additions | 31,500,313 | (431,768) | 31,068,545 |
| Business combination | 15,493,338 | – | 15,493,338 |
| Royalty income received | (5,096,698) | – | (5,096,698) |
| Royalty participation liabilities paid | – | 160,964 | 160,964 |
| Proceeds from exercise of warrants | (87,989) | – | (87,989) |
| Net change in fair value | 5,853,818 | (178,293) | 5,675,525 |
| At 31 March 2019 | 71,231,580 | (1,366,497) | 69,865,083 |

Valuation techniques used to determine fair values

The fair value of the Group's financial instruments is determined using discounted cash flow analysis and all of the resulting fair value estimates are included in level 3. The fair value methodologies and techniques have remained unchanged and are consistent with that of the prior year.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

20. Fair value measurements (continued)

Valuation processes

The main level 3 inputs used by the Group are derived and evaluated as follows:

Annual adjustment factors for royalty investments and royalty participation liabilities

These factors are estimated based upon the underlying past and projected performance of the royalty investee companies together with general market conditions.

Discount rates for financial assets and liabilities

These are initially estimated based upon the projected internal rate of return of the royalty investment and subsequently adjusted to reflect changes in credit risk determined by the Group's Investment Committee.

Changes in level 3 fair values are analysed at the end of each reporting period and reasons for the fair value movements are documented.

Valuation inputs and relationships to fair value

The following summary outlines the quantitative information about the significant unobservable inputs used in level 3 fair value measurements:

Royalty investments

The unobservable inputs are the annual revenue growth rates and the discount rate. The range of annual revenue growth rates used is 0.0% to 6.0% and the range of risk-adjusted discount rates is 12.4% to 17.5%.

An increase in the annual revenue growth rates (subject to the collars set under the terms of the royalty financing agreements) of 5% would increase the fair value by £496,804.

A reduction in the discount rate of 25 basis points would increase the fair value by £909,907.

A decrease in the annual revenue growth rates (subject to the collars set under the terms of the royalty financing agreements) of 5% would decrease the fair value by £488,743.

An increase in the discount rate of 25 basis points would decrease the fair value by £922,819.

Equity investments

Sensitivity analysis has not been performed on the Group's equity investments on the basis that they are not material to the Consolidated Financial Statements.

Royalty participation instruments

The unobservable inputs are the annual adjustment factor and the discount rate used in the fair value calculation of the royalty investments. The range of annual adjustment factors used is 0.0% to 6.0% and the range of risk-adjusted discount rates is 13.6% to 17.5%.

An increase in the annual adjustment factor (subject to the collars set under the terms of the royalty financing agreements) of 5% would increase the fair value of the liability by £11,233.

A reduction in the discount rate of 25 basis points would increase the fair value of the liability by £7,619.

A decrease in the annual adjustment factor (subject to the collars set under the terms of the royalty financing agreements) of 5% would decrease the fair value of the liability by £11,002.

An increase in the discount rate of 25 basis points would decrease the fair value of the liability by £19,257.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

21. Financial risk management

The Group's royalty financing activities expose it to various types of risk that are associated with the investee companies to which it provides royalty finance. The most important types of financial risk to which the Group is exposed are market risk, liquidity risk and credit risk. Market risk includes price risk, foreign currency risk and interest rate risk. The Board of Directors has overall responsibility for risk management and the policies adopted to minimise potential adverse effects on the Group's financial performance.

The policies and processes for measuring and mitigating each of the main risks are described below.

Market risk

Market risk comprises foreign exchange risk, interest rate risk and other price risk.

Foreign exchange risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. The functional and presentation currency of the Group is Sterling.

The Group is exposed to foreign exchange risk arising from foreign currency transactions, primarily with respect to the Euro. Foreign exchange risk arises from future commercial transactions in recognised assets and liabilities denominated in a currency that is not the functional currency of the Company and its subsidiary.

The Board monitors foreign exchange risk on a regular basis. The Group's exposure to this risk is outlined below.

The Group's exposure to foreign currency risk at the end of the reporting period was as follows:

| | 2019 Euro £ | 2019 US Dollar £ | 2018 Euro £ | 2018 US Dollar £ |
|---------------------------------|-------------------|------------------------|-------------------|------------------------|
| Royalty investment | 7,095,492 | - | 7,216,755 | - |
| Equity investments | 1,176,906 | - | - | - |
| Loans receivable | 2,413,191 | 613,968 | - | - |
| Cash and cash equivalents | 372,501 | 8 | 75,663 | - |
| Royalty participation liability | (274,849) | - | (293,002) | - |
| Transaction costs payable | - | (538,475) | - | - |
| | 10,783,241 | 75,501 | 6,999,416 | - |

If Sterling strengthens by 5% against the Euro the net Euro-denominated assets would reduce by £513,488. Conversely, if it weakens by 5% the assets would increase by £567,539.

During the year the following foreign exchange related amounts were recognised in profit or loss:

| | 2019 £ | 2018 £ |
|--|-----------|-----------|
| Exchange (loss)/gain on royalty investment included in net change in fair value on financial assets and liabilities at fair value through profit or loss | (121,263) | 77,837 |
| Exchange loss on equity investments included in net change in fair value on financial assets and liabilities at fair value through profit or loss | (23,228) | - |
| Exchange loss on loans receivable included in net foreign currency losses | (20,980) | - |
| Exchange loss on royalty participation liability included in net change in fair value on financial assets and liabilities at fair value through profit or loss | (36,963) | (8,493) |
| Other exchange gains included in net foreign currency (losses)/gains | (20,616) | 97,238 |
| | (223,050) | 166,582 |

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

21. Financial risk management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.

The Group's main interest rate risks arise in relation to its royalty investments, which are carried at fair value through profit or loss, and its borrowings, which are subject to an interest charge of LIBOR + 9.5%. The Group's royalty investments have a fair value at the reporting date of £70,054,111 (2018 – £23,568,548). A sensitivity analysis in respect of these assets is presented in note 20.

The Group's borrowings have a fair value at the reporting date of £11,365,426 (2018 – £nil). A sensitivity analysis has not been presented as it is not material to the Consolidated Financial Statements.

Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk).

The fair value of the Group's royalty investments fluctuates due to changes in the expected annual adjustment factors applied to the royalties payable by each of the investee companies, which factors are based upon the revenue growth of the investee company.

A sensitivity analysis in respect of the annual adjustment factors applied to the royalty investments is presented in note 20.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's maximum exposure to credit risk is as follows:

| | 2019 £ | 2018 £ |
|---------------------------------|-------------------|-------------------|
| Royalty investments | 70,054,111 | 23,568,548 |
| Loans receivable | 9,625,746 | – |
| Deal fees reimbursed receivable | – | 100,000 |
| Funds held in escrow | – | 6,467,500 |
| Cash and cash equivalents | 5,893,813 | 3,165,221 |
| | 85,573,670 | 33,301,269 |

Royalty investments

The royalty investments relate to the Group's 12 royalty financing agreements. At the reporting date there are no royalty receipts that are past due.

The Group monitors the credit worthiness of the investee companies on an ongoing basis and receives regular financial reports from each investee company. These reports are reviewed by the Investment Committee. The credit risk relating to these investments is taken into account in calculating the fair value of the instruments.

The Group also has security in respect of the royalty investments which can be called upon if the counterparty is in default under the terms of the agreement.

Loans receivable

The Group's loans receivable are held at amortised cost. Included within the 'loans receivable' asset of £9,625,746 is £6,598,557 relating to assets acquired as part of the business combination (see note 22). Any expected credit losses at the time of the business combination were taken into account in arriving at the acquisition date fair values. Since there have been no changes in the associated credit risk between the date of acquisition and the year end no expected credit loss has been recognised.

The remaining balance of £3,027,189 relates to loans advanced by the Group during the year. These loans have been reviewed by the Directors. The Board considered the credit risk, both at issue and at the year end, and have determined that there has been no significant movement. Consequently any loss allowance is limited to 12 months' expected losses. Such allowance is considered to be immaterial due to the security held by the Group in connection with the related investments.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

21. Financial risk management (continued)

Credit risk (continued)

Cash and cash equivalents

The credit quality of the Group's cash and cash equivalents can be assessed by reference to external credit ratings as follows:

| | 2019 £ | 2018 £ |
|------------------------|------------------|------------------|
| Moody's credit rating: | | |
| Aa2 | 1,585 | - |
| Aa3 | - | 294,136 |
| Baa2 | 5,193,588 | - |
| Baa3 | - | 2,871,085 |
| Unrated | 698,640 | - |
| | 5,893,813 | 3,165,221 |

The Group considers that the credit risk relating to cash and cash equivalents is acceptable.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments.

The Group maintains sufficient cash to pay accounts payable and accrued expenses as they fall due. The Group's overall liquidity risks are monitored on a quarterly basis by the Board.

At the year end the Group had access to an undrawn borrowing facility of £4,550,001 (2018 – £nil) (see note 17).

The table below analyses the Group's royalty investments and financial liabilities into relevant maturity groupings based on their undiscounted contractual maturities:

| | Less than 6 months £'000 | 6-12 months £'000 | Between 1-2 years £'000 | Between 2-5 years £'000 | Over 5 years £'000 | Total contractual cash flows £'000 |
|----------------------------|--------------------------------|----------------------|-------------------------------|-------------------------------|-----------------------|---|
| As at 31 March 2019 | | | | | | |
| Royalty investments | 4,350 | 4,387 | 10,250 | 38,733 | 200,393 | 258,113 |
| Royalty participation | (107) | (78) | (208) | (740) | (4,206) | (5,339) |
| Trade and other payables | (990) | (296) | (96) | (288) | (480) | (2,150) |
| Borrowings | (652) | (652) | (1,304) | (14,583) | - | (17,191) |
| Total | 2,601 | 3,361 | 8,642 | 23,122 | 195,707 | 233,433 |
| As at 31 March 2018 | | | | | | |
| Royalty investments | 1,473 | 1,515 | 3,132 | 10,044 | 88,712 | 104,876 |
| Royalty participation | (92) | (57) | (117) | (377) | (3,327) | (3,970) |
| Trade and other payables | (260) | - | - | - | - | (260) |
| Total | 1,121 | 1,458 | 3,015 | 9,667 | 85,385 | 100,646 |

Capital management

The Board manages the Company's capital with the objective of being able to continue as a going concern while maximising the return to Shareholders through the capital appreciation of its investments. The capital structure of the Company consists of equity as disclosed in the Consolidated Statement of Financial Position.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

22. Business combination

Summary of acquisition

On 1 February 2019, Duke Royalty Limited acquired the entire issued share capital of both the Capital Step Holdings and Capital Step Investments groups. Capital Step Holdings Group comprises Capital Step Holdings Limited and its wholly owned subsidiary Capital Step Funding Limited. Capital Step Investments Group comprises Capital Step Investments Limited and its wholly owned subsidiary Capital Step Funding 2 Limited.

The Capital Step group is a UK-based diversified provider of royalty and uni-tranche financing.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | £ |
|-------------------------------------|------------------|
| Cash paid | 4,591,757 |
| Cash payable | 320,811 |
| Contingent cash consideration | - |
| Total purchase consideration | 4,912,568 |

The contingent consideration is subject to the achievement of certain performance related milestones in the period to 31 March 2020. The potential undiscounted amount payable under the agreement is between £nil and £1,300,000. The fair value of the contingent consideration of £nil was estimated based upon the future expected performance of the acquired entities.

The Group has designated 31 January 2019 as the acquisition date for the purposes of determining the fair value of assets acquired and liabilities assumed. The assets and liabilities recognised as a result of the acquisition are as follows:

| | Fair value £ |
|---------------------------|------------------|
| Royalty investments | 14,293,205 |
| Equity investments | 1,200,134 |
| Loan investments | 6,598,587 |
| Cash | 318,004 |
| Other current assets | 103,614 |
| Corporation tax payable | (5,333) |
| Other current liabilities | (145,776) |
| Loans payable | (16,965,074) |
| Deferred tax liability | (687,788) |
| | 4,709,573 |
| Add: Goodwill | 202,995 |
| | 4,912,568 |

The goodwill is attributable to the workforce of the acquired business. It will not be deductible for tax purposes.

Revenue and profit contribution

The acquired business contributed income of £393,737 and profit before tax of £66,465 to the Group for the period from 1 February to 31 March 2019.

The Group has not presented the information required by paragraph B64(q)(ii) of IFRS 3 'Business Combinations', being the revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for the business combination had been as of the beginning of the annual reporting period. The acquired entities were in a transition phase during the period, with their total number of investments increasing from two to six between 1 April 2018 and 31 March 2019. Consequently such information would not be representative of the financial effect of the acquisition and would give rise to misleading results.

Notes to the consolidated financial statements

For the year ended 31 March 2019 *continued*

22. Business combination (continued)

Purchase consideration – cash outflow

| | £ |
|---|------------------|
| Cash paid | 4,591,757 |
| Less: Cash balance acquired | (318,004) |
| Net outflow of cash – investing activities | 4,273,753 |

Acquisition-related costs

Acquisition-related costs of £700,548 are included in 'Transaction costs' in the Consolidated Statement of Comprehensive Income. Of this, £267,720 was paid during the year.

There were no acquisitions in the year ending 31 March 2018.

23. Events after the financial reporting date

Dividends

On 17 April 2019 the Company paid a quarterly dividend of 0.7 pence per share and on 12 July 2019 the Company paid a further quarterly dividend of 0.7 pence per share.

Modifications to existing investment agreements

On 14 May 2019 the Group announced certain modifications to the terms of three loans receivable that were acquired as part of the business combination. The maturity dates of two of the loans were extended from 2022 to 2024 and the third loan was converted to a royalty investment.

Follow-on royalty investments

On 28 May 2019 the Group announced a follow-on investment of £1.4 million into its royalty partner Welltel (Ireland) Limited.

On 29 August 2019 the Group announced a follow-on investment of £0.25 million into its royalty partner Pearl & Dean Cinemas Limited.

Company information

| | | |
|--|--|--|
| Directors | Nigel Birrell (Chairman) Neil Johnson Charles Cannon Brookes | Justin Cochrane Mark Le Tissier Matthew Wrigley |
| Secretary and administrator | Trident Trust Company (Guernsey) Limited Trafalgar Court 4 th Floor, West Wing, St Peter Port Guernsey, GY1 2JA | |
| Registered in Guernsey, number | 54697 | |
| Website address | www.dukeroyalty.com | |
| Registered office | Trafalgar Court 4 th Floor, West Wing, St Peter Port Guernsey, GY1 2JA | |
| Independent auditor | BDO Limited Place du Pre Rue de Pre St Peter Port Guernsey, GY1 3LL | |
| Nominated advisor | Cenkos Securities plc 6-8 Tokenhouse Yard London, EC2R 7AS | |
| Broker | Cenkos Securities plc 6-8 Tokenhouse Yard London, EC2R 7AS | |
| Support service providers | Arlington Group Asset Management Limited 47/48 Piccadilly London, W1J 0DT | Abingdon Capital Corporation 4 King Street W., Suite 401 Toronto, Ontario Canada, M5H 1B6 |
| Registrar and CREST agent | Computershare Investor Services (Guernsey) Limited 3 rd Floor, NatWest House Le Truchot, St Peter Port Guernsey GY1 1WD | |
| Advocates to the Company as to Guernsey law | MJ Hudson Hadsley House Lefebvre Street St Peter Port Guernsey, GY1 2JP | |
| Investment Committee | Neil Johnson Andrew Carragher Jim Webster | John Romeo Justin Cochrane |





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