DUKE ROYALTY

ANNUAL REPORT

for the year ended 31 March 2023

Contents

Financial highlights

Record cash revenue[1]
£21.9m
2022: £18.4m
+19%

Recurring cash revenue[2]
£21.8m
2022: £14.9m
+46%

Free cash flow
£13.1m
2022: £12.1m
+9%

Free cash flow per share[3]
3.30p
2022: 3.53p

Earnings per share
4.92p
2022: 5.95p

Adjusted earnings per share
3.13p
2022: 3.81p

Dividend
2.80p
per share
2022: 2.25p

1 Cash revenue refers to monthly distributions from royalty partners, buyout premiums and cash gains from the sale of equity investments
2 Recurring cash revenue excludes buyout premiums and cash gains from the sale of equity investments
3 Free cash flow is defined as net cash inflows from operations plus cash gains from the sale of equity investments less interest paid on borrowings

Mission statement

Our mission is to support profitable, well-established Small & Medium Sized Enterprises (SMEs) reach their full growth potential with a long-term and flexible source of capital.

We aim to bridge the significant funding gap being faced by SMEs with a royalty financing solution, a method of financing which is proven to withstand multiple economic cycles.

In doing so, we seek to provide robust, stable and long-term returns to our shareholders.

Operational highlights

Deployed over
£12.3m
of capital, into two new royalty partners

Follow-on investments
£14.0m
made into existing royalty partners

Refinanced and upsized credit facility
£100m
from a previous £55 million credit facility to facilitate more investment opportunities

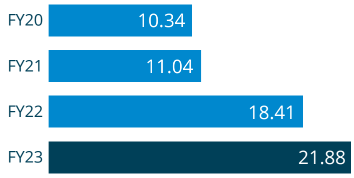
Raised
£20m
of equity capital in oversubscribed placing

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").

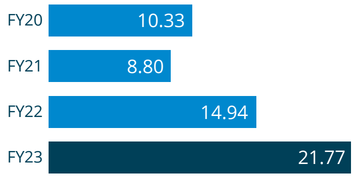
The "Group" is defined as the Company, its subsidiaries Duke Royalty UK Limited, Capital Step Holdings Limited, Capital Step Funding Limited, Capital Step Investments Limited and Capital Step Funding 2 Limited and The Duke Royalty Employee Benefit Trust.

Company registration number: 54697

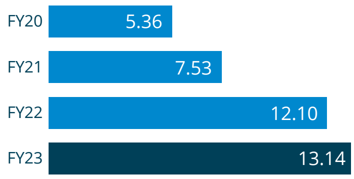
Total cash revenue (£m)



Recurring cash revenue (£m)

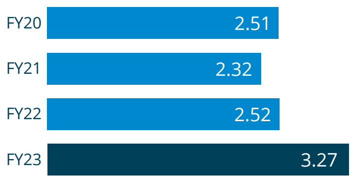


Free cash flow (£m)



Free cash flow per share (£m)

Recurring free cash flow per share (£m)



Dividend per share (£m)

Receive **capital**, retain **control**...

We provide capital to profitable, established businesses where our returns do not require an 'exit event' or lump sum repayment, therefore 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' and sometimes referred to as 'revenue-based financing'.

In providing our partners with a lump sum of capital with a term of 30+ years and no bullet repayment, we allow business owners to retain control with minimal or no dilution and without re-financing risk. Since the agreement is structured to ensure our return is generated through the cash flow of the business, it enables management to focus on growth instead of what we refer to as the 'refinancing treadmill', the constant loop of getting bank financing only to be required to repay principal, forcing the company to look for more bank financing to repay the last loan.

The distribution payable to Duke is reset annually either up or down, subject to a ceiling and a floor, according to the revenue performance of the business, which we call our 'royalty partner'. This aligns our return with the performance of the royalty partner over the long term, which appeals to business owners when the short-term economic outlook is so uncertain.

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

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Our solution: **Royalty finance**

Corporate Royalties are a hybrid between private credit and private equity, for owner-operators who want to maintain control of their business.

Benefits over **equity**

Ownership preservation

We provide a minimally-dilutive solution, we may not take a seat on your Board and you continue to own and control your company

Control over any refinancing

Unlike private equity, the owners are in control of the timing of a refinancing event or exit

A passive, long- term funding partner

No pressure for an exit or liquidity event, no focus on short-term profit maximisation. We provide capital in exchange for interest distributions that fluctuate with future revenues on a term of 30+ years

Alignment of interests

The business owner teams up with a financing provider that allows them to retain control of their business, drive growth and increase shareholder value

Benefits over **debt**

Risk shared on future performance

Distributions are reset annually based on the revenue performance of the business, and the change is subject to a cap and a floor

Light amortising capital

There is no repayment of principal at the end of the royalty's life as this has amortised over the 30+ year term

Follow-on financings

We are a partner to your business 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

We never dictate a large principal repayment; you control the timing of the refinancing event

Case study

ACQUISITION CAPITAL

Royalty partner

New Path Fire and Security

- New Path Fire and Security is a growing and acquisitive platform, buying independent regional fire safety and security companies throughout southern England
- New Path predominantly serves business customers, helping them to protect their premises, assets, and most importantly their people.
- New Path's growing raft of competencies also allows it to act as a hassle-free single point of contact

"Duke is an ideal partner and shareholder for us at this point in our life cycle. Their capital will allow us to assert ourselves in a sector that we understand well and to gain scale via acquisition. We are excited about the opportunities that lie ahead and to work with the Duke team to achieve our strategic objectives"

Andrew Hill
CEO of New Path

Why Duke?

Patient capital with no refinancing risk in a challenging macroeconomic environment

Access to further capital "war chest" to pursue M&A

Royalty Partners

Duke has deep and proven experience of investing across a range of sectors, geographies and transaction types. The table below showcases the sectors and transaction types of our current royalty partners.

	INITIAL INVESTMENT DATE	USE OF CAPITAL	FAIR VALUE
Industrials			
Atlas Signs	Dec 2021	Debt Refinancing	£18.5m
Creō-tech Industrial Group	July 2021	Acquisition Capital	£11.3m
Fabrikat	Feb 2021	MBO	£7.1m
Trimite Global Coatings	Mar 2018	Equity Buyout	£10.2m
United Glass Group	Apr 2018	Acquisition Capital	£13.2m
Business Services			
BVPA (Ireland)	Sep 2018	Acquisition Capital	£14.3m
Lynx Equity (UK)	Oct 2017	Acquisition Capital	£15.3m
Miriad Products	Feb 2019	MBO/MBI	£17.2m
New Path Fire & Security	Dec 2022	Growth Capital	£5.0m
Step Investments	June 2018	Growth Capital	£9.1m
Healthcare			
Fairmed Healthcare	June 2021	Growth Capital	£9.8m
InterHealth Canada	Aug 2018	Growth Capital	£11.8m
IT Services			
Instor Solutions	Mar 2023	Acquisition Capital	£8.8m
Intec Business Solutions	July 2021	Acquisition Capital	£20.5m
Specialist Care			
Tristone Healthcare	Dec 2021	Specialist Care	£19.2m

Chairman's statement

NIGEL BIRRELL
Chairman

"I am pleased to report a strong set of results for the financial year ending 31 March 2023 ("FY23"), which once again demonstrated the resilience of Duke's business model to perform robustly in both a positive and challenging macroeconomic environment."

It is fair to say that FY23 presented a challenging operating environment for Duke's royalty partners. They battled against interest rate hikes and supply chain issues, alongside a significant increase in corporate energy prices and a general shortage of labour. Furthermore, overall consumer demand was affected by surging utility bills and food prices, resulting in a general reduction of consumer discretionary spend. Despite these challenging circumstances, I would like to congratulate Duke's royalty partners for their extremely resilient operating performance in FY23.

Duke's strategic focus on providing long-term, secured lending to established and profitable owner-operated businesses has proven to be a safeguard against these economic challenges. Moreover, the very low amortisation payments of Duke's product in the early years have alleviated some of the short-term liquidity concerns of our royalty partners, allowing them to focus on managing their businesses rather than having to refinance their debts during unfavourable times. This, together with a long-term partnership approach which has always been at the core of Duke's investment and corporate philosophy, has helped support our partners through these times of macroeconomic pressure.

It is worth noting that one of the inevitable consequences of the substantial increase in global interest rates has been the material increase in the cost for all other competing forms of short-term debt. However, Duke's permanent equity capital base and its long-term lending approach throughout economic cycles have enabled the Company to refrain from increasing the cost of its offering in the short-term. As a result, we have experienced a notable increase in both the number and the quality of deal opportunities that Duke has been offered, the benefits of which will be witnessed in the current financial year and in the periods ahead.

Outlook

FY23 has been a year of relentless collaboration between the Duke team and our royalty partners, as we work together to overcome significant economic challenges they have faced. I would like to take this opportunity to thank them for their considerable efforts. As a long-term investor, Duke believes that a business' long-term success is directly correlated to its business approach and management of their environmental, social and governance considerations. We remain committed to adhering to the commitments set out in the Company's Responsible Investment Policy.

Whilst the macro environment continues to create ongoing challenges for our royalty partners, the higher level of global interest rates and continued lack of demand from the mainstream banks to lend to well-managed, profitable SMEs, puts Duke in an ideal position to selectively deploy further capital and increase market share. As a result, I expect to see a higher deployment rate in FY24 than we saw in FY23.

Over the past few years, Duke has been able to put together a diverse portfolio, and now has exposure to 62 underlying operating companies. In FY23, The Company was able to release a series of record quarterly recurring cash revenue updates, which is a trend that I expect to see continue into FY24. This is attributable to the anticipated growth in deployment rate, alongside positive adjustment resets linked to the underlying companies' organic revenue performance in this inflationary macroenvironment.

As always, I would like to express my gratitude to the ongoing support of our shareholders and to the achievements of our employees. It is my pleasure to report the Chairman's Statement for FY23. I look forward to reporting on the Group's ongoing progress and development, and I remain cautiously optimistic about the Company's future.

NIGEL BIRRELL
Chairman

3 July 2023

Record cash revenue[1]

£21.9m

(2022: £18.4m)
+19%

Dividend

2.80p

(2022: 2.25p)

Raised equity capital of

£20m

in oversubscribed placing

[1] Cash revenue refers to monthly distributions from royalty partners, buyout premiums and cash gains from the sale of equity investments

Investment case

Income with value upside

A proven model in North America, royalty businesses have shown over economic cycles to provide both income and capital gains to public shareholders due to the long-term predictable cash flows they deliver.

Diversified portfolio

Duke's portfolio consists of an array of companies operating across a range of sectors. In addition, a significant number of its portfolio companies have acquisition opportunities which may result in follow-on financing from Duke, thereby mitigating the challenges faced by other SMEs.

Rising demand

Duke's strategic growth capital has many attractive qualities compared to other funding solutions. Its long-term, supportive and revenue-linked nature affords businesses both predictability and control. Demand for more flexible, alternative sources of capital has been very strong in recent years and as a first mover and leader in the UK and Europe, Duke has a significant opportunity to build and further diversify its portfolio.

Resilient business model

In short term uncertainty, business owners look for long term partners and the pandemic proved Duke's resiliency. Duke continued to deliver robust cash revenues and protection against downside for both investors and royalty partners despite the extraordinary business conditions posed by the virus.

Global growth

While Duke pioneered royalty financing in the UK and Europe, the supportive long-term nature of Duke's credit has seen increasing demand globally. With executives on the ground, Duke now supports a number of portfolio companies in North America, where it sees increasing demand.

Experienced management

Duke's management team and investment committee has more than 75 years of direct royalty investing experience and includes deal originators with deep local relationships as well as pioneers in the global royalty industry.

Chief Executive Officer's statement

NEIL JOHNSON,
Chief Executive Officer

"I am pleased to report that Duke managed a strong set of financial results across all our important financial metrics."

In 2022, businesses around the world faced a remarkable landscape that surpassed the unprecedented challenges brought by the pandemic in 2020. The Bank of England's 12th consecutive interest rate hikes brought rates to their highest level in almost 15 years, and inflation being at a 40-year high has further intensified the economic climate. The geopolitical situation in Europe also demanded our attention and played a crucial role in shaping our decisions at Duke.

Despite this, I am pleased to report that Duke managed a strong set of financial results across all our important financial metrics. In particular, our recurring cash revenue grew 46% to £21.8 million against £14.9 million in FY22 and our recurring cash revenue per share grew 30% over FY22. It is reassuring to note our solution continues to deliver for investors and business owners alike during these challenging times.

However, during FY23, we exercised caution in our approach to new deployments, analogous to the Covid-19 impaired FY21. With rapidly changing macroeconomic developments, we chose caution in allocating shareholder funds following our successful fundraising efforts in May 2022, which resulted in four follow-on investments (totalling £11.5 million) into existing partners and two new royalty agreements (totalling £12.3 million). During the 12 months under review, we deployed a total of £26.8 million, spread over several geographic markets in line with our strategy, while also reinforcing our portfolio in our core territories. This strategic decision reflects our prudent approach to capital allocation and our commitment to ensuring that financial stability is maintained. Nevertheless, we continued to diversify the portfolio, ending the period with exposure to 61 underlying operating companies with an aggregate book cost of £185 million. We continue to maintain a close relationship with our royalty partners, which generally performed robustly during the period, and are reassured of their resilience to trading in the current market conditions.

It is important to note that we feel the prevailing macro uncertainties do not pose only risks, but also opportunities. We know that when there is short term uncertainty, business owners seek long term capital solutions, reinforcing the attractiveness of our proposition to them. What sets Duke apart is our long-term strategic partnership approach, which offers business owners the certainty of sustainable capital without significant dilution of their ownership or large capital repayments which need refinancing.

Chief Executive Officer's statement continued

The credit and equity characteristics of our hybrid model drives our relationships with all of our stakeholders

Our shareholders who participate in our regular shareholder meetings, conferences and podcasts will know, we believe Duke has a unique value proposition for shareholders. At the core of our offering is a focus on preserving capital, which is why our royalty agreements are structured as senior secured loans. We aim to provide a healthy dividend to investors, which is our second priority, investing into profitable, longstanding private companies. And unlike a traditional debt product, as our third priority, we look to be rewarded in the event of a positive outcome at the time of the buyout. The six buyouts achieved since inception have shown that our product has produced the results we intended.

Our hybrid model also drives our relationships with our royalty partners. We see ourselves as more than just a lender. We are economically invested in the long-term success of the partners we work with, like equity owners. However, because we have downside protections to preserve our capital, we also have capped our equity participation. The combination of these factors means that Duke's model combines the best elements of private equity and private credit.

Duke's approach allows us to develop good relationships with our royalty partners. Receiving monthly management accounts gives us regular and in-depth financial information to ensure our royalty partners are performing to budget. In addition, we actively engage with our portfolio companies through Board representation and/or monthly management meetings. This involvement allows us to provide continuous support and strategic guidance throughout their journey, helping them to navigate through headwinds and to seize opportunities. We do this because we are economically incentivised in the growth of the company through our annual adjustment factor and when we have minority equity stakes. However, the business owners know they control the destiny of the company and have the incentive to succeed. With our alignment of interests, I am delighted to be able to observe the exceptional dedication to meet all challenges head on of our current royalty partners, and we remain fully dedicated to supporting their ongoing growth in the future.

Our model augments the resilience of our existing partners in the face of market fluctuations. Unlike floating-rate loans, Duke's monthly payments from our royalty partners change only once per year at the annual adjustment date according to the revenue performance of the business, and the adjustment is capped. This aligns Duke's return with the performance of the royalty partners over the long-term and gives them certainty of their obligations to us as senior lender, leading to confidence of decision making during these challenging times.

With this in mind, Duke's partners generally performed robustly in the period, with inflationary forces driving the average yield of the Company's portfolio to 13.1%, its highest level to date. Duke also received 94% of its expected cash revenue payments in the period and the Company was able to increase our recurring cash revenue each quarter throughout the financial year.

I am pleased to be able to report that at period end, Duke had over £50 million of liquidity available to deploy into its pipeline of opportunities with FY24 gearing up to be a busy period for the Company.

Financial review

In May 2022, Duke announced a £20 million equity placing from both institutional and retail investors. Net proceeds from this fundraising were used to repay the existing debt and provide additional liquidity headroom, allowing the Company both to invest further capital into its existing royalty partners as well into new opportunities.

During the period, we were delighted to announce that we had entered into a new £100 million credit facility agreement with Fairfax Financial Holdings Limited and certain of its subsidiaries ("Fairfax"). In refinancing and upsizing our credit facility, we secured a significant amount of additional liquidity, prolonging our requirement for additional equity capital. We also reduced the headline interest rate by 225 bps in comparison to our previous facility, leading to an immediate and material impact on our free cash flow. This support from such a reputable firm represents a huge endorsement of our business model, and we look forward to a long-term relationship with Fairfax.

The financial results for FY23 represent a strong operating performance and I am pleased to report that the Company's cash revenue, being cash distributions from royalty partners, cash gains from the sale of equity investments and buyout premiums, grew to £21.9 million during the Period under review, a 19% increase over the £18.4 million generated in FY22.

Money raised by Duke on behalf of the UK Terry Fox Association stays in the UK, supporting the UK's #1 academic cancer research centre, The Institute of Cancer Research.

However, as our portfolio matures and buyouts start to become a material part of the of the Group's cashflows, it is important to distinguish between recurring and non-recurring cash revenue. Recurring cash revenue relates to the annuity-like monthly cash revenue streams that Duke receives from its royalty partners, as opposed to the non-recurring nature of buyout premiums and realised gains on equity that Duke receives on an investment exit. In FY22, the Group benefited from a royalty buyout and an equity realisation event, which delivered over £3.5 million of premiums and realised equity gains. Therefore, on a like-for-like basis, FY23 produced £21.8 million of recurring cash revenue against £14.9 million in FY22, a 46% increase.

Free cash flow, defined as net operating cash inflow plus cash gains from the sale of equity investments less its interest on debt financing, also continued to grow, increasing by 9% to £13.0 million. However, if we strip out the non-recurring cash revenue, then recurring free cash flow actually grew 51% from £8.6m to £13.1 million, while recurring free cash flow per share grew 30% to 3.27 pence per share, a significant achievement given a macroenvironment of high inflation and soaring interest rates. It is these last two metrics that are particularly pleasing as it is these that derive our ability to continue paying a steady quarterly dividend to our shareholders.

Total income, which includes non-cash fair value movements on the Company's investment portfolio, grew to £31.0 million, an 8% increase over FY22. This generated total earnings after tax of £19.6 million and earnings per share of 4.92 pence against £20.4 million in FY22 and earnings per share of 5.95 pence. Adjusted earnings, which strips out the fair value movements decreased 5% from £13.1m in FY22 to £12.5m in FY23, due to the lack investment exits in FY23..

Dividend

Duke maintained a 0.70 pence quarterly dividend throughout FY23, equating to an annualised dividend of 2.80 pence which represents a material increase from the 2.25 pence per share of dividends paid out in FY22. Despite the high dividend yield percentage at the current share price, I can reassure shareholders that the dividend remains well covered by recurring free cash flow.

Duke Royalty's ESG initiatives

By definition, a royalty company itself has a small environmental footprint, being an investment company in other companies. Since inception over eight years ago, our business model has been underpinned by an ethos of responsible investing. We do not invest in extraction industries, and we support business owners who have a positive impact in providing local jobs and keeping ownership in their hands for the betterment of their communities.

As we have increased capital deployed in an expanding number of companies, we understand our duty and influence in asking more of our royalty partners' ESG

Chief Executive Officer's statement continued

credentials. We admire each company's leadership as they work to improve the lives of their employees, their communities, and the world they inhabit.

While we can only help indirectly with our royalty partners' operations, the Duke team has led by example and remains deeply committed to making a positive social impact in the world we live in.

Duke Royalty's leaders are also leaders in their community. I am the Founder and Chair of the UK Terry Fox Association and Hugo Evans our CFO acts as Treasurer. It is the UK affiliate of the Terry Fox Foundation, which has raised over £500 million for cancer research in the name of Canada's hero. Terry Fox ran 143 consecutive marathons in the summer of 1980 on a prosthetic leg before cancer returned and forced him to stop. Terry Fox died less than a year later, but the Terry Fox Run was born. The money we raise stays in the UK, supporting the UK's #1 academic cancer research centre, The Institute of Cancer Research (ICR). Our mission is to bring communities and families touched by cancer together for the free, family friendly and non-competitive Terry Fox Runs across the UK. Since I re-started the London Terry Fox Run in 2020, we have raised over £200,000 for the ICR, and our goal is £1,000,000 by 2030. This year, there will be four Terry Fox Runs across the UK. Every year, the Duke team and their families come together to support cancer research and volunteer their time.

Recognising the importance of giving back to local communities, we have also extended our support to Home-Start UK, a network that assists needy families with young children during challenging times. In additional to our financial contributions, the Cannon Brookes family volunteers and advocates for the importance of a healthy and supportive family unit in the first years of life. Professional care workers provide emotional and financial support to single mothers and underprivileged families with young children. This makes a direct impact in the local UK neighbourhoods where Home-Start is active.

Our outlook is one of cautious optimism

The year to 31 March 2024 has already kicked off to a positive start, with Duke achieving an average monthly recurring cash revenue of £2.0 million for the first time for Q1 FY24. A quarter of £6.0 million recurring cash revenue represents a 18% year on year increase (Q1 FY23: £5.1 million) and will be our 11th consecutive quarter delivering increasing recurring cash revenues.

In addition, we have had our first buyout since 2021 during the first three months of the current financial year. A key aspect that distinguishes Duke is our commitment to empowering business owners by allowing them to retain control over their exit strategies. This was illustrated well with the recent positive exit we announced in May where the terms of Duke's capital facilitated Instor's CEO decision to opportunistically sell the company to a private equity firm, and in turn delivered a triple digit IRR to Duke. This is an attractive differentiator of our capital which enhances the appeal of our long-term, passive capital for business owners and is just one of the qualities that reaffirms Duke's strong position to capture an important share of the private funding market.

One consequence of the rapidly increasing interest rates of 2022 is that Duke's monthly payments have become more competitive to floating rate interest rate payments. For business owners, the monthly payment is their total obligation to Duke subject to only the annual adjustment. The certainty of knowing future obligations, without a looming refinancing event, is increasingly attractive to business owners. With this in mind, we have witnessed a very healthy and promising pipeline of new partners. The recent increase in deal flow has been encouraging, demonstrating the attractiveness of our proposition in a difficult funding market, and we are confident that our product continues to demonstrate its competitiveness against other financing options available to small businesses.

Royalty finance has a longstanding history in North America, drawing investors with its ability to provide downside protection during times of crisis. Similar to how the pandemic showcased the resilience of this model, we believe the current economic environment offers us the opportunity to continue demonstrating the ability of our approach to withstand market cycles. We see a bigger opportunity ahead, as our solution offers both investors and shareholders what they desire: a long-term, predictable revenue stream with a focus on dividends.

We are pleased to report another year of delivering on the promise of our business model for our shareholders: a long-term, predictable revenue stream with a focus on dividends. I would like to personally thank our shareholders, our royalty partners, our employees and our Board as we look forward to continued success.

NEIL JOHNSON
Chief Executive Officer

Governance

Directors

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 Gibraltar-based gaming group Lottoland since 2014. Prior to Lottoland, Mr. Birrell was Group Director on the Executive Board at bwin.party digital entertainment plc (now Entain), the then world's leading online gaming business. He also served as a main board director of the FTSE 250 media group HIT Entertainment PLC and 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 AIM listed financial services group STM Group plc.

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 more than 30 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.

CHARLES CANNON BROOKES

Charles 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.

Mr. Cannon Brookes has over 20 years investment experience. He is a Non-Executive Director of FCA authorised 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.

MAREE WILMS

Maree Wilms is a Non-Executive Director of the company. She is responsible for the oversight of the company's corporate obligations in Guernsey.

Maree, a resident of Guernsey, brings extensive corporate governance, fund management and structuring experience to the Group. She is co-founder and CEO of Zeta Asset Management ICC Limited ("Zeta"), a Guernsey domiciled entity specialising in the creation of regulated asset management companies in Guernsey and fund structures across offshore jurisdictions. In addition to her role at Zeta, Maree is COO of South Africa Alpha Capital Management Limited, a fund advisory and structuring platform which has launched and advised more than 60 funds. Maree commenced her career at Adelphi Capital Limited, where she worked as a Hedge Fund Analyst for nine years.

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 was 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.

Directors' report

The Directors present their Annual Report and the Audited Consolidated Financial Statements of the Group for the year ended 31 March 2023.

Status and activity

The Company is a company limited by shares, incorporated in Guernsey under the Companies (Guernsey) Law, 2008. Its shares are traded on the AIM market of the London Stock Exchange. 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.

The Group's principal activity is that of investment in a diversified portfolio of royalty finance and related opportunities.

Deployments of capital

During the year the Group focused on growing its investment portfolio, adding two new royalty partners, while continuing to support its current partners. The core deployment highlights were as follows:

- US$8.75 million initial investment into Instor Solutions, Inc ("Instor"). Instor is a long established, profitable product reseller and service provider for work related to the build-out and migration of data centres. Duke's financing supported a shareholder buyout which transitioned equity control of the business to the current executive management team. Post year end, Duke exited Instor on the 24 May, receiving net cash of US$11.2 million at closing, delivering a total gain of US$2.4 million over Duke's initial investment amount and a triple digit IRR. The exit relates to the opportunistic sale of Instor to a private equity firm.
- £5.5 million investment into New Path Fire and Security Limited ("New Path"). New Path is a growing and acquisitive platform, buying independent regional fire safety and security companies throughout southern England. New Path predominantly serves business customers, helping them to protect their premises, assets, and most importantly their people. New Path group companies cover all aspects of fire safety, including the installation, maintenance, and servicing of fire alarms, extinguishers, and emergency lighting and their security services extend to CCTV, access control, intruder alarms, door entry systems and beyond. New Path's growing raft of competencies also allows it to undertake ancillary electrical works required, giving customers a hassle-free single point of contact. Duke has committed £5.5 million of total capital (£5.0 million of royalty financing and £0.5 million of equity capital) to enable New Path's acquisition of two new targets and the refinancing of the company's existing senior debt.
- Four material follow-on investments were made during the year as follows;
  - £3.1 million into InTec Business Solutions Limited ("InTec"). Duke's investment facilitated InTec's acquisition of Astec Computing (UK), a profitable IT managed services business with a 30 year trading history.
  - A further £1.75 million into InTec - Duke's investment facilitated InTec's acquisition of Frog IT Services Limited, a profitable specialist provider of IT support and cloud-based services to small and medium sized customers, many of whom have been customers for more than 10 years.

- £2.3 million into Tristone Healthcare Limited ("Tristone") to fund Tristone's acquisition of Beyond Limits (Plymouth) Limited, which operates specialist care homes predominantly in the Southwest of England, providing long-term residential care to people with learning disabilities, mental health issues and other support needs
- A further £3.2 million into Tristone to facilitate the acquisition of K Bond Healthcare Limited, trading as Next Steps, a well-respected residential and nursing care provider with operations across Greater Manchester.

Borrowing

In January 2023, the Group entered into a new credit facility agreement with Fairfax Financial Holdings Limited ("Fairfax") and certain of its subsidiaries. The facility term is up to £100 million to replace Duke's existing £55 million term and revolving facilities. The credit facility has a five-year term, expiring in January 2028 with a bullet repayment on expiry and no amortisation payments during the five-year term. Furthermore, the interest rate is equal to SONIA plus 5.00% per annum, which represents a 225bps decrease on Duke's previous rate of SONIA plus 7.25%. Duke also issued 41,615,134 warrants to Fairfax with a five-year maturity and strike price of 45 pence reflecting the strategic nature of the deal.

Results and dividends

The Group's performance during the year is discussed in the Chairman's Statement and CEO's Statement on pages 6 and 9 respectively. The results for the year are set out in the Consolidated Statement of Comprehensive Income on page 35 which shows a profit £19.6 million (year to 31 March 2022: £20.4 million) and basic earnings per share of 4.92 pence (year to 31 March 2022: 5.95 pence).

The Board considers free cashflow to be the most important measure of the Group's performance. An analysis of the Group's free cashflow is set out in the table below:

	2023 £000	2022 £000
Receipts from royalty investments	21,364	14,701
Receipts of interest from loan investments	339	580
Other operating receipts	176	543
Payments for royalty participation fees	(112)	(115)
Operating expenses paid	(3,306)	(2,487)
Tax paid	(1,346)	(2,055)
Cash gains from the sale of equity investments	-	2,583
Interest paid on borrowings	(3,976)	(1,649)
Free cash flow	**13,139**	**12,101**

Recurring cash revenue

£21.8m

(2022: £14.9m)

+46%

Free cashflow

£13.1m

(2022: £12.1m)

+9%

Dividend of

2.80p

(2022: 2.25p)

Directors' report continued

Shareholder information

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

Free cashflow, defined as operating cashflow plus cash gains from the sale of equity investments less interest paid on borrowings, totalled £13.1 million (2022: £12.1 million), while free cashflow per share for the year was 3.30 pence per share (2022: 3.53 pence per share).

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. It should be noted that adjusted earnings is specific to Duke and not comparable to with other entities.

The Group's adjusted earnings for the year was £12.5 million (year to 31 March 2022: £13.1 million). This gives rise to adjusted earnings per share of 3.13 pence (year to 31 March 2022: 3.81 pence).

	2023 £000	2022 £000
Total comprehensive income for the period	19,592	20,391
Unrealised fair value movements	(9,111)	(10,431)
Expected credit losses	20	72
Share-based payments	969	930
Net transactions costs	686	1,746
Tax effect of the adjustments above	306	350
Adjusted earnings	**12,462**	**13,058**

At the year end the net assets attributable to the Ordinary Shareholders were £164,259,000 (31 March 2022: £132,941,000).

During the year, the Company's quarterly dividend policy was continued and dividends of £10,979,000 were paid during the financial year to 31 March 2023 (2022: £7,270,000). The Company's quarterly dividends were 0.70 pence per share paid in April 2022, July 2022, October 2022 and January 2023.

Directors' responsibilities statement

For the year ended 31 March 2023

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 UK adopted international accounting standards.

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.

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' responsibilities statement continued

Directors' interests

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

	ORDINARY SHARES 2023 Number 000	ORDINARY SHARES 2022 Number 000
N Birrell	1,329	1,329
N Johnson	5,629	4,942
C Cannon Brookes	8,168	7,718
M Wrigley	28	28
M Wilms	-	-

The Directors held the following aggregate 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 18 to the Consolidated Financial Statements):

	SHARE OPTIONS 2023 Number 000	SHARE OPTIONS 2022 Number 000	LTIP AWARDS 2023 Number 000	LTIP AWARDS 2022 Number 000
Neil Johnson	-	-	3,382	2,821
Charles Cannon Brookes	-	-	3,144	2,474

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

	BASIC FEES 2023 £000	SHARE BASED PAYMENTS 2023 £000	ANNUAL BONUS 2023 £000	TOTAL 2023 £000	BASIC FEES 2022 £000	SHARE BASED PAYMENTS 2022 £000	ANNUAL BONUS 2022 £000	TOTAL 2022 £000
Non-Executive								
N Birrell	40	-	-	40	38	-	-	38
M Wrigley	30	-	-	30	29	-	-	29
M Wilms	30	-	-	30	4	-	-	4
Executive								
N Johnson	240	248	240	728	233	269	108	610
C Cannon Brookes	216	216	216	648	210	216	108	534
	556	**464**	**456**	**1,476**	**514**	**485**	**216**	**1,215**

Shareholders' significant interests

At 31 March 2023 the Company had been notified of the following interests of shareholders in excess of 3%:

	ORDINARY SHARES	% OF ORDINARY SHARE CAPITAL
Hargreaves Lansdown	45,943,904	11.00%
M&G Investments	37,704,230	9.03%
Interactive Investor	32,025,235	7.67%
Columbia Threadneedle Investments	26,910,255	6.45%
Gresham House Asset Management	26,515,221	6.35%
Allianz Global Investors	23,462,458	5.62%
GLG Partners	23,329,665	5.59%
AXA Framlington Investment Managers	17,756,714	4.25%
Chelverton Asset Management	13,850,000	3.32%
AJ Bell	13,160,873	3.15%
Premier Miton Investors	13,134,134	3.15%

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 at least 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.

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 an as such the Company is committed to complying with the corporate governance obligations appropriate to the Company's size and nature of business.

As such, the Board has adopted the Quoted Companies Alliance Corporate Governance 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, amended November 2021.

Directors' responsibilities statement continued

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 is 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 Company. 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 and assist the Board with the selection, execution and monitoring of royalty partners and royalty performance. 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 2023.

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; post year end, IQ EQ Fund Services (Guernsey) Limited replaced Trident

- 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 Maree Wilms. 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 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 six members nominated by the Company, includes three independent members. The current members of the Investment Committee are Jim Webster, Chair of the Investment Committee; Justin Cochrane, President and CEO of Nickel 28; John Romeo, Managing Partner and Executive Committee and Risk Committee member at Oliver Wyman; Andrew Carragher, founder and Managing Partner of DW Healthcare Partners; Neil Johnson, Executive Director and Chief Executive Officer of Duke Royalty and Charlie Cannon Brookes, Executive Director of Duke Royalty.

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 24 to the Consolidated Financial Statements.

Directors' responsibilities statement continued

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

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

FY23 continued to present a challenging operating environment for Duke's royalty partners. The impact of the Russia – Ukraine conflict continues to have a significant impact on European economies as businesses battle against interest rate hikes, supply chain issues, alongside a significant increase in corporate power prices and a general shortage of labour. Furthermore, overall consumer demand was affected by surging utility bills and food prices, resulting in a general reduction of consumer discretionary spend.

Despite this, Duke's strategic focus on providing long-term, secured lending to established and profitable owner-operated businesses has proven to be a safeguard against these economic challenges. Moreover, the very low amortisation payments of Duke's product in the early years have alleviated some of the short-term liquidity concerns of our royalty partners, allowing them to focus on managing their businesses rather than having to refinance their debts during unfavourable times.

The directors continue to closely monitor the impact of these macroeconomic headwinds on the Group's trading activities and cashflows, but do not consider that there will be any significant effect on the ability of the Group to continue in business and meet liabilities as they fall due.

Bearing in mind the nature of the Group's recurring royalty streams and after assessing the 12-month forecasts, combined with the available headroom in terms of the refinanced debt facility in place should it be required, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

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.

Approved by the Board of Directors on 3 July 2023 and signed on behalf of the Board by:

MAREE WILMS
Director

MATTHEW WRIGLEY
Director

Environmental, Social and Governance

ESG considerations impact the way in which we manage the business, our investment decisions and our management of royalty partner relationships. As fiduciaries we recognise that by following a broad set of policy commitments relating to ESG factors, we will better align ourselves and our investors with the broader objectives of society.

Duke's Responsible Investment Policy outlines the Company's commitment towards incorporating ESG considerations throughout the investment process. In framing this policy, Duke has sought to incorporate or align with recognised global standards which include, but are not limited to, the Principles for Responsible Investment and the UN Global Compact.

We incorporate ESG factors across the investment lifecycle, alongside more traditional financial and business performance considerations.

We will not invest with royalty partners who:

- deny human rights;
- engage child or forced labour directly or within their supply chain;
- manufacture weapons that are designed primarily for destructive purposes e.g. antipersonnel mines, cluster weapons;
- are in the business of mineral, coal, or oil and gas extraction;
- produce products that are illegal under Guernsey, UK or relevant local laws;
- produce tobacco products;
- cause serious environmental damage;
- provide research, development or technical applications relating to electronic data
- programs or solutions which support the above exclusions list

Managing ESG in our royalty partners

We apply an ESG assessment framework to understand the material risks and opportunities within our royalty partners:

- **Environmental** - We require our royalty partners to ensure that their businesses do not have any material environmental impacts.
- **Social** - We require royalty partners to be equal opportunities employers and provide learning and development opportunities for employees. We do not tolerate unfair, discriminatory, illegal or immoral work practices either in the royalty partner, or within the supply chain.
- **Governance** - We view corporate governance as the combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organisation towards the achievement of its objectives.

Environmental, Social and Governance continued

For further information, visit: https://www.dukeroyalty.com/about-us

Managing ESG internally within Duke and alignment with our core values

We will uphold the same standards internally within Duke Royalty as we ask of our royalty partners. We believe that this aligns our goals with our royalty partners and our stakeholders and ensures that we are living our standards:

- **Transparency**: We focus on treating our partners and stakeholders with honesty, integrity, fairness and respect, contributing to strength and longevity of our relationships.
- **Accountability**: We are accountable to each other, our stakeholders, our royalty partners, and the communities where we do business. We aim to be responsible investors and a good corporate citizen.
- **Creativity**: We believe change is the only way forward and seek out different perspectives to meet business challenges and situations. Ours is a flexible financial solution designed to meet the evolving needs of small to mid-sized business owners.
- **Focus**: We aim to be a trusted partner for small to mid-sized businesses. We keep a focus of our approach to investing and our investment criteria. We are sensible and keep things as simple as possible for our royalty partners.
- **Teamwork**: We collaborate and support each other and our partners, as we recognise the value of diversity of thought in problem solving and innovation, and support diversity within our team

Social and corporate responsibility

Having a positive impact on the communities in which we invest and operate is of utmost importance to us. Our leadership team actively encourages the entire team to make a positive social impact.

Leading by example, our CEO, Neil Johnson is the Founder and Chair of the UK Terry Fox Association, the UK affiliate of the Terry Fox Foundation and Hugo Evans our CFO acts as Treasurer. The Association's mission is to bring communities and families affected by cancer together through Terry Fox Runs across the UK. Every year, the Duke team and their families come together to volunteer their time and support cancer research. In the past two years, the UK Terry Fox Association has raised over £200,000 for The Institute of Cancer Research (ICR).

We have also extended our support to Home-Start UK, a network that assists needy families with young children during challenging times. In additional to our financial contributions, the Cannon Brookes family volunteers and advocates for the importance of a healthy and supportive family unit in the early years of life. Professional care workers provide emotional and financial support to single mothers and underprivileged families with young children. This makes a direct impact in the local UK neighbourhoods where Home-Start is active.

Regarding our operations, we require our royalty partners to be equal opportunities employers and provide learning and development opportunities for employees. We do not tolerate unfair, discriminatory, illegal, or immoral work practices either in our royalty partners, or within the supply chain.

Finance

Independent auditor's report

Opinion on the financial statements

In our opinion, the financial statements of Duke Royalty Limited ("the Parent Company") and its subsidiaries (the "Group"):

- give a true and fair view of the state of the Group's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted International Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements of the Group for the year ended 31 March 2023 which comprise the Consolidated Statement of Cash Flows, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity and 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 UK adopted International Accounting Standards.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group's ability to continue to adopt the going concern basis of accounting included:

- Obtaining those charged with governance and Director's paper and cash flow forecast in respect of going concern and challenging this, based on our knowledge of the Group, with both those charged with governance and management.
- Consideration of the cash available, the borrowings payable and forecast covenants compliance together with the expected annual income and running expenses of the Group and determining whether these assumptions were reasonable based on our knowledge of the Group.
- Performing our own sensitivity analysis of the headroom of the investment portfolio over the annual running expenses.
- Reviewing the minutes of meetings of those charged with governance and the RNS announcements for any events of conditions in respect of going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

KEY AUDIT MATTER	2023	2022
Valuation and ownership of royalty investments	✓	✓
Valuation and ownership of equity investments	✓	✓
MATERIALITY		
Group financial statements as a whole		
£3,322,785 (2022: £2,755,965) based on 1.5% (2022: 1.5%) of total assets.		

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

The Group consists of the Parent Company and numerous subsidiaries. In line with ISA 600 we concluded that the most effective audit approach due to the same accounting processes and control environment 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.

We tailored the scope of our audit taking into account the nature of the Group's investments, involvement of the Investment Manager, 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 Investment Manager. 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.

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) that 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 continued

KEY AUDIT MATTER	HOW THE SCOPE OF OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation and ownership of royalty investments **(notes 2.12, 3, 9 and 23)** 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. We focussed on the valuation and ownership as they are key drivers to the Group’s net asset value. The valuation models are a highly subjective area as management makes judgements as to expected cash flows, revenue growth rates and discount rates to arrive at the fair value of the products. 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.	We obtained management’s valuation models for the Royalty Instruments and: Assessed and challenged the reasonableness of management’s inputs into the valuation models against our expectations by: • Agreeing the future cash flows in the valuation models to the forecasts. Gained an understanding of how the forecasts differed from either those expected on day 1 or those expected at the previous year end. • Assessing based on review of the underlying supporting management information and key performance indicators of the investees performance, whether management’s consideration of the investees actual performance against that budgeted indicated a need to revise the cash flows. • Assessing the expected revenue growth rates used by management against independent sources i.e. growth rates used by brokers. • Considering the likelihood of a buy back occurring and where applicable how this has been built into the valuation models. • Reviewing investee performance since the earliest date of time of investment or the prior year and challenging management regarding the discount rates used within the models. We obtained royalty confirmations direct from the underlying investee companies to verify ownership of the investments held at year end. **Key observations** Based on the procedures performed we did not identify any indications to suggest that the judgements made in respect of the royalty investments were unreasonable.
Valuation and ownership of equity investments **(notes 2.12, 3, 11 and 23)** The group makes investments in underlying investee companies that are unquoted entities. We focussed on the valuation and ownership as they are key drivers to the Group’s net asset value. The valuation models are a highly subjective area as management makes judgements as to maintainable EBITDA and investment multiple applied to arrive at the fair value of the investments. 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 statement of financial position. For this reason we considered this to be a key audit matter.	We obtained management’s valuation models for the equity Instruments and: Assessed and challenged the reasonableness of management’s inputs into the valuation models against our expectations by: • Challenging management on the maintainable EBITDA focussing on the assumptions applied to the sustainability of the earning based on forecasts, year to date actual performance and historical performance. • Challenging managements investment multiple applied by comparing the multiple applied to comparable listed company multiples from external sources. • Assessing based on review of the underlying supporting management information and key performance indicators of the investees performance, whether management’s consideration of the investees actual performance against that budgeted indicated a need to revise the cash flows. We obtained shareholding confirmations direct from the underlying investee companies to verify ownership of the investments held at year end. **Key observations** Based on our procedures we did not identify and indications to suggest that the judgements made in respect of the equity investments were unreasonable.

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.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level and performance materiality, to determine the extent of testing needed. 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 and performance materiality as follows:

	GROUP FINANCIAL STATEMENTS	
Materiality	**2023:** £3,322,785	**2022:** £2,755,965
Basis for determining materiality	1.5% of total assets	
Rationale for the benchmark applied	Due to it being an investment company with the objective of long-term capital growth with investment values being a key focus of users of the financial statements.	
Performance materiality	**2023:** £1,993,671	**2022:** £1,653,579
Basis for determining performance materiality	60% of materiality.	
Rationale for the benchmark applied	This was determined using our professional judgement and took into account the complexity of the group and our long-standing knowledge of the engagement together with significant judgements used in the key audit matters.	

Specific materiality

We also determined that for broker fees, legal fees, audit fees, directors' fees, administration fees, consultancy fees, investment committee fees, support fees, nomad fees, directors' travel and entertainment, staff costs, due diligence costs, transaction costs, recruitment costs, professional fees, incentive plan awards and expected credit loss provisions, a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. As a result, we determined materiality for these items to be £531,000 which is 5% of the total expenses of the group (2022: £366,000 based on 5% of total expenses of the group). We further applied a performance materiality level of 60% (2022:60%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £166,180 (2022: £137,750). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Independent auditor's report continued

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies (Guernsey) Law, 2008 reporting

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' responsibilities statement within 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 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding of the Group and the industry in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to its investment activities, and we considered the extent to which non-compliance might have a material effect on the Group's financial statements.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group. We determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework such as UK adopted international accounting standards and the Companies (Guernsey) Law, 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of management override of controls), and determined that the principal risks were related to revenue recognition in relation to the royalty income from royalty investments, revenue recognition in relation to loan interest from loans advanced and management bias and judgement involved in accounting estimates, specifically in relation to the expected credit loss provisions (the response to which are detailed in our key audit matters above).

Audit procedures performed by the engagement team to respond to the risks identified included:

- Discussion with and enquiry of management and those charged with governance concerning known or suspected instances of non-compliance with laws and regulations and fraud;
- Obtaining an understanding of the internal control environment in place to prevent and detect irregularities;
- Reading minutes of meetings of those charged with governance, correspondence with the Guernsey Financial Services Commission, internal compliance reports, complaint registers and breach registers to identify and consider any known or suspected instances of non-compliance with laws and regulations and fraud;
- Recalculating loan interest income based on the underlying loan agreements and required accounting by UK adopted International Accounting Standards and comparing to that of managements; and
- Recalculating the royalty income based on the royalty agreements and required accounting by UK adopted International Accounting Standards and comparing to that of managements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on 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 Simon Hodgson.

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

3 July 2023

Consolidated statement of cash flows

For the year ended 31 March 2023

	NOTE	YEAR TO 31 MARCH 2023 £000	YEAR TO 31 MARCH 2022 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from royalty investments	9	21,364	14,701
Receipts of interest from loan investments	10	339	580
Other operating receipts		176	543
Operating expenses paid		(3,306)	(2,487)
Payments for royalty participation fees	12	(112)	(115)
Tax paid		(1,346)	(2,055)
Net cash inflow from operating activities		**17,115**	**11,167**
CASH FLOWS FROM INVESTING ACTIVITIES			
Royalty investments advanced	9	(23,809)	(74,586)
Royalty investments repaid	9	-	2,938
Loan investments advanced	10	(2,500)	(3,192)
Loan investments repaid	10	2,000	3,949
Equity investments purchased	11	(500)	(530)
Equity investments sold	11	-	2,883
Equity dividends received	11	3	-
Receipt of deferred consideration		-	7,679
Investments costs paid		(357)	(972)
Net cash outflow from investing activities		**(25,163)**	**(61,831)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issue	17	20,000	35,000
Share issue costs	17	(1,115)	(1,936)
Dividends paid	20	(10,979)	(7,270)
Proceeds from loans	15	71,250	38,200
Loans repaid	15	(61,450)	(7,500)
Interest Paid	15	(3,976)	(1,649)
Other finance costs		(2,426)	(181)
Net cash inflow from financing activities		**11,304**	**54,664**
Net change in cash and cash equivalents		**3,256**	**4,000**
Cash and cash equivalents at beginning of year		5,707	1,766
Effect of foreign exchange on cash		(24)	(59)
Cash and cash equivalents at the end of year		**8,939**	**5,707**

The notes on pages 38 to 64 form an integral part of these Consolidated Financial Statements.

Consolidated statement of comprehensive income

For the year ended 31 March 2023

	NOTE	YEAR TO 31 MARCH 2023 £000	YEAR TO 31 MARCH 2022 £000
INCOME			
Royalty investment income	9	28,266	18,037
Loan investment income	10	339	533
Equity investment income	11	2,212	9,678
Other operating income		176	543
Total income		**30,993**	**28,791**
INVESTMENT COSTS			
Transaction costs		(66)	(631)
Due diligence costs		(620)	(1,113)
Total investment costs		**(686)**	**(1,744)**
OPERATING COSTS			
Administration and personnel	5	(2,627)	(2,060)
Legal and professional		(456)	(405)
Other operating costs		(223)	(151)
Expected credit losses	10	(20)	(72)
Share-based payments	18	(969)	(930)
Total operating costs		**(4,295)**	**(3,618)**
Operating profit		**26,012**	**23,429**
Net foreign currency movement		66	(60)
Finance costs	6	(5,644)	(1,996)
Profit before tax		**20,434**	**21,373**
Taxation expense	7	(842)	(982)
Profit after tax		**19,592**	**20,391**
Basic earnings per share (pence)	8	**4.92**	**5.95**
Diluted earnings per share (pence)	8	**4.92**	**5.95**

All income is attributable to the holders of the Ordinary Shares of the Company. There is no other comprehensive income.

The notes on pages 38 to 64 form an integral part of these Consolidated Financial Statements.

Consolidated statement of financial position

As at 31 March 2023

	NOTE	31 MARCH 2023 £000	31 MARCH 2022 £000
NON-CURRENT ASSETS			
Goodwill	16	203	203
Royalty finance investments	9	158,540	139,648
Loan investments	10	4,652	3,172
Equity investments	11	13,529	10,820
Trade and other receivables	13	-	2,141
Deferred tax	21	200	156
		177,124	**156,140**
CURRENT ASSETS			
Royalty finance investments	9	32,793	20,831
Loan investments	10	-	1,000
Trade and other receivables	13	2,290	53
Cash and cash equivalents		8,939	5,707
Current tax asset		373	-
		44,395	**27,591**
Total assets		**221,519**	**183,731**
CURRENT LIABILITIES			
Royalty debt liabilities	12	154	160
Trade and other payables	14	433	423
Borrowings	15	441	362
Current tax liability		-	87
		1,028	**1,032**
NON-CURRENT LIABILITIES			
Royalty debt liabilities	12	988	951
Trade and other payables	14	1,314	1,067
Borrowings	15	53,930	47,740
		56,232	**49,758**
Net assets		**164,259**	**132,941**
EQUITY			
Share capital	17	172,939	153,974
Share-based payment reserve	18	3,447	2,478
Warrant reserve	18	3,036	265
Retained losses	19	(15,163)	(23,776)
Total equity		**164,259**	**132,941**

The Consolidated Financial Statements on pages 34 to 37 were approved and authorised for issue by the Board of Directors on 3 July 2023 and were signed on its behalf by:

MAREE WILMS
Director

MATTHEW WRIGLEY
Director

The notes on pages 38 to 64 form an integral part of these Consolidated Financial Statements.

Consolidated statement of changes in equity

For the year ended 31 March 2023

	NOTE	SHARES ISSUED £000	SHARE-BASED PAYMENT RESERVE £000	WARRANT RESERVE £000	RETAINED LOSSES £000	TOTAL EQUITY £000
At 31 March 2021		**120,870**	**1,548**	**265**	**(36,897)**	**85,786**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	**-**	**-**	**20,391**	**20,391**
Transactions with owners						
Shares issued for cash	17	35,000	-	-	-	35,000
Share issuance costs	17	(1,936)	-	-	-	(1,937)
Shares issued to key advisers as remuneration	17	40	-	-	-	40
Share based payments	18	-	930	-	-	930
Dividends	20	-	-	-	(7,270)	(7,270)
Total transactions with owners		**33,104**	**930**	**-**	**(7,270)**	**26,764**
At 31 March 2022		**153,974**	**2,478**	**265**	**(23,776)**	**132,941**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR					**19,592**	**19,592**
Transactions with owners						
Shares issued for cash	17	20,000	-	-	-	20,000
Share issuance costs	17	(1,115)	-	-	-	(1,115)
Shares issued to key advisers as remuneration	17	80	-	-	-	80
Warrants issued	18	-	-	2,771		2,771
Share based payments	18	-	969	-	-	969
Dividends	20	-	-	-	(10,979)	(10,979)
Total transactions with owners		**18,965**	**969**	**2,771**	**(10,979)**	**(11,726)**
At 31 March 2023		**172,939**	**3,447**	**3,036**	**(15,163)**	**164,259**

The notes on pages 38 to 64 form an integral part of these Consolidated Financial Statements.

Notes to the consolidated financial statements

For the year ended 31 March 2023

1 General information

Duke Royalty Limited ("Duke Royalty" or the "Company") is a company limited by shares, incorporated in Guernsey under the Companies (Guernsey) Law, 2008. Its shares are traded on the AIM market of the London Stock Exchange. The Company's registered office is shown on page 68.

Throughout the year, the "Group" comprised Duke Royalty Limited and its wholly owned subsidiaries; Duke Royalty UK Limited, Capital Step Holdings Limited, Capital Step Investments Limited, Capital Step Funding Limited, Capital Step Funding 2 Limited and Duke Royalty Employee Benefit Trust.

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 UK adopted international accounting standards, and applicable Guernsey law, and reflect the following policies, which have been adopted and applied consistently.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into the UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board. The group transitioned to UK-adopted international accounting standards in its consolidated financial statements on 1 April 2021. There was no impact or changes in accounting from the transition.

The Consolidated Financial Statements have been prepared on a going concern basis and under the 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
- Royalty participation liabilities – measured at fair value through profit or loss

The Directors consider that the Group has adequate financial resources to enable it to continue operations for a period of no less than 12 months from the date of approval of the financial statements. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Presentation of statement of cash flows

The Board considers cash flow to be the most important measure of the Group's performance and subsequently has presented its Statement of Cash Flows before the Statement of Comprehensive Income and Statement of Financial Position.

There have been no changes to the classification of any of the cash flows or to the overall cash movements.

Presentation of statement of comprehensive income

In order to better reflect the activities of a royalty financing company, the Statement of Comprehensive Income includes additional analysis, splitting the Group's income by investment type.

2.2 New and amended standards adopted by the Group

A few amendments and interpretations of existing standards apply to the Group's financial year but these did not have a significant impact on the financial statements of the Company.

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 Going concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council.

FY23 continued to present a challenging operating environment for Duke's royalty partners. The impact of the Russia – Ukraine conflict continues to have a significant impact on European economies as businesses battle against interest rate hikes, supply chain issues, alongside a significant increase in corporate power prices and a general shortage of labour. Furthermore, overall consumer demand was affected by surging utility bills and food prices, resulting in a general reduction of consumer discretionary spend.

Despite this, Duke's strategic focus on providing long-term, secured lending to established and profitable owner-operated businesses has proven to be a safeguard against these economic challenges. Moreover, the very low amortisation

2 Significant accounting policies (continued)

payments of Duke's product in the early years have alleviated some of the short-term liquidity concerns of our royalty partners, allowing them to focus on managing their businesses rather than having to refinance their debts during unfavourable times.

The directors continue to closely monitor the impact of these macroeconomic headwinds on the Group's trading activities and cashflows, but do not consider that there will be any significant effect on the ability of the Group to continue in business and meet liabilities as they fall due.

During the year, the Group refinanced its debt facility, replacing the previous facility with a new £100 million facility with Fairfax (as detailed in the Directors' Report). At the 31 March 2023, the Group had £42,000,000 of available headroom on the facility.

The Directors consider that the Company has adequate resources to continue in operational existence for the next 24 months and beyond.

2.5 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.

2.6 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 cashflow, 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 15 investments into this segment and has derived income from them. Due to the Group's nature, it has no customers.

2.7 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 the financial assets and liabilities carried at fair value through profit or loss are presented in the Consolidated Statement of Comprehensive Income within 'royalty investment net income', 'loan investment net income' and 'equity investment net income'.

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)'. This has been presented below operating costs as this best reflects the true nature of the balance.

2.8 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. Where transaction costs are in respect of loans, these are offset using the effective interest method.

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

2 Significant accounting policies (continued)

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.

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 Goodwill

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.

2.11 Dividends

Dividends are recognised as a liability in the Group's financial statements in the period in which they become obligations of the Group.

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.

a. 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 ("FVTPL"); 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 FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL 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's financial assets held at amortised cost include loans receivable, trade and other receivables and cash and cash equivalents.

Expected Credit Loss ("ECL") allowance for financial assets measured at amortised cost

Impairment of financial assets is calculated using a forward-looking expected credit loss (ECL) model. ECLs are an unbiased probability weighted estimate of credit losses determined by evaluating a range of possible outcomes. They are measured in a manner that reflects the time value of money and uses reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions

2 Significant accounting policies (continued)

and forecasts of future economic conditions.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. Assets held at fair value through profit and loss are not subject to impairment.

IFRS 9 establishes a three-stage approach for impairment of financial assets:

- **Stage 1** – when a financial asset is first recognised, it is assigned to Stage 1. If there is no significant increase in credit risk from initial recognition, the financial asset remains in Stage 1. Stage 1 also includes financial assets where the credit risk improved and the financial asset has been reclassified back from Stage 2. For financial assets in Stage 1, a 12-month ECL is recognised;
- **Stage 2** – when a financial asset has experienced a significant increase in credit risk since initial recognition, the asset is classified as Stage 2. Stage 2 also includes financial assets where the credit risk improved and the financial asset has been reclassified back from Stage 3. For financial assets in Stage 2, a lifetime ECL is recognised;
- **Stage 3** – that where there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit-impaired, it is moved to Stage 3. For financial assets in Stage 3, a lifetime ECL is recognised and interest income is recognised on a net basis.

In relation to the above

- Lifetime ECL is defined as ECLs that result from all possible default events over the expected behavioural life of a financial instrument
- 12-month ECL is defined as the portion of lifetime credit loss that will result if a default occurs in the 12 months after the reporting, weighted by the probability of that default occurring

The measurement of ECLs is primarily based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12-month PD"), or over the remaining lifetime ("Lifetime PD") of the obligation
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12-month EAD") or over the remaining lifetime ("Lifetime EAD")
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure

The ECL is determined by estimating the PD, LGD, and EAD for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculates an ECL.

The measurement ECLs for each stage and the assessment of significant increases in credit risk considers economic information about past events and current conditions as well as reasonable and supportable forward-looking information. When determining whether the credit risk profile has materially increased, the Group specifically reviews the debt covenant positions of each company. If the debt service coverage ratio falls below zero and the Group does not have sufficient liquidity to cover 12 months of debt obligations, the investment will be deemed to be in default and a lifetime ECL allowance will be provided for.

As with any forecasts and economic assumptions, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. Other forward-looking considerations, such as the impact of any regulatory, legislative or political changes, have also been considered, but no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

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 FVTPL

Royalty investments are debt instruments classified at FVTPL 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 'royalty investment income' 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 23.

Investments in equity instruments are classified at FVTPL. 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

Notes to the consolidated financial statements continued

2 Significant accounting policies (continued)

the 'equity investment income' 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.

b. 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 FVTPL
Financial liabilities at FVTPL 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 FVTPL 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 'royalty investment 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 23.

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.

c. Equity instruments
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.

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

2.13 Share-based payments

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. All expenses recognised in the year in relation to the Group's Share Option and Long-Term Incentive Plan schemes are recognised through the share-based payment reserve.

2 Significant accounting policies (continued)

2.14 Reserves

Equity comprises the following:

- Share capital represents the nominal value of equity shares in issue

Other reserves

- Warrant reserve was created in connection with the issue of share warrants. Further warrants were issued during the year ended 31 March 2023. These allow the owner to subscribe for a fixed number of equity shares at a fixed price, and have therefore been classified as equity in accordance with IAS 32 paragraph 16.
- Share-based payment reserve represents equity-settled share-based employee remuneration as detailed in note 2.13
- Retained earnings represents retained profits

3 Critical accounting estimates

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make 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 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 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 carrying values, methods, assumptions and sensitivities used in determining the fair value can be found in note 23.

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. Further details of the methods, assumptions and sensitivities used in determining the fair value can be found in note 23.

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 makes assumptions based on market conditions at the end of each reporting period. The key estimates 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. The carrying value of equity investments are disclosed in Note 11. Further details of the methods, assumptions and sensitivities used in determining the fair value can be found in note 23.

Notes to the consolidated financial statements continued

4 Auditor's remuneration

	2023 £000	2022 £000
Audit of the Consolidated Financial Statements	105	75

5. Administration and personnel

The table below splits out administration and personnel costs.

	2023 £000	2022 £000
Support services administration fees	518	449
Directors' fees	1,012	730
Investment committee fees	108	107
Personnel costs	989	774
	2,627	**2,060**

6. Finance costs

	2023 £000	2022 £000
Interest payable on borrowings	3,861	1,499
Non-utilisation fees	194	350
Deferred finance costs released to P&L	1,558	147
Other finance costs	31	-
	5,644	**1,996**

7 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.

	2023 £000	2022 £000
Current tax		
Income tax expense	886	980
Deferred tax		
Increase in deferred tax assets	(44)	3
Decrease in deferred tax liabilities	-	(1)
Total deferred tax benefit	(44)	2
Income tax expense	**842**	**982**
Factors affecting income tax expense for the year		
Profit on ordinary activities before tax	20,434	21,373
Guernsey taxation at 0% (2022: 0%)	-	-
Overseas tax charges at effective rate of 4.12% (2021: 13.14%)	842	982
Income tax expense	**842**	**982**

8 Earnings per share

	2023	2022
Total comprehensive income (£000)	19,592	20,391
Weighted average number of Ordinary Shares in issue, excluding treasury shares (000s)	397,991	342,822
Basic earnings per share (pence)	4.92	5.95

	2023	2022
Total comprehensive income (£000)	19,592	20,391
Diluted weighted average number of Ordinary Shares in issue, excluding treasury shares (000s)	397,991	342,822
Diluted earnings per share (pence)	4.92	5.95

Basic earnings per share is calculated by dividing total comprehensive income for the period by the weighted average number of shares in issue throughout the period, excluding treasury shares (see Note 17).

Diluted earnings per share represents the basic earnings per share adjusted for the effect of dilutive potential shares issuable on exercise of share options under the Company's share-based payment schemes, weighted for the relevant period.

All share options, warrants and Long-Term Incentive Plan awards in issue are not dilutive at the year-end as the exercise prices were above the average share price for the period. However, these could become dilutive in future periods.

Notes to the consolidated financial statements continued

8 Earnings per share (continued)

Adjusted earnings per share

Adjusted earnings represent 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. Given the sensitivity of the inputs used to determine the fair value of its investments, the Group believes that adjusted earnings is a better reflection of its ongoing financial performance.

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.

	2023 £000	2022 £000
Total comprehensive income for the period	19,592	20,391
Unrealised fair value movements	(9,111)	(10,431)
Impairment loss on loan investments	20	72
Share-based payments	969	930
Transactions costs net of costs reimbursed	686	1,746
Tax effect of the adjustments above at Group effective rate	306	350
Adjusted earnings	**12,462**	**13,058**

	2023	2022
Adjusted earnings for the year (£000)	12,462	13,058
Weighted average number of Ordinary Shares in issue, excluding treasury shares (000s)	397,991	342,822
Adjusted earnings per share (pence)	3.13	3.81

	2023	2022
Diluted adjusted earnings for the year (£000)	12,462	13,058
Diluted weighted average number of Ordinary Shares in issue, excluding treasury shares (000s)	397,991	342,822
Diluted adjusted earnings per share (pence)	3.13	3.81

9 Royalty investments

Royalty investments are financial assets held at FVTPL that relate to the provision of royalty capital to a diversified portfolio of companies.

	31 MARCH 2023 £000	31 MARCH 2022 £000
At 1 April	160,479	85,301
Additions	23,809	74,586
Buybacks	-	(2,939)
Profit on financial assets at FVTPL	7,045	3,531
As at 31 March	**191,333**	**160,479**

Royalty investments are comprised of:

	31 MARCH 2023 £000	31 MARCH 2022 £000
Non-Current	158,540	139,648
Current	32,793	20,831
	191,333	**160,479**

Royalty investment net income on the face of the consolidated statement of comprehensive income comprises:

	31 MARCH 2023 £000	31 MARCH 2022 £000
Royalty interest	21,364	13,987
Royalty premiums	-	714
Gain on royalty assets at FVTPL	7,045	3,531
Loss on royalty liabilities at FVTPL	(143)	(195)
Royalty investment net income	**28,266**	**18,037**

All financial assets held at FVTPL are mandatorily measured as such.

The Group's royalty investment assets comprise royalty financing agreements with 15 (31 March 2022:13) 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.

Notes to the consolidated financial statements continued

10 Loan investments

Loan investments are financial assets held at amortised cost with the exception of the £2.2 million loan issued at 0% interest. The impact of discounting is immaterial to the financial statements. The below table shows both the loans at amortised cost and fair value.

	31 MARCH 2023 £000	31 MARCH 2022 £000
1 April	4,172	4,950
Additions	2,500	3,192
Buybacks	(2,000)	(3,950)
ECL allowance	(20)	(20)
Net foreign currency movement	-	-
As at 31 March	**4,652**	**4,172**

The Group's loan investments comprise secured loans advanced to two entities (2022 – two) in connection with the Group's royalty investments.

The loans comprise fixed rate loans of £4,652,000 (31 March 2022: £4,172,000) which bear interest at rates of between 0% and 15% (2022: 0% and 15%). The Group has no variable rate loans at the year end (2022: no variable rate loans at year end). The total interest receivable during the period was £339,074 (31 March 2022: £533,000).

The loan investments mature as follows:

	31 MARCH 2023 £000	31 MARCH 2022 £000
In less than one year	-	1,000
In one to two years	4,652	-
In two to five years	-	3,172
	4,652	**4,172**

Loan investment net income on the face of the consolidated statement of comprehensive income comprises:

	2023 £000	2022 £000
Loan interest charged	339	365
Loan premiums on exit	-	168
	339	**533**

ECL Analysis

The measurement of ECLs is primarily based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"). The Group analyses a range of factors to determine the credit risk of each investment. These include, but are not limited to:

- liquidity and cash flows of the underlying businesses
- security strength
- covenant cover
- balance sheet strength

10 Loan investments (continued)

If there is a material change in these factors, the weighting of either the PD, LGD or EAD increases, thereby increasing the ECL impairment.

The disclosure below presents the gross and net carrying value of the Group' loan investments by stage:

	AS AT 31 MARCH 2023			AS AT 31 MARCH 2022		
	GROSS CARRYING AMOUNT £000	ALLOWANCE FOR ECLS £000	NET CARRYING AMOUNT £000	GROSS CARRYING AMOUNT £000	ALLOWANCE FOR ECLS £000	NET CARRYING AMOUNT £000
Stage 1	4,692	(40)	4,652	4,192	(20)	4,172
Stage 2	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-
Loan investments	**4,692**	**(40)**	**4,652**	**4,192**	**(20)**	**4,172**

Under the ECL model introduced by IFRS 9, impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition.

The credit risk profile of the investments has not increased materially and they remain Stage 1 assets. Minor expected credit losses have been charged for the Stage 1 assets.

The following table analyses Group's provision for ECL's by stage:

	STAGE 1 £000	STAGE 2 £000	STAGE 3 £000	TOTAL £000
Expected credit losses on loan investments in year	20	-	-	20
Expected credit losses on other receivables in year	52	-	-	52
Carrying value at 31 March 2022	**72**	**-**	**-**	**72**
Expected credit losses on loan investments in year	22	-	-	22
Refinanced loans	(2)	-	-	(2)
Carrying value at 31 March 2023	**92**	**-**	**-**	**92**

11 Equity investments

Equity investments are financial assets held at FVTPL.

	31 MARCH 2023 £000	31 MARCH 2022 £000
At 1 April	10,820	3,495
Additions	500	530
Repayments	-	(300)
Realised gains on sale of equity investment	-	(2,583)
Gain on equity investments at FVTPL	2,209	9,678
As at 31 March	**13,529**	**10,820**

Notes to the consolidated financial statements continued

11 Equity investments (continued)

The Group's equity investments comprise unlisted shares and warrants in eleven of its royalty investment companies (31 March 2022: nine).

The Group also still holds two (31 March 2022: two) unlisted investments in mining entities from its previous investment objectives. The Board does not consider there to be any future cash flows from the remaining mining investments and they are fully written down to nil value.

Equity investment net income on the face of the consolidated statement of comprehensive income comprises:

	2023 £000	2022 £000
Unrealised gain on equity assets at FVTPL	2,209	7,095
Realised gain on equity assets at FVTPL	-	2,583
Dividend income	3	-
	2,212	**9,678**

12 Royalty debt liabilities

Royalty debt liabilities are financial liabilities held at fair value through profit and loss.

	31 MARCH 2023 £000	31 MARCH 2022 £000
At 1 April	1,111	1,031
Additions	-	-
Repayments	-	-
Payments made	(112)	(115)
Gain on royalty liabilities at fair value through profit and loss	143	195
As at 31 March	**1,142**	**1,111**

Royalty investment liabilities are comprised of:

	31 MARCH 2023 £000	31 MARCH 2022 £000
Non-Current	988	951
Current	154	160
	1,142	**1,111**

13 Trade and other receivables

	31 MARCH 2023 £000	31 MARCH 2022 £000
Current		
Prepayments and accrued income	59	53
Other receivables	2,231	-
	2,290	**53**
Non-current		
Other receivables	-	2,141
	2,290	**2,194**

14 Trade and other payables

	31 MARCH 2023 £000	31 MARCH 2022 £000
Current		
Trade payables	6	11
Transaction costs	315	233
Accruals and deferred income	112	179
	433	**423**
Non-current		
Transaction costs	1,314	1,067
	1,747	**1,490**

15 Borrowings

	31 MARCH 2023 £000	31 MARCH 2022 £000
Current – accrued interest	441	362
Non-current	53,930	47,740
	54,371	**48,102**

In January 2023, the Group entered into a new credit facility agreement with Fairfax Financial Holdings Limited and certain of its subsidiaries ("Fairfax") and issued Fairfax 41,615,134 warrants. Refer to Note 18 for details. The facility term is up to £100m to replace Duke's existing £55m million term and revolving facilities. The credit facility has a five-year term, expiring in January 2028 with a bullet repayment on expiry and no amortisation payments during the five-year term. Furthermore, the interest rate is equal to SONIA plus 5.00% per annum, which represents a 225bps improvement on Duke's previous rate of SONIA plus 7.25%.

Notes to the consolidated financial statements continued

15 Borrowings (continued)

The Group has adopted Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and 16). Applying the practical expedient introduced by the amendments, when the benchmarks affecting the Group's loans are replaced, the adjustments to the contractual cash flows will be reflected as an adjustment to the effective interest rate. Therefore, the replacement of the loans' benchmark interest rate will not result in an immediate gain or loss recorded in profit or loss, which may have been required if the practical expedient was not available or adopted.

At 31 March 2023, £42,000,000 was undrawn on the facility (31 March 2022: £6,800,000).

At the date of extinguishment of the previous facility, capitalised loan issue fees of £350,000 were outstanding. These fees were immediately charged to the income statement. Further fees of £1,439,000 were capitalised against the new credit facility. At 31 March 2023, £1,391,000 (31 March 2022: £460,000) of unamortised fees remained outstanding.

The table below sets out an analysis of net debt and the movements in net debt for the year ended 31 March 2023 and prior year.

	INTEREST PAYABLE £000	BORROWINGS £000
At 1 April 2022	**362**	**47,740**
Cash movements		
Loan advanced	-	71,250
Loan repaid	-	(61,450)
Deferred finance costs paid	-	(2,347)
Interest paid	(3,976)	-
Non-cash movements		
Deferred finance costs released to P&L – old credit facility	-	1,416
Deferred finance costs released to P&L – new credit facility	-	92
Issue of warrants	-	(2,771)
Interest charged	4,055	-
At 31 March 2023	**441**	**53,930**
At 1 April 2021	**161**	**17,103**
Cash movements		
Loan advanced	-	38,200
Loan repaid	-	(7,500)
Deferred finance costs paid	-	(181)
Interest paid	(1,649)	-
Non-cash movements		
Deferred finance costs released to P&L – new credit facility	-	118
Interest charged	1,850	-
At 31 March 2022	**362**	**47,740**

16 Goodwill

	GOODWILL £000
Opening and closing net book value at 1 April 2021, 31 March 2022 and 31 March 2023	**203**

The goodwill has not been assessed for impairment on the basis of materiality.

17 Share capital

	EXTERNAL SHARES Number	TREASURY SHARES Number	TOTAL SHARES Number	£000
Allotted, called up and fully paid				
At 1 April 2021	247,052	10,855	257,907	120,870
Shares issued for cash during the period	100,000	-	100,000	35,000
Share issuance costs	-	-	-	(1,936)
PSA shares vested during year	1,457	(1,457)	-	-
Shares issued to Employee Benefit Trust during the period	-	792	792	-
Shares issued to key advisers as remuneration	105	-	105	40
At 31 March 2022	**348,614**	**10,190**	**358,804**	**153,974**
Shares issued for cash during the year	57,143	-	57,143	20,000
Share issuance costs	-	-	-	(1,115)
PSA shares vested during year	1,800	(1,800)	-	-
Shares issued to Employee Benefit Trust during the year	-	1,382	1,382	-
Shares issued to directors and key advisors as remuneration	205	-	205	80
At 31 March 2023	**407,762**	**9,772**	**417,534**	**172,939**

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.

18 Equity-settled share-based payments

Warrant reserve

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

	WARRANTS Number 000	WARRANTS £000
At 1 April 2022	4,375	265
Issued during the year	41,615	2,771
Lapsed during the year	(2,000)	-
At 31 March 2023	**43,990**	**3,036**

In January 2023, Duke issued 41,615,134 warrants to Fairfax. The warrants expire in January 2028 and have an exercise price of 45 pence. As per IFRS 2, the warrants have been valued using the Black Scholes model. A total expense of £2,771,000 has been capitalised and will be amortised over the life of the warrants. In the year to 31 March 2023, an expense of £92,000 (2022: £nil) was recognised through finance costs in relation to the warrants.

Notes to the consolidated financial statements continued

18 Equity-settled share-based payments (continued)

At 31 March 2023, 43,990,000 (31 March 2022: 4,375,000) warrants were outstanding and exercisable at a weighted average exercise price of 45 pence (31 March 2022: 46 pence). The weighted average remaining contractual life of the warrants outstanding was 4.56 years (31 March 2022: 1.00 years).

Share-based payment reserve

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

	SHARE OPTIONS £000	LTIP £000	TOTAL £000
At 1 April 2021	136	1,412	1,548
LTIP awards	-	930	930
At 31 March 2022	**136**	**2,342**	**2,478**
LTIP awards	-	969	969
At 31 March 2023	**136**	**3,311**	**3,447**

Share option scheme

The Group operates a share option scheme ("the Scheme"). The Scheme was established to incentivise Directors, staff and 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 four per cent of the Company's Ordinary Shares in issue from time to time. Options vest immediately and lapse five years from the date of grant.

At 31 March 2023, 200,000 options (31 March 2022: 200,000) were outstanding and exercisable at a weighted average exercise price of 50 pence (31 March 2022: 50 pence). The weighted average remaining contractual life of the options outstanding at the year-end was 0.50 year (31 March 2022: 1.50 year).

	SHARE OPTIONS Number 000
At 1 April 2021 and 31 March 2022	200
Lapsed during the year	-
At 31 March 2023	**200**

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 31 October 2019, 2,525,000 PSAs were granted to Directors and key personnel with a fair value of £842,280. An expense of £185,927 was recognised in Administration and Personnel costs in the Consolidated Statement of Comprehensive Income.

18 Equity-settled share-based payments (continued)

On 1 October 2020, 6,665,000 PSAs were granted to Directors and key personnel with a fair value of £1,093,478. An expense of £364,493 was recognised in Administration and Personnel costs in the Consolidated Statement of Comprehensive Income.

On 3 January 2021, 1,000,000 PSAs were granted to Directors and key personnel with a fair value of £164,063. An expense of £54,688 was recognised in Administration and Personnel costs in the Consolidated Statement of Comprehensive Income.

On 1 October 2021, 2,108,000 PSAs were granted to Directors and key personnel with a fair value of £671,926. An expense of £223,771 was recognised in Administration and Personnel costs in the Consolidated Statement of Comprehensive Income.

On 1 October 2022, 3,954,700 PSA's were granted to Directors and key personnel with a fair value of £840,376. An expense of £139,935 was recognised in Administration and Personnel costs in the Consolidated Statement of Comprehensive Income.

At 31 March 2023, 13,727,700 (31 March 2022:12,298,000) PSAs were outstanding. The weighted average remaining vesting period of these awards outstanding was 1.2 years (2022 – 1.5 years).

Other share-based payments
During the year ended 31 March 2023, the Company issued 205,128 (2022: 104,576) shares to members of the Investment Committee in recognition of the significant contribution made during the previous financial year and for voluntarily forgoing service fees. The fair value of the shares was determined to be £80,000 being the share price at the date of the awards. The expense was recognised in full in the Consolidated Statement of Comprehensive Income during that year.

19 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.

20 Dividends

The following interim dividends have been recorded in the periods to 31 March 2022 and 31 March 2023:

RECORD DATE	PAYMENT DATE	DIVIDEND PER SHARE	DIVIDENDS PAYABLE
		pence/share	£000
26 March 2021	12 April 2021	0.55	1,359
25 June 2021	12 July 2021	0.55	1,909
24 September 2021	12 October 2021	0.55	1,909
24 December 2021	12 January 2022	0.60	2,093
Dividends paid for the period ended 31 March 2022			**7,270**
25 March 2022	12 April 2022	0.70	2,440
1 July 2022	12 July 2022	0.70	2,842
30 September 2022	12 October 2022	0.70	2,842
23 December 2022	12 January 2023	0.70	2,855
Dividends paid for the period ended 31 March 2023			**10,979**

A further quarterly dividend was paid post year end, refer to Note 25 for details.

Rights to dividends have been waived in respect of shares held by the Group's Employee Benefit Trust (see note 17).

Notes to the consolidated financial statements continued

21 Deferred tax

The temporary differences for deferred tax are attributable to:

	ROYALTY INVESTMENTS £000	EQUITY INVESTMENTS £000	TAX LOSSES £000	TOTAL £000
1 April 2021	158	-	-	158
Credited to profit & loss	(2)	-	-	(2)
At 31 March 2022	**156**	**-**	**-**	**156**
Charged to profit & loss	44	-	-	44
At 31 March 2023	**200**	**-**	**-**	**200**

A deferred tax asset has been recognised as it is expected that future available taxable profits will be available against which the Group can use against the current year tax losses.

22 Related parties

Directors fees

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

	BASIC FEES 2023 £000	SHARE BASED PAYMENTS 2023 £000	ANNUAL BONUS 2023 £000	TOTAL 2023	BASIC FEES 2022 £000	SHARE BASED PAYMENTS 2022 £000	ANNUAL BONUS 2022 £000	TOTAL 2022
Non-Executive								
N Birrell	40	-	-	40	38	-	-	38
M Wilms	30	-	-	30	4	-	-	4
M Wrigley	30	-	-	30	29	-	-	29
Executive								
N Johnson	240	248	240	728	233	269	108	610
C Cannon Brookes	216	216	216	648	210	216	108	534
	556	**464**	**456**	**1,476**	**514**	**485**	**216**	**1,215**

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

Directors' fees include the following expenses relating to awards granted under the Group's Long Term Incentive Plan (see note 18):

	2023 £000	2022 £000
N Johnson	248	269
C Cannon Brookes	216	216
	464	**485**

At 31 March 2023, no Directors' fees were outstanding (2022: no fees outstanding).

22 Related parties (continued)

Investment Committee fees

The Group's Investment Committee assists 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:

	2023 £000	2022 £000
A Carragher	20	20
J Romeo	20	20
J Cochrane	20	20
J Webster	113	109
	173	**169**

Investment Committee fees include the following expenses relating to shares issued as remuneration (see note 18):

	2023 £000	2022 £000
A Carragher	-	20
J Romeo	-	20
J Cochrane	-	20
J Webster	-	20
	-	**80**

Investment Committee fees include the following expenses relating to awards granted under the Group's Long Term Incentive Plan (see note 18):

	2023 £000	2022 £000
J Webster	37	62

Support services administration fees

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

	2023 £000	2022 £000
Abingdon Capital Corporation	425	363
Arlington Group Asset Management Limited	93	85
	518	**448**

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, office rental and assisting the Board with the selection, execution and monitoring of royalty partners and royalty performance. Abingdon fees also includes fees relating to remuneration of staff residing in North America.

Notes to the consolidated financial statements continued

22 Related parties (continued)

Share options and LTIP awards

The Group's related parties, either directly or beneficially, held share options issued under the Group's share option scheme and Long-Term Incentive Plan as follows:

	SHARE OPTIONS 2023 Number	SHARE OPTIONS 2022 Number	LTIP AWARDS 2023 Number	LTIP AWARDS 2022 Number
Neil Johnson	-	-	3,382	2,821
Charles Cannon Brookes	-	-	3,144	2,474
Nigel Birrell	-	-	-	-
Justin Cochrane	-	-	-	-
Jim Webster	-	-	375	590

Dividends

The following dividends were paid to related parties

	2023 £000	2022 £000
N Johnson[1]	142	97
C Cannon Brookes[2]	212	141
N Birrell	35	23
M Wrigley	1	1
J Webster	9	2
J Cochrane	28	21
A Carragher	15	11
J Romeo	4	3

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

[2] Includes dividends paid to Arlington Group Asset Management

23 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 date (unobservable inputs).

23 Fair value measurements (continued)

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

	31 MARCH 2023 LEVEL 3 £000	31 MARCH 2022 LEVEL 3 £000
Financial assets		
Financial assets at FVTPL		
- Royalty investments	191,333	160,479
- Equity investments	13,529	10,820
	204,862	**171,299**
Financial liabilities		
Financial liabilities at FVTPL		
- Royalty debt liabilities	1,142	1,111
	1,142	**1,111**

The following table presents the changes in level 3 items for the years ended 31 March 2023 and 31 March 2022:

	FINANCIAL ASSETS £000	FINANCIAL LIABILITIES £000	TOTAL £000
At 1 April 2021	88,796	(1,031)	87,765
Additions	75,116	-	75,116
Repayments	(5,822)	-	(5,822)
Royalty income received	(18,037)	-	(18,037)
Royalty participation liabilities paid	-	115	115
Net change in fair value	31,246	(195)	31,051
At 31 March 2022	**171,299**	**(1,111)**	**170,188**
Additions	24,309	-	24,309
Royalty income received	(28,266)	-	(28,266)
Royalty participation liabilities paid	-	112	112
Net change in fair value	37,520	(143)	37,377
At 31 March 2023	**204,862**	**(1,142)**	**203,720**

Valuation techniques used to determine fair values

The fair value of the Group's royalty financial instruments is determined using discounted cash flow analysis and all the resulting fair value estimates are included in level 3. The fair value of the equity instruments is determined applying an EBITDA multiple to the underlying businesses forward looking EBITDA. All resulting fair value estimates are included in level 3.

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.

23 Fair value measurements (continued)

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.

EBITDA multiples
These multiples are based on comparable market transactions

Forward looking EBITDA
These are estimated based on the projected underlying performance of the royalty investee companies together.

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 adjustment factor and the discount rate. The range of annual adjustment factors used is -6.0% to 6.0% (2022: 1.9%% to 6.0%) and the range of risk-adjusted discount rates is 14.7% to 17.70% (2022: 14.8% to 17.35%).

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 £929,000 (2022: £891,000).

A reduction in the discount rate of 25 basis points would increase the fair value by £2,289,000 (2022: £2,302,000).

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 £1,263,000 (2022: £1,296,000).

An increase in the discount rate of 25 basis points would decrease the fair value by £2,230,000 (2022: £2,232,000).

Equity investments
The unobservable inputs are the EBITDA multiples and forward looking EBITDA. The range of EBITDA multiples used is 5.3x to 10.0x (2022: 5.0x to 7.8x).

An increase in the EBITDA multiple of 25 basis points would increase fair value by £1,378,000 (2022: £1,560,000)

A decrease in the EBITDA multiple of 25 basis points would decrease fair value by £1,378,000 (2022: £1,560,000)

An increase in the forward looking EBITDA of 5% would increase the fair value by £1,575,000 (2022: £1,695,000)

A decrease in the forward looking EBITDA of 5% would decrease fair value by £1,575,000 (2022: £1,695,000)

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 -0.37% to 6.0% (2022: 1.9% to 6.0%) and the range of risk-adjusted discount rates is 16.3% to 17.3% (2022: 16.3% to 17.3%).

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 £5,000 (2022: £6,000).

A reduction in the discount rate of 25 basis points would increase the fair value of the liability by £9,000 (2022: £14,000).

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 £9,000 (2022: £10,000).

An increase in the discount rate of 25 basis points would decrease the fair value of the liability by £14,000 (2022: £13,000).

24 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.

Principal financial instruments
The principal financial instruments used by the Group from which financial instrument risk arises, are as follows:

	31 MARCH 2023 £000	31 MARCH 2022 £000
Financial assets held at FVTPL		
Royalty investments	191,333	160,479
Equity investments	13,529	10,820
Total financial assets held at FVTPL	204,862	171,299
Financial assets held at amortised cost		
Loan investments	4,652	4,172
Cash and cash equivalents	8,939	5,707
Trade and other receivables	2,290	2,194
Total financial assets held at amortised cost	15,881	12,073
Total financial assets	**220,743**	**183,372**
Financial liabilities held at amortised cost		
Bank borrowings	(54,371)	(48,102)
Trade and other payables	(1,747)	(1,490)
Total financial liabilities held at amortised cost	(56,118)	(49,592)
Financial liabilities held at FVTPL	(1,142)	(1,111)
Total financial liabilities	**(57,260)**	**(50,703)**

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.

Notes to the consolidated financial statements continued

24 Financial risk management (continued)

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

	31 MAR 23 Euro £000	31 MAR 23 US Dollar £000	31 MAR 23 CAD Dollar £000	31 MAR 22 Euro £000	31 MAR 22 US Dollar £000	31 MAR 22 CAD Dollar £000
Royalty investments	9,779	27,330	11,304	14,118	16,061	11,380
Equity investments	6,760	-	1,377	3,814	-	461
Loans receivable	-	-	-	-	-	-
Cash and cash equivalents	-	81	54	189	247	81
Trade and other receivables	2,231	-	-	2,141	-	-
Royalty participation liability	-	-	-	-	-	-
Transaction costs payable	-	(1,629)	-	-	(1,300)	-
	18,770	**25,782**	**12,735**	**20,262**	**15,008**	**11,922**

If Sterling strengthens by 10% against the Euro, the net Euro-denominated assets would reduce by £844,000 (2022: £965,000). Conversely, if Sterling weakens by 5% the assets would increase by £932,000 (2022: £1,066,000).

If Sterling strengthens by 5% against the US Dollar, the net US Dollar-denominated assets would reduce by £1,228,000 (2022: £715,000). Conversely, if Sterling weakens by 5% the assets would increase by £1,357,000 (2022: £790,000).

If Sterling strengthens by 5% against the Canadian Dollar, the net Canadian Dollar-denominated assets would reduce by £606,000 (2022: £568,000). Conversely, if Sterling weakens by 5% the assets would increase by £670,000 (2022: £627,000).

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 one-month UK SONIA +5.00%. The Group's royalty investments have a fair value at the reporting date of 191,333,000 (31 March 2022: £160,479,000). A sensitivity analysis in respect of these assets is presented in note 23.

The Group's borrowings at the reporting date are £53,930,000, see Note 15 (31 March 2022: £47,740,000). A movement in the rate of SONIA of 100bps impacts loan interest payable by £539,300 (31 March 2022: £477,400).

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 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 23.

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.

24 Financial risk management (continued)

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

	31 MARCH 2023 £000	31 MARCH 2022 £000
Royalty investments	191,333	160,479
Loan investments	4,652	4,172
Cash and cash equivalents	8,939	5,707
Trade and other receivables	2,290	2,194
	207,214	**172,552**

Royalty investments
The royalty investments relate to the Group's 15 royalty financing agreements. At the reporting date, there was £4,423,000 of royalty cash payments outstanding (31 March 2022: £2,439,000) from three royalty partners (31 March 2022: 2). Of this, £nil (31 March 2022: £nil) was received in the month post year-end. Payment plans have been agreed to recover the £4,423,000 from all three royalty partners over the next five years.

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 Board on a semi-annual basis. 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.

Loan investments
The Group's loan investments are held at amortised cost. All loans have been reviewed by the directors. The Board considered the credit risk, both at issue and at the year-end, and has determined that there have been no significant movements. Consequently, any loss allowance is limited to 12 months' expected losses and such allowances are considered to be immaterial.

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:

	31 MARCH 2023 £000	31 MARCH 2022 £000
Moody's credit rating:		
A1	6,681	3,657
Baa1	2,220	2,018
Baa2	38	-
B+	-	32
	8,939	**5,707**

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

Notes to the consolidated financial statements continued

24 Financial risk management (continued)

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 £42,000,000 (2022: £6,800,000 (see note 15).

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

	LESS THAN ONE YEAR £000	1 – 5 YEARS £000	OVER FIVE YEARS £000	TOTAL £000
As at 31 March 2023				
Royalty finance investments	25,967	149,279	747,951	923,197
Royalty finance liabilities	121	571	3,540	4,232
Trade and other payables	(433)	(882)	(431)	(1,746)
Borrowings	(441)	(53,930)	-	(54,371)
	25,214	**95,038**	**751,060**	**871,312**
As at 31 March 2022				
Royalty finance investments	20,550	93,694	656,584	770,828
Royalty finance liabilities	116	615	3,457	4,188
Trade and other payables	(443)	(1,011)	(918)	(2,372)
Borrowings	(3,864)	(58,455)	-	(62,319)
	16,359	**34,843**	**659,123**	**710,325**

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

25 Events after the financial reporting date

Dividends
On 12 April 2023 the Company paid a quarterly dividend of 0.70 pence per share.

Exits
On 24 May 2023, Duke announced that it had exited its investments in Instor Solutions, Inc ("Instor"). The total cash return was £8.7 million.

New royalty investments
On 23 June 2023, the Group announced a £1,800,000 follow-on investment into Tristone.

On 3 July 2023, the Group announced a £1,900,000 follow-on investment into New Path Fire & Security.

Company information

Directors

Nigel Birrell *(Chairman)*
Neil Johnson
Charles Cannon Brookes
Matthew Wrigley
Maree Wilms

Investment Committee

Jim Webster *(Chairman)*
Neil Johnson
Charles Cannon Brookes
Andrew Carragher
Justin Cochrane
John Romeo

Secretary and administrator

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