

**York Potash Ltd**

**Annual report and financial statements  
for the year ended 31 December 2019**

**Company number: 07251600**



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## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

The Directors present their strategic report on York Potash Ltd (the “Company” or “York Potash”) for the year ended 31 December 2019.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is to explore, evaluate and develop its polyhalite Project (“the Project”) in North Yorkshire.

### RESULTS

The Company's total loss for the financial year was £11.0 million (2018: £14.9 million). As at 31 December 2019 net liabilities were £9.5 million (2018: £40.0 million).

Although the year saw some significant construction progress (notably the start of tunnelling from Teesside) and some notable sales and marketing successes (with the addition of three major international sales agreements), the year was dominated by the search for additional (or “Stage 2”) financing. This was ultimately not successful, and culminated in the sale of the Company's parent, (Anglo American Woodsmith Limited (“AAWL”), formerly called Sirius Minerals plc) to Anglo American Projects UK Limited, a wholly owned subsidiary of Anglo American Plc (“Anglo”) at 5.5p per share in early 2020.

The deal secured the future of the Project, including jobs and economic opportunities for people in the region. The offer from Anglo provided certainty to shareholders after a tumultuous year in the financial markets, in which many factors outside the Company's control, such as US and China trade disputes, political uncertainty, Brexit, perceived Project construction risks, and fertilizer market uncertainty combined to create an environment that was not conducive to the raising of finance for a single asset company like York Potash.

In early 2019 the Company was continuing to seek loan guarantees from the UK Government's Infrastructure and Projects Authority (“IPA”), which was essential to the success of the original debt raising plan. During these protracted discussions with the IPA, the Company received a conditional proposal from JP Morgan Cazenove offering a capital markets-based alternative fundraising package which would not involve the IPA (the “Alternative Proposal”). The Alternative Proposal required an equity raise and a \$500 million bond issue in order to access a \$2.5bn revolving credit facility. If implemented successfully, this was expected to provide enough liquidity to complete the Project. The Company believed that the Alternative Proposal potentially offered a more flexible and attractive solution to its Stage 2 financing requirements and therefore paused discussions with its existing prospective lenders to pursue it.

Despite a successful equity raise in May 2019 by AAWL, and placing of convertible bonds raised by AAWL in escrow, the Alternative Proposal could not be finalised due to an inability to raise the \$500 million of senior secured notes required by the Alternative Proposal due to market conditions. The UK government was again asked for financial support via future guarantees in the bond market, but it declined. With no government backing and extremely challenging financial markets, the Company had no option but to withdraw from the Alternative Proposal in September 2019.

## **STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

The Company then embarked on a strategic review period starting on 17 September 2019 ("Strategic Review"), slowing down construction activity in order to preserve cash while it assessed other development options and engaged with other potential finance partners. In November 2019 the decision was taken to revise the development timeline to reduce up-front costs and de-risk the Project. However, the year ended with no firm offers of finance and this put the future of the Project (and ultimately the Company) in doubt.

As part of the strategic review, Anglo had been approached (together with a wide range of potential partners) with a view to coming on board as strategic partner. However, in January 2020 AAWL received an offer of 5.5p per share for the entire issued share capital from Anglo. Given a lack of alternatives, and the likelihood of administration or liquidation if the Acquisition did not go through, the AAWL Board unanimously recommended the offer. The Acquisition was effected by means of a court-sanctioned scheme of arrangement of AAWL under Part 26 of the Companies Act 2006 (the "Scheme"). The Scheme was approved by AAWL's shareholders on 3 March and was sanctioned by the High Court on 13 March 2020. The Scheme became effective on 17 March 2020.

Since then, the Project has continued to progress. Although work has been made more challenging by the COVID 19 crisis, mitigation measures have been implemented across all construction sites, based on construction industry guidelines as a minimum standard. While these practices make work more difficult, they are essential and part of the 'new normal' to which all businesses must adapt.

### **Value for shareholders**

The Company has always stated that financing the construction of its world-class North Yorkshire Polyhalite Project (the "Project") was how it aimed to deliver value to shareholders. While the Acquisition provided the financing required, the Board members and management understand that the returns were not what shareholders had previously hoped for. It was the AAWL Board's strong preference that a solution would be found that allowed shareholders to participate as fully as possible in the future development of the Project, however this proved to not be possible.

The cash constraints of the Group and lack of realistic and deliverable alternative financing and development options meant that the Acquisition became the only feasible option. It provided shareholders with some financial return and left the Project in the hands of a company committed to approaching it in the right way, and with the resources available to complete the job. If the Acquisition had not been approved by AAWL's shareholders and had not completed, there was a high probability that the business could have been placed into administration or liquidation within weeks thereafter.

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)****Performance against milestones**

Construction progress in 2019 was negatively impacted by liquidity restrictions, caused by the failure to deliver the planned Stage 2 financing during the year. This led to the launch of the Strategic Review on 17 September 2019 and consequent slowing of all construction work across the site.

<b>Construction</b>	<b>EOY 2019 Status</b>	<b>Detail</b>
Complete construction of main mineshafts foreshafts to enable commencement of excavation of main shafts using shaft-boring roadheaders	Incomplete	<ul style="list-style-type: none"> <li>• Service shaft walls and floor completed</li> <li>• Service shaft shaft boring roadheader ("SBR") and headframe arrived and in storage</li> <li>• Production shaft partially excavated</li> <li>• Mineral transport system ("MTS") shaft Galloway ready for fit out, hoist house partially complete</li> <li>• Intermediate shaft excavation and grouting suspended</li> </ul>
Complete mechanical tunnelling of Drive 1 of the MTS and advance tunnel excavation to 3km	Complete	<ul style="list-style-type: none"> <li>• Tunnel boring machine ("TBM") ahead of schedule and at 3.6km at end of year</li> </ul>
Complete early works and commence civil works for the mineral handling facility ("MHF")	Incomplete	<ul style="list-style-type: none"> <li>• Initial ground preparation completed but further work suspended</li> </ul>
Finalize commercial approach to port facilities	Complete	<ul style="list-style-type: none"> <li>• Contract awarded and early engineering work ongoing</li> </ul>
<b>Sales and Marketing</b>		
Continue to expand global agronomy programme in conjunction with our distribution partners	Complete	<ul style="list-style-type: none"> <li>• Crop science programme at 489 trials in 31 countries on 54 crops</li> </ul>
Expand our global distribution footprint into incremental key markets	Complete	<ul style="list-style-type: none"> <li>• European supply and distribution agreement signed with BAYWA</li> <li>• Indian supply agreement signed with IFFCO</li> </ul>

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

		<ul style="list-style-type: none"> <li>• Africa, ME &amp; Asia supply and distribution agreement signed with Muntajat</li> </ul>
<b>Corporate and Commercial</b>		
Achieve financial close on all components of the stage 2 financing plan	Incomplete	<ul style="list-style-type: none"> <li>• Alternative financing plan suspended; strategic review underway to secure further investment</li> </ul>

**OUR STRATEGY**

Our strategy throughout 2019 was unchanged from the long-term strategy adopted in the early days of the Project: to sell our high grade polyhalite as a bulk multi-nutrient fertilizer to farmers around the world. To achieve this we developed a multi-channel, global sales strategy to meet a potential market opportunity for polyhalite based multi-nutrient fertilizer products, which have a number of advantages over traditional potash fertilizers. In doing so, we aim to become a globally unique high-volume nutrient supply Company, with a low cost and high-quality product.

<b>2019 Strategy</b>			
Build a world-class, long-life, low-cost production facility	Developing an industry-leading product	Penetrate existing markets and drive long-term value	Execute a financing plan that delivers returns for shareholders

- Build a world-class, long-life, low-cost production facility

**Summary:** Utilise proven, well-understood construction techniques to build a low-impact, large-scale operation with a long operating life and low cost of production. Ensure ongoing management of health and safety, and environmental and social impacts.

The Company is building an innovative mine, capable of producing up to 20 million tonnes of polyhalite a year for in excess of 40 years. By using high-efficiency bulk mining methods, the Company expects to become a disruptive global fertilizer business by being the only Company able to produce large volumes of a unique polyhalite fertilizer that is not currently available anywhere else in the world and making it widely available in key markets. The nature of the resource means that all mine development roadways are expected to be excavated in the polyhalite seam and to result in an approximately 1:1 mining ratio, meaning that every tonne of ore mined would become approximately a tonne of POLY4. The close proximity of the deposit to the harbour facility on Teesside, and the development of the mineral transport system, are expected to enable cost and operational efficiencies.

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

The Company has designed its mine infrastructure to be sympathetic to its location. The low impact infrastructure ensures that no material will come to surface until it arrives at the materials handling facility.

KPIs	2019 progress
Complete construction of main mineshafts foreshafts to enable commencement of excavation of main shafts using shaft-boring roadheaders	<ul style="list-style-type: none"> <li>• Service shaft walls and floor completed</li> <li>• Service shaft SBR and headframe arrived and in storage</li> <li>• Production shaft partially excavated</li> <li>• MTS shaft Galloway ready for fit out, hoist house partially complete.</li> <li>• Intermediate shaft excavation and grouting suspended</li> </ul>
Complete mechanical tunnelling of Drive 1 of the MTS and advance tunnel excavation to 3km	<ul style="list-style-type: none"> <li>• TBM ahead of schedule and at 3.6km at end of year</li> </ul>
Complete early works and commence civil works for the MHF	<ul style="list-style-type: none"> <li>• Initial ground preparation complete but further work suspended</li> </ul>
Finalize commercial approach to port facilities	<ul style="list-style-type: none"> <li>• Contract awarded and early engineering work ongoing</li> </ul>

- Develop an industry-leading product

*Summary:* Articulate POLY4's four key attributes: efficiency, effectiveness, flexibility and sustainability, that benefit farmers by increasing their profits in a sustainable way through improved crop yields, reduced costs or both.

The Company's product strategy is based on the cornerstones of POLY4: efficiency, effectiveness, flexibility and sustainability. The Company intends to continue its global agronomy programme to continue to validate the performance of POLY4 in key geographical markets and for a large variety of crops. This programme is aimed at enhancing the market adoption of POLY4 as its nutrient value and benefit to customers are more widely demonstrated. The Company also plans to continue to implement an extensive product development programme in order to further explore other value enhancing uses of POLY4, such as its incorporation into high-value NPK fertilizers and new application techniques, such as seed coating.

KPI	2019 progress
Continue to expand global agronomy programme in conjunction with our distribution partners	<ul style="list-style-type: none"> <li>• Crop science programme at 489 trials in 31 countries on 54 crops</li> </ul>

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

- Penetrate existing markets and drive long-term value

*Summary:* Penetrate and disrupt the existing market via a three-phase approach of substitution, market growth and performance.

The Company focuses its sales strategy on the opportunities for various markets to adopt the use of POLY4 on a large scale. First, the Company expects that the multi-nutrient characteristics of POLY4 will allow it to become an economical substitute to existing sources of potassium, magnesium, calcium and sulphur for many customers. Second, the low-chloride nature of POLY4 may allow it to alleviate the global shortfall in supply of low-chloride fertilizers. Third, the growth in consumption of multi-nutrient fertilizers around the world is expected, in the longer term, to further increase the opportunity for POLY4 to enter the fertilizer market and in particular the NPK blending market.

Facilitation of the world's evolution to a more sustainable agricultural sector is an area of focus for the Company. A growing population and limited availability of arable land is placing increased demand on food production. Through the large-scale supply of POLY4, the Company aims to make a sustainable contribution to global food security and is already working with a range of stakeholders to promote better agricultural practices across the world through the use of POLY4. The Company has made a long-term commitment to farmer education in this regard, the foundation of this effort being its ongoing research and development programme.

KPI	2019 progress
Expand our global distribution footprint into incremental key markets	<ul style="list-style-type: none"> <li>• European supply and distribution agreement signed with BAYWA</li> <li>• Indian supply agreement signed with IFFCO</li> <li>• Africa, ME &amp; Asia supply and distribution agreement signed with Muntajat</li> </ul>

- Execute a financing plan that delivers returns for shareholders

*Summary:* The Company has sought to deliver a financing plan that would maximise shareholder value.

The Company aimed to deliver value to shareholders through raising external financing as outlined in this Annual Report. Through the life of our Project, we have strategically raised capital to enable progression through key Project milestones.

KPI	2019 progress
Achieve financial close on all components of the stage 2 financing plan	<ul style="list-style-type: none"> <li>• Alternative financing plan suspended; strategic review commenced to secure further investment, which ultimately resulted in the takeover by Anglo American plc in March 2020.</li> </ul>



## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

### WORKING RESPONSIBLY

We are located in one of the most beautiful parts of the UK and recognise that with this privilege comes responsibility: a duty to ensure that our operations enhance the area, rather than detract from it. Responsibility is something we embrace wholeheartedly – indeed, it is one of our core values. We expect everyone involved with the Company, from the Board and staff to the wider contractor team, to act with accountability and integrity.

The Company can only succeed by supporting our team and keeping them safe, protecting the environment, engaging with the community and delivering benefits to the local area. Underpinned by good governance, our three pillars of responsibility – environment, community and people.

### Our Environment

From the outset, we have been committed to limiting the environmental impact of the Project as much as possible, which is reflected in our low impact design and operational philosophy. We are also conscious that, through our business, we have the opportunity to contribute to solving a problem that has a truly global scale – how to produce more food to feed the world's growing population in a way that is more sustainable.

#### Sustainable design and operations

To access the polyhalite deposit, we have designed our mine infrastructure to be sympathetic to its location within the North York Moors National Park. The number and size of the buildings has been reduced to a minimum, which together with extensive landscaping and planting, will ensure the site is screened and blends in with the surrounding area.

Mined ore will be transported underground, in recognition of the sensitivity of the area, to the materials handling facility in Teesside. No mineral will come to surface until after it leaves the National Park and arrives at the materials handling facility.

We continue to look for ways to improve the Project. For example, through our membership of the Industry Nature Conservation Association, we work with local authorities and voluntary organisations to minimise our environmental impact and ensure ecological improvement on Teesside.

#### Minimising construction impact

There are almost 100 planning conditions relating to environmental issues as part of the permission for our sites and the mineral transport system. We have a dedicated team who work with the relevant authorities to ensure we comply with the conditions to keep impacts limited across a range of environmental matters including lighting, noise, landscape, wildlife and ecology, and air quality. In many cases, we seek to go beyond what is required by our planning permission and reduce our environment impact even further.

## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

### Funding enhancements

As part of our planning permissions for the Project we provide significant funding, through formal 'section 106 contributions', to the North York Moors National Park Authority, North Yorkshire County Council and Redcar and Cleveland Borough Council. Over £5 million of payments have already been made.

Our contributions support projects that safeguard and enhance the natural environment, improve public footpaths, restore historic monuments, and include a 7,000-hectare woodland creation scheme. As of the end of 2019, a total of 40,000 trees had been planted.

### Supporting sustainable agriculture

Sustainability is the major challenge facing the fertilizer industry today. Large-scale farming systems and the over-application of fertilizers have been responsible for environmental impacts such as pollution, soil degradation, deforestation and habitat loss. The required increase in food production over the coming decades must be done in a way that safeguards the environment and protects it for future generations. The Company is committed to the promotion of better fertilizer practices and, in doing so, making a significant contribution to global food security.

The foundation of this effort is our ongoing research and development programme. The programme consistently demonstrates that POLY4 can improve crop yield and quality and has positive environmental impacts, such as improvements in soil strength, structure and nutrient legacy, and helps to reduce agriculture's impact by improving fertilizer use efficiency – ensuring more fertilizer is taken up by the plant and not lost into the environment.

Measuring 2019 performance		2018 Performance
GHG emissions Scope 1 <sup>1</sup>	5,489 TCO <sub>2</sub> e	4,852 TCO <sub>2</sub> e
GHG emissions Scope 2 <sup>1</sup>	2,241 TCO <sub>2</sub> e	639 TCO <sub>2</sub> e
Gross carbon emissions <sup>1</sup>	7,737 TCO <sub>2</sub> e	5,491 TCO <sub>2</sub> e
Intensity metric (per £10m spend)	171	152
Environmental compliance (target: 0)	Zero enforcement orders	Zero enforcement orders
Environmental incidents (target: 0)	Zero incidents causing significant localised harm	Zero incidents causing significant localised harm
New crop trials started (target: 80)	94	110

Note

<sup>1</sup> The Company's greenhouse gas (GHG) performance in 2019 is calculated in line with the government's 'Greenhouse gas reporting: conversion factors 2018'. This includes direct GHG emissions from the combustion of fuels (Scope 1) and indirect GHG emissions from the consumption of purchased electricity, steam or other sources of energy (Scope 2). In 2019, we were able to report on our use of refrigerants. Our combined total emissions were 7,737 tonnes of CO<sub>2</sub>e, an increase of 2,246 tonnes over 2018, as a direct result of the growth of our sites and the increase in construction activities taking place

## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

### Our Community

It is hugely important to us that the local communities of North Yorkshire and Teesside benefit from the Project as much as possible. We take our responsibilities to the local area very seriously and we are committed to taking an active and positive role in the local community by making a meaningful contribution to the social and economic well-being of the area.

This means not only making payments to local mineral rights holders and to the Sirius Minerals Foundation, but providing jobs, supporting local employment initiatives, working closely with local businesses, funding training schemes and developing education outreach programmes.

### Jobs and Skills

Ours is the largest private sector capital investment in the north of the UK and is a project that is set to be operational for decades to come. We are committed to making jobs available for people and companies in North Yorkshire and Teesside, both during the construction phases of the Project and in long term operations. We have also developed a long-term skills and education programme in order to help develop a local workforce in the long term.

The Company has a long-term target that 80% of the workforce will be sourced from the local area when the Project is operational. During construction it was anticipated that 35% of the workforce would be local, but as of 2019 64% of the workforce is local, boosted by the efforts of the Company and its contractors to make opportunities available to local people.

The Company aims to train 50 apprentices in the first five years following the commencement of construction and in September 2019, the first 14 were recruited. In addition, we provided £225,000 towards the East Cleveland Training and Employment Hub as well as Scarborough Construction Skills Village and Scarborough Jobmatch.

### Education outreach

We believe in supporting young people to fulfil their potential and to become responsible, successful and resilient adults. Our education outreach programme, which has been active since 2012, aims to increase the skills and aspirations of young people in the local area. The three main strands of the programme are:

- Supporting careers provision in schools and colleges
- Enriching the school curriculum with a particular focus on science, technology, engineering and maths (STEM)
- Specific projects targeted at disadvantaged students.

So far, we have engaged 30,000 young people and worked with over 100 schools. In 2019 we took part in 88 activities and engaged 12,500 children, including careers presentations and workshops, projects to improve STEM skills, work placements, site visits and initiatives specifically geared towards improving the life chances of young people living in disadvantaged areas.

## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

We also funded a wide range of education initiatives including Scarborough Science and Engineering Week, which we sponsored for the eighth consecutive year, and provided £82,000 to support STEM careers provision in 65 schools throughout the Tees Valley and North Yorkshire.

### Sirius Minerals Foundation

The Sirius Minerals Foundation has been established as an independent charity led by a board of trustees to fund community projects that benefit the local area. For the construction period, the Company has made an initial payment of £2 million to the Foundation and during operations will contribute an annual royalty of 0.5% of its revenue.

The Foundation is supporting community groups, sports clubs, schools, charities and village halls across the Project area, including Redcar, East Cleveland, the Esk Valley and Whitby. The activities funded include improving community facilities and restoration works, new equipment, supporting families and vulnerable people, environmental enhancements, and education and training. In 2019, £300,000 was awarded to 56 amateur sports clubs to fund small grants for kit, equipment and training, and to seven projects for capital improvement initiatives.

### Community engagement

Part of our commitment to the community involves keeping local residents updated on the development of the Project and responding quickly to questions and concerns. We do this in several ways:

- Liaison Group Forum – site neighbours, representatives from local authorities and from the Company meet quarterly to discuss Project updates, raise concerns and address any issues.
- Elected Representatives – we regularly attend Parish and town council meetings, focusing on those closest to the Project sites, and regularly host local councillors to update them
- Site Neighbours – we make sure that we regularly update local residents and respond quickly to questions and concerns, investigating and resolving any issues promptly
- General Public and Local Groups – we hold regular public drop-in events, give presentations to local interest groups, distribute newsletters, and maintain a 24-hour community helpline.

Measuring 2019 performance		2018 performance
Direct jobs	1200 (at peak)	900
Local employment (target 35% of workforce)	64%	66%
Economic contribution to N Yorks & NE	£276m	£200m
Apprenticeships (target: 10)	14	0
Education activities (target: 20)	88	56
Community engagement (target: 20 meetings)	57	30
Responding to complaints	25 complaints received and resolved	36 complaints received and resolved

## STRATEGIC REPORT for the year ended 31 December 2019 (continued)

### Our People

Our team is an adaptable, diverse group of individuals who come from all walks of life, recruited mainly from the local area, together with experts in their field from many different countries across the globe. We foster a culture that puts safety and teamwork at the heart of everything we do.

### Great Days

To that end, at the start of the year we launched Great Days – one single measure of success for the whole Project. Great Days is about our people maintaining a daily focus on safety, the environment and on meeting our schedule obligations. Great Days looks at our daily performance against four key metrics: Project Milestones, Environment, Lost Time Injuries and High Potential Events. A day is considered a “Great Day” if we have hit our significant milestones, looked after our environment and kept our people safe. In 2019 we had 346 Great Days and a longest run record of 67 days.

For every Great Day we have, we put money into a dedicated charity pot. The donation that goes in each day increases as the current run of Great Days gets longer. In 2019, we gave over £20,000 to three local charities: Yorkshire Air Ambulance, Safe and Sound Homes and St Teresa’s Hospice.

### Health & Safety

Every year we aim to raise the bar when it comes to the safety, health and wellbeing of our people. We recognise that it’s not enough to just keep the team out of harm’s way – we need to work proactively to create a safe working environment and empower individuals to take responsibility for themselves and others.

At the end of 2019, our people had worked 2,884,282 hours on the Project. We reported two incidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013. Our Project’s Lost Time Injury Frequency Rate, which is a rolling 12 month average of incidents per million person hours worked, was 2.77. This was a significant improvement from the frequency rate of 3.54 from 2018.

In 2019 we continued to proactively engage with the Health and Safety Executive. As part of the ongoing major hazard intervention programme, four audits were undertaken including Fire, Explosion and two separate audits for Ground Control. All of these resulted in a score of ‘compliant’.

There has been continuous development and implementation of the Mines Rescue site exercise programme, where exercises reflect credible major hazard scenarios. As of the end of 2019, the Project had 43 fully trained Mines Rescue Technicians covering all sites. We also continued to refine and adhere to our robust hazard identification process to develop and implement suitable controls for all new work scopes, with 53 hazard identification workshops held throughout the year.

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

<b>Measuring 2019 performance</b>			
Lost Time Injury Frequency Rate (2018: 3.54)	2.77	<b>Gender representation: *as at year end</b>	
Major health and safety incident (target: 0; 2018:1)	0	Board	3 men
Workforce participating in discretionary training (2018: 45%)	16%	Senior management (includes CEO and direct reports)	1 woman 6 men
Voluntary workforce turnover (2018: 4.3%)	6.8%	All employees	36% women 64% men

**PRINCIPAL RISKS AND UNCERTAINTIES**

The following table sets out the principal risks and uncertainties facing the Company:

Description	Mitigation plan
<b>Project development</b>	
<p>The Company's ability to generate returns for shareholders is dependent on it being able to deliver operational and economically viable mine infrastructure facilities to exploit the Project's identified resource.</p> <p>A failure to complete successful construction of the necessary facilities would threaten the Company's ability to operate.</p>	<p>The geological, mining, processing and infrastructure challenges of the Project are inherent in a mining and infrastructure project of this size, and are not of an extraordinary level or nature. As engineering progresses this risk naturally reduces.</p> <p>Development risks are assessed, evaluated and reduced as far as reasonably possible as part of the project management function performed by our experienced owners team.</p>
<b>Liquidity</b>	
<p>The Company does not currently generate revenues and has historically been reliant on external funding to provide it with the required liquidity to operate and to commence construction activities on the Project.</p> <p>If the Company is not able to obtain sufficient further amounts of funding to allow the Project to reach a point of production where the Company generates positive operating cash flows and to meet ongoing expenditures prior to that point, then there is a risk that the Company would not be able to continue to operate.</p>	<p>As at 31 December 2019 this risk was mitigated by the Company's ongoing work with experienced financial advisors in developing a range of potential financing options that could be attractive to investors to provide sufficient liquidity for both the Company's immediate future and long term needs.</p> <p>Following the completion of the takeover by Anglo American plc during March 2020, the Company expects that its ongoing funding needs will be met by financing provided by the Anglo American Group. The Company's Directors and management team work closely with the wider Anglo American Group to ensure that cash funding continues to be extended to</p>

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

Description	Mitigation plan
	the Company as and when it is required to allow the Company to continue its operations.
<b>Currency</b>	
<p>The Company expects its future revenues to be denominated in US Dollars while the majority of its construction and operational costs are expected to be denominated in other currencies (mainly Sterling).</p> <p>A strengthening of non-US Dollar currencies, without offsetting improvement in US Dollar-denominated polyhalite prices, could adversely affect the Project's profitability and Company's financial position.</p>	<p>The Company monitors its exposure to currency risk based on the Project expenditure forecast and the stage of development of the Project and provides this information to the wider Anglo American Group to inform the Company's future financing requirements.</p>
<b>Competitors</b>	
<p>The global fertilizer market that the Company is seeking to compete in contains numerous well-established competitors and high barriers for potential new entrants into the market.</p> <p>A failure to overcome pressure from competitors as well as the inherent market barriers could threaten the Company's abilities to strike deals with potential customers for its products.</p>	<p>The Company continues to develop its sales and marketing strategy to emphasise the unique characteristics of POLY4 and to make front-of-mind in customers our product's unique nature and how we differentiate ourselves from our closest competitors.</p> <p>The Company's global agronomy programme provides an independently validated dataset which demonstrates the efficacy of POLY4 on a wide range of different crops in varying geographic and climatic conditions in order to support the Company's marketing efforts.</p>
<b>Permits and Licenses</b>	
<p>The Project requires a range of permits and licences to allow construction activities as well as future operations to go ahead. The Company currently has in place all material permissions to allow construction of the Project against its original plan.</p> <p>As the Project progresses and the construction plan continues to be refined, this is likely to necessitate changes to existing planning permissions. There is a risk that these approvals will not be forthcoming which could lead to additional costs or delays in construction activities.</p>	<p>The Company is in possession of the planning permissions required to commence the construction of the minehead, mineral transport system, materials handling facility and has also received a development consent order for the construction of the harbour facility. Any changes applied for do not affect these permissions, but instead modify or replace the existing permissions once approved.</p> <p>The Company is pro-active in maintaining effective working relationships with each licensing authority and is responsive to feedback from those bodies around its permit applications.</p> <p>The Company engages experienced consultant advisers that specialise in obtaining permits,</p>

**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

Description	Mitigation plan
	licences and secondary approvals needed for the Project to operate.
<b>Safety and Environmental Performance</b>	
<p>The scale and nature of the construction operations that the Company is undertaking in its development of the Project means there is an inherent risk to the safety of individuals who are carrying out these operations.</p> <p>A significant safety incident during construction operations resulting in injury to workers would impact the Company's licence to operate, affecting the delivery of the Project and the Company's reputation.</p>	<p>The Company continuously assesses the risk to ensure that it has the right people in the right places. Nonetheless, the Company is not complacent about the risks in this area.</p> <p>The Company's management team is set up to manage safety and the environment effectively. A key part of its work in this area is in ensuring that the Company engages contractors who have the right attitude and systems, and it welcomes expertise and improvement from employees, contractors and external parties.</p> <p>Ongoing focus areas include leadership activities, work with contractors (including onboarding processes and auditing), developing the culture of the Project team, and the identification and control of major hazards.</p>
<b>Unplanned Construction delays</b>	
<p>The Company is undertaking extensive construction activities across a range of locations and depths to deliver its Project against a defined timetable.</p> <p>Unforeseen issues could arise which may cause unplanned construction delays, risking the Company's ability to meet the Project's existing timetable, as well as potentially meaning that higher construction costs may be incurred as a result of the delays.</p>	<p>Detailed assessment and planning is carried out continuously by the management team and external parties as part of the development to mitigate and de-risk the Project during construction.</p> <p>The Company works closely with its contractors to ensure that potential sources of delay are identified as early as possible to allow as much time as possible for these to be mitigated.</p>
<b>Contractors and Suppliers</b>	
<p>Due to the outsourced nature of most of the construction activities of the Project, the performance of our contractors and suppliers is critical to its success.</p> <p>Performance issues by contractors or a lack of goal-alignment could manifest itself in delays to the construction programme and/or additional construction costs being incurred, or in the future performance of the mine once it becomes operational.</p>	<p>An active and experienced management team is in place with a focus on being clear about expectations, verifying performance, and doing everything possible within the contracts to ensure the success of our contractors and suppliers. Performance is actively monitored and managed, with mitigating change instigated should performance not meet expectations.</p>
<b>Construction Cost Overruns</b>	
The Company plans its financing needs based on a detailed budget of the anticipated	The Company's management has a strong focus on cost with much of the Project costed by



**STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

Description	Mitigation plan
<p>construction cost of the Project, which includes a contingency.</p> <p>Unforeseen technical issues or scope changes compared to the budget may occur which could result in additional costs, should the value of total overruns exceed the budgeted contingency.</p>	<p>contractors and suppliers within awarded contracts. Work is underway to mitigate the cost effects of the recently announced project resequencing.</p> <p>The latest detailed full Project cost estimate included a provision for escalation, and also includes a significant contingency provision in case of cost pressures. The contingency is based on a detailed assessment of a range of Project risks using Monte Carlo simulations performed by a third-party estimator.</p>

On behalf of the Board



**TJ Staley**  
**Director**  
**26 June 2020**

## **DIRECTORS' REPORT for the year ended 31 December 2019 (continued)**

The Directors present the Annual report and audited financial statements of the Company for the year ended 31 December 2019.

### **DIRECTORS**

The Directors who served the Company during the year and up to the date of signing the financial statements are as follows:

CN Fraser  
SA Carter (resigned 9 December 2019)  
G Clarke (resigned 9 December 2019)  
TJ Staley  
NA King (appointed 9 December 2019, resigned 31 May 2020)

The Company Secretaries who served the Company during the year and up to the date of signing the financial statements were:

NA King (resigned 31 May 2020)  
Anglo American Corporate Secretary Limited (appointed 31 May 2020)

### **DIVIDENDS**

The Directors do not recommend a payment of a dividend for the year (2018: £nil).

### **GOING CONCERN**

These financial statements have been prepared on a going concern basis. The group of companies controlled by the Company's intermediate parent company, Anglo American Woodsmith Limited (formerly known as Sirius Minerals Plc) (the "Group") continues to incur significant cash outflows due to the development activity that it is undertaking of its polyhalite Project in North Yorkshire (the Project). The Group does not currently anticipate generating any positive net cash flows from the Project until 2023. Therefore, its ability to continue as a going concern for the time being is dependent upon it securing sufficient funding from parties external to the Group to enable it to complete development of the Project.

On 17 March 2020 Anglo American Projects UK Limited, a wholly owned subsidiary of Anglo American Plc ("Anglo") acquired 100% of the ordinary share capital of Anglo American Woodsmith Limited by means of a court-sanctioned scheme of arrangement and became the controlling party of the Group. Anglo has publicly announced its intention to continue the development of the Project and accordingly is expected to make funds available to the Group to carry on the Project's development for the foreseeable future and to meet its debts as they fall due.

The Board of Directors have received confirmation from Anglo American International Holdings Limited ("AAIHL") that the companies within the Group are part of the Anglo group and it is its intention to provide adequate financial support to the companies within the Group to meet their obligations for a period of at least 12 months from the Directors' approval of each of the company's statutory accounts for the year ended 31 December 2019. This confirmation from AAIHL is not intended to provide comfort to any parties other than the Directors, and is not, and should in no way be construed to be by AAIHL either a guarantee of the obligations of the companies or any other form of credit support in respect of the companies and does not create any rights against AAIHL, or any obligations or liability at law or otherwise on the part of AAIHL in respect of the obligations of the companies.

## **STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

Having assessed the principal risks and having regard for the above, and taking account of possible changes in trading performance (including specifically the potential impact of COVID-19 on the cash flows of the Group, AAIHL and Anglo) the Board of Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

### **FUTURE DEVELOPMENTS**

The Directors anticipate that the Company's scale of activities will continue to increase in the coming years as the construction of the Project continues. As a result it is also expected that the Company's losses will also increase as a greater volume of operating overheads will also be incurred. The Company expects to be able to draw upon funding from fellow group companies in order to fund these activities until commercial ore sales commence subsequent to the completion of construction of the Project

### **QUALIFYING THIRD-PARTY INDEMNITY INSURANCE**

Directors' and officers' insurance is maintained at an appropriate level in respect of legal action against the Directors. These arrangements were in place throughout the financial year and up to the date of approval of the financial statements.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **STRATEGIC REPORT for the year ended 31 December 2019 (continued)**

### **Statement of disclosure of information to auditors**

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **FINANCIAL RISK MANAGEMENT**

The Company's operations expose it to a variety of financial risks. The Company's intermediate parent undertaking, Anglo American Woodsmith Limited, has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Company. This is disclosed within Anglo American Woodsmith Limited annual report and accounts available from Companies House.

### **INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. In accordance with Section 489 of the Companies Act 2006, resolutions will be proposed at the forthcoming annual general meeting to re-appoint PricewaterhouseCoopers LLP as independent auditors, and to authorise the Directors to determine the auditors' remuneration for the ensuing year.

**On behalf of the Board**



**TJ Staley**  
**Director**

**26 June 2020**

## ***Independent auditors' report to the members of York Potash Ltd***

### **Report on the audit of the financial statements**

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#### **Opinion**

In our opinion, York Potash Ltd's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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#### **Conclusions relating to going concern**

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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#### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

## ***Independent auditors' report to the members of York Potash Ltd (continued)***

### *Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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### **Responsibilities for the financial statements and the audit**

#### *Responsibilities of the Directors for the financial statements*

As explained more fully in the Statement of the Directors' responsibilities in respect of the financial statements set out on page 18, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

#### *Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### *Use of this report*

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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## **Other required reporting**

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Randal Casson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds  
26 June 2020

## STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

	Note	2019 £m	2018 £m
Operating costs		(20.2)	(14.0)
Loss from equity accounted investments		(1.9)	-
<b>Operating loss</b>	3	<b>(22.1)</b>	(14.0)
Net finance income/(costs)	5	0.8	(1.9)
<b>Loss before taxation</b>		<b>(21.3)</b>	(15.9)
Tax on loss	6	10.3	1.0
<b>Loss for the financial year</b>		<b>(11.0)</b>	(14.9)
<b>Other comprehensive income/(expense)</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Cash flow hedging movement		49.1	(0.3)
Deferred tax impact of the above		(8.3)	-
<b>Other comprehensive income/(expense) for the year</b>		<b>40.8</b>	(0.3)
<b>Total comprehensive income/(expense) for the year attributable to the owner of the Company</b>		<b>29.8</b>	(15.2)

All activities relate to continuing operations.

## STATEMENT OF FINANCIAL POSITION as at 31 December 2019

	Note	2019 £m	2018 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	1,037.3	584.7
Intangible assets	8	24.9	18.5
Investments in associates	9	22.4	-
Restricted cash		40.7	43.7
		<b>1,125.3</b>	<b>646.9</b>
<b>Current assets</b>			
Restricted cash		-	0.1
Other receivables	10	14.7	15.7
Loans to group companies	11	185.6	-
Cash and cash equivalents		39.6	178.9
		<b>239.9</b>	<b>194.7</b>
<b>TOTAL ASSETS</b>		<b>1,365.2</b>	<b>841.6</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Called up share capital	12	0.1	0.1
Share premium account		0.2	0.2
Capital contribution reserve		7.1	6.5
Cash flow hedge reserve		40.8	(0.1)
Accumulated losses		(57.7)	(46.7)
<b>TOTAL EQUITY</b>		<b>(9.5)</b>	<b>(40.0)</b>
<b>Non-current liabilities</b>			
Provisions	14	4.1	5.1
Royalty financing	15	197.2	208.5
Lease liabilities	16	8.8	-
		<b>210.1</b>	<b>213.6</b>
<b>Current liabilities</b>			
Trade and other payables	17	15.7	39.5
Loans from group companies	18	1,148.9	628.5
		<b>1,164.6</b>	<b>668.0</b>
<b>TOTAL LIABILITIES</b>		<b>1,374.7</b>	<b>881.6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,365.2</b>	<b>841.6</b>

The financial statements on pages 22 to 38 were issued and approved by the Board of Directors on 26 June 2020 and were signed on its behalf by:



**TJ Staley**  
Director

Company Registration Number 07251600



**STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019**

	Called up share capital £m	Share premium account £m	Capital contribution reserve £m	Cash flow hedge reserve £m	Accumulated losses £m	Total Equity £m
<b>At 1 January 2018</b>	<b>0.1</b>	<b>0.2</b>	<b>5.2</b>	<b>(0.8)</b>	<b>(31.8)</b>	<b>(27.1)</b>
Total comprehensive expense	-	-	-	(0.3)	(14.9)	(15.2)
Transferred to non-current assets	-	-	-	1.0	-	1.0
Share based payments	-	-	1.3	-	-	1.3
<b>At 31 December 2018</b>	<b>0.1</b>	<b>0.2</b>	<b>6.5</b>	<b>(0.1)</b>	<b>(46.7)</b>	<b>(40.0)</b>
Total comprehensive income	-	-	-	40.8	(11.0)	29.8
Transferred to non-current assets	-	-	-	0.1	-	0.1
Share based payments	-	-	0.6	-	-	0.6
<b>At 31 December 2019</b>	<b>0.1</b>	<b>0.2</b>	<b>7.1</b>	<b>40.8</b>	<b>(57.7)</b>	<b>(9.5)</b>

The called up share capital account is used to record the nominal value on the issue of shares.

The share premium account is used to record the excess proceeds over nominal value on the issue of shares.

The capital contribution reserve is used to record the fair value of share based payments made on the Company's behalf by its ultimate parent in relation to employees of the Company who participate in share based payment schemes which provide employees with shares in the ultimate parent company for their services to the Company.

The cash flow hedge reserve is used to accumulate unrecognised gains or losses of instruments in designated cash flow hedge relationships.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019

### 1. Accounting policies

#### ***Basis of preparation***

York Potash Ltd (the “Company”) meets the definition of a qualifying entity under Financial Reporting Standard 100 (“FRS 100”) issued by the Financial Reporting Council. The Company has therefore elected to prepare these financial statements in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (“FRS 101”).

These financial statements have been prepared in accordance with the requirements of the Companies Act 2006. The financial statements have also been prepared under the historical cost convention in Sterling (rounded to the nearest million), which is the functional currency of the Company. The principal accounting policies set out below have been consistently applied to all periods presented.

The Company is a private limited company, limited by shares, which is incorporated and domiciled in England. The address of its registered office is 20 Carlton House Terrace, London, SW1Y 5AN.

#### ***Going concern***

These financial statements have been prepared on a going concern basis. The group of companies controlled by the Company’s intermediate parent company, Anglo American Woodsmith Limited (formerly known as Sirius Minerals Plc) (the “Group”) continues to incur significant cash outflows due to the development activity that it is undertaking of its polyhalite Project in North Yorkshire (the Project). The Group does not currently anticipate generating any positive net cash flows from the Project until 2023. Therefore, its ability to continue as a going concern for the time being is dependent upon it securing sufficient funding from parties external to the Group to enable it to complete development of the Project.

On 17 March 2020 Anglo American Projects UK Limited, a wholly owned subsidiary of Anglo American Plc (“Anglo”) acquired 100% of the ordinary share capital of Anglo American Woodsmith Limited by means of a court-sanctioned scheme of arrangement and became the controlling party of the Group. Anglo has publicly announced its intention to continue the development of the Project and accordingly is expected to make funds available to the Group to carry on the Project’s development for the foreseeable future and to meet its debts as they fall due.

The Board of Directors have received confirmation from Anglo American International Holdings Limited (“AAIHL”) that the companies within the Group are part of the Anglo group and it is its intention to provide adequate financial support to the companies within the Group to meet their obligations for a period of at least 12 months from the Directors’ approval of each of the company’s statutory accounts for the year ended 31 December 2019. This confirmation from AAIHL is not intended to provide comfort to any parties other than the Directors, and is not, and should in no way be construed to be by AAIHL either a guarantee of the obligations of the companies or any other form of credit support in respect of the companies and does not create any rights against AAIHL, or any obligations or liability at law or otherwise on the part of AAIHL in respect of the obligations of the companies.

Having assessed the principal risks and having regard for the above, and taking account of possible changes in trading performance (including specifically the potential impact of COVID-19 on the cash flows of the Group, AAIHL and Anglo) the Board of Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

### 1. Accounting policies (continued)

#### **Financial Reporting Standard 101 – reduced disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions which are available under FRS 101:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*;
- the requirements of IFRS 7 *Financial Instruments: Disclosures* on the basis that equivalent disclosures are included in the consolidated financial statements of the group in which the company is consolidated;
- the requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value* on the basis that equivalent disclosures are included in the consolidated financial statements of the group in which the company is consolidated;
- The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
  - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
- The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*;
- The requirements of IAS 7 *Statement of Cash Flows*;
- The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures*;
- The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of Assets* on the basis that equivalent disclosures are included in the consolidated financial statements of the group in which the company is consolidated.

#### **International Financial Reporting Standards in “issue” but not yet effective**

There are no new standards, amendments to standards or interpretations that are effective for the first time for the financial year beginning after 1 January 2019 that have had a material impact on the Company.

New standards, amendments to standards and interpretations not yet adopted – a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on the financial statements of the Company.

#### **New and amended accounting policies adopted by the Company - IFRS 16**

On 1 January 2019 IFRS 16 *Leases* became mandatory for adoption and the Company adopted it on this date. Transition to this accounting standard from the prior equivalent accounting standard, IAS 17 *Leases*, has not had a material impact upon these financial statements due to the relatively low level of leases which would fall within the scope of IFRS 16 which the Company was party to on 1 January 2019. Although the Company is party to a large number of mineral leases covering the Project’s area of interest, these leases are not in the scope of IFRS 16 (nor were they in the scope of IAS 17) because leases for use of minerals are not within the scope of either lease accounting standard. While the Project remains under construction, the Company continues to account for these leases by capitalising the full cost of these as part of its capital works in progress within property, plant and equipment as and when these costs are incurred.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****1. Accounting policies (continued)*****Property, plant and equipment***

Property, plant and equipment are stated at cost less depreciation and any recognised impairment losses. Cost includes all expenditure that is directly attributable to the acquisition or construction of these items and, for assets that take a substantial period of time to get ready for their intended use, borrowing costs. Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be measured reliably. All other costs, including repairs and maintenance costs are charged to the income statement in the period in which they are incurred.

Depreciation is provided on all plant and equipment over the estimated useful lives of the assets, which are generally between 3 and 5 years. Land owned on a freehold basis is not depreciated by the Company, while land held as a right-of-use asset under a lease is depreciated on a straight-line basis over the lease term, commencing from when the right-of-use asset is first available for its intended use.

Capital works in progress are measured at cost less any recognised impairment. Depreciation commences when the assets are capable of operating in the manner intended by management, at which point they are transferred to the appropriate asset class.

***Intangible assets - POLY4 development costs***

The Company incurs costs in relation to its global research and development programme which provides technical, agronomic and commercial validation for POLY4's use as an effective multi-nutrient fertilizer suitable for widespread use in farming. Historic scientific research studies carried out by the Company have shown the benefits of POLY4 and so ongoing costs incurred represent a furtherment of the development phase of the product. Accordingly, all costs incurred in the ongoing development of POLY4 (principally composing fees paid to third party universities and research institutions as well as the labour costs of employees of the Company who work solely on the agronomy programme) are capitalised as and when they are incurred. It is expected that these costs will be amortised over the sales life of POLY4 and that amortisation will commence when first sales occur. Prior to first sales of POLY4 occurring, these costs are tested annually for impairment.

***Intangible assets – Process development costs***

As part of its development of the Project, the Company incurs costs which have more general-purpose process applications than being just specific to the Project itself. Such costs include conveyor and mine ventilation, shaft designs, and granulation, materials processing and seismic testing technologies. Due to the possible future applicability of these costs beyond the Project, they are separately classified as intangible assets, rather than being included as part of 'capital works in progress' within property, plant and equipment. It is expected that these costs will be amortised over the sales life of the products to whose development they contribute and that amortisation will commence when first sales occur. Prior to first sales occurring, these costs are tested annually for impairment.

***Cash and cash equivalents***

Cash and cash equivalents include various instant access deposits and short-term fixed deposits with original maturities of three months or less.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****1. Accounting policies (continued)*****Loans and other receivables***

Loans and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment. Provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the loan or receivable. The amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate.

***Trade and other payables***

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

***Foreign currencies***

The reporting and functional currency of the Company is Sterling. Transactions denominated in a foreign currency are translated into sterling at the rate of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities denominated in foreign currency are translated at the rate ruling at that date. All exchange differences are dealt with in the income statement, except for those relating to hedging instruments in designated cash flow hedge relationships which are recognised in other comprehensive expense.

***Share based payments***

Certain Directors, senior managers and employees participate in equity-settled award schemes operated by the Company's ultimate parent company. Equity settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity settled share-based payments is expensed to the income statement on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions. For employees employed directly in relation to the Project's development, any charge in relation to options or awards held by them is capitalised as part of additions to property, plant and equipment.

At each reporting date, the Company revises its estimates of the number of options and awards that are expected to vest and immediately recognises any impact of the revision to original estimates. The accumulated expense recorded prior to vesting in respect of each share based payment is recognised within the Capital contribution reserve.

***Taxation***

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Research and Development tax credits are recognised within current tax when they can be reasonably estimated.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****1. Accounting policies (continued)*****Taxation (continued)***

Deferred taxation represents temporary differences the accounting carrying values of assets and liabilities and the tax base of those same assets and liabilities. Deferred taxation 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. In line with IAS 12 *Income taxes*, no deferred tax is recognised on the initial recognition of an asset or liability that at the time of the transaction affects neither accounting, nor taxable profit or loss (unless the transaction is a business combination).

Deferred tax is determined using tax rates and laws that have been enacted (or substantially enacted) by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised, or to the extent that they offset deferred tax liabilities. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

***Employee benefits***

Provision is made in the financial statements for all employee benefits. Liabilities for wages and salaries including non-monetary benefits and annual leave obliged to be settled within twelve months of the balance sheet date, are recognised within accruals.

***Loan commitments***

Loan commitments are a financial instrument, to be accounted for in accordance with IFRS 9 *Financial Instruments*. IFRS 9 specifically excludes loan commitments from recognition and measurement prior to drawdown. Once drawdown of the loan commitment occurs, the loan will be initially recognised at fair value (generally the value of loan proceeds received) and is subsequently re-measured at amortised cost using the effective interest rate method.

***Provisions***

The Company is required to rehabilitate sites and associated facilities during construction and at the end of their lives to a condition acceptable to the relevant authorities in compliance with license requirements and other commitments made to stakeholders. The costs associated with these obligations are provided for in the accounting period when the obligation arising from the related disturbance occurs. Such costs do not include any additional obligations which are expected to arise from future disturbance. Provisions are initially recognised at the net present value of the future cash flows associated with them. When provisions are initially recognised, the corresponding cost is capitalised as an asset within property, plant and equipment, representing part of the cost of acquiring the future economic benefits of the operation.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****1. Accounting policies (continued)*****Royalty financing***

The royalty financing is a financial instrument committing the Company to make future royalty payments over the life of the Project in return for an up-front payment by Hancock. The contract commits the Company to make cash payments linked to its revenues and is therefore a financial liability. In substance, the royalty agreement means that the Company receives cash up-front from the counterparty, who will be repaid over the Project's life through royalty payments, analogous to a loan arrangement. Therefore, the royalty instrument is treated as a financial liability measured under amortised cost, with the value on initial recognition being equal to its fair value, which is the value of the cash that was received on drawdown. Each period, an interest charge is recognised, with the interest rate applied being the instrument's internal rate of return which discounts the present value of all expected cash flows over the royalty's life back to the value of the proceeds received on the drawdown date.

The exact value of royalty payments that will be made over the life of the royalty is not fixed, but will vary based on the exact level of revenues achieved by the Company. This uncertainty over future cash flows represents an embedded derivative to be measured at fair value which must be separately accounted for from the host royalty liability. This embedded derivative is valued as the discounted present value of all differences in expected royalty payments between the expectation prevailing on the drawdown date and the latest period-end date. The Company will report a derivative liability (asset) when the present value of royalty payments due to Hancock is expected to be greater (lower) than those originally forecast because of expected revenues being higher (lower) than those originally forecast, meaning that the Company's royalty payments will then be higher (lower). On the drawdown date, the embedded derivative was designated as a hedging instrument in a cash flow hedge relationship and so any forecast changes in cash flows are accounted for through other comprehensive income rather than the income statement.

***Net finance costs***

Interest income is accrued using the effective interest rate method. Interest expense is expensed as incurred except where it relates to the financing of construction or development of qualifying assets.

Interest on borrowings directly relating to the financing of qualifying assets in the course of construction is added to the capitalised cost of those Projects under 'capital works in progress', until such time as the assets are substantially ready for their intended use or sale. Where funds have been borrowed specifically to finance a Project, the amount capitalised represents the actual borrowing costs incurred net of all interest income earned on the temporary re-investment of those borrowings prior to utilisation. All other borrowing costs are recognised as part of interest expense in the period in which they are incurred.

**2. Critical accounting estimates and judgements**

Critical accounting estimates or judgements are those made by the Company regarding the future or other key sources of estimation, uncertainty and judgement that may have a significant risk of giving rise to a material adjustment to the carrying values of assets and liabilities within the next financial period. The following such critical accounting estimates and judgments were made in the preparation of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****2. Critical accounting estimates and judgements (continued)***Accounting for the royalty financing's embedded derivative*

The embedded derivative within the royalty financing does not have an observable market price and so the Company is required to identify an appropriate valuation model to calculate its fair value. In making this estimate, priority is given to inputs based on actual market data and transactions, although this valuation nevertheless requires some level of subjective assessment and the use of different valuation assumptions could have a significant impact upon the Company's reported financial performance and position. Further information is given within note [XX] around the valuation method and sources of estimation uncertainty around the derivative's valuation.

Upon initial drawdown of the royalty financing in September 2018 the Company designated the embedded derivative within the royalty financing as hedging instruments in cash flow hedge relationships against the variability associated with the Company's future revenues (see note [XX]). The ongoing appropriateness of the cash flow hedging relationship is dependent upon the Company's future revenues continuing to be assessed as 'highly probable' which is the relevant threshold set under IFRS 9. Were it to be judged that the highly probable designation was no longer appropriate, this would result in all unrecognised gains and losses accumulated in the cash flow hedge reserve in respect of this hedge being immediately recycled through the income statement.

*Impairment of non-current assets*

On an annual basis for its intangible assets, and when there is an indicator of impairment in relation to its property, plant and equipment, the Company is required to test these assets for impairment to assess as to whether the historic cost reported in the financial statements remains supported by their recoverable amount. As none of the assets have directly observable market prices, the assessment has been performed by estimating the assets' value-in-use, calculated as the net present value of the cash flows attributable to them. As the Company has only one cash-generating-unit (the Project) all assets have been tested in aggregate.

The Company has concluded that the carrying value of non-current assets is adequately supported by their estimated recoverable value at 31 December 2019. The estimate of future cash flows and of an appropriate discount rate is inherently subjective and there remains a risk that an impairment of these assets could be recognised in a future year if events were to occur that significantly changed these estimates.

*Estimation of expected credit loss provisions*

Identifying the appropriate value of expected credit loss ("ECL") provisions recognised in respect of loans to group companies requires significant estimation as it is based on the Company's subjective assessment of hypothetical credit outcomes of the loans to group companies. A one percentage point increase (decrease) in the estimated chance of a full impairment of the loans to group companies would result in an increase (decrease) in the provision and expense recorded during the year of £1.9 million.



**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****3. Operating loss**

	<b>2019</b>	2018
	<b>£m</b>	<b>£m</b>
Operating loss is stated after charging:		
Audit fees payable to the Company's auditors	<b>0.1</b>	0.1
Depreciation	<b>0.6</b>	0.5
Amortisation	<b>0.1</b>	0.1
Share-based payments	<b>0.1</b>	0.5

**4. Staff numbers and costs**

	<b>2019</b>	2018
	<b>Number</b>	<b>Number</b>
Average monthly number of staff	<b>114</b>	111

  

	<b>2019</b>	2018
	<b>£m</b>	<b>£m</b>
Total staff costs during the year were:		
Wages and salaries	<b>12.4</b>	9.6
Social security costs	<b>1.5</b>	1.4
Other pension costs	<b>0.2</b>	0.1
Share-based payments	<b>0.6</b>	1.3
	<b>14.7</b>	12.4

Of the above total costs, £11.1 million (2018: £8.7 million) have been capitalised within additions to non-current assets during the year. Directors of the company are remunerated by the ultimate parent company, Anglo American Woodsmith Limited, and no charge is made to the Company for the Directors' services.

**5. Net finance income/(costs)**

	<b>2019</b>	2018
	<b>£m</b>	<b>£m</b>
Interest income	<b>1.2</b>	0.9
Interest expense	<b>(46.5)</b>	(12.1)
Interest expense capitalised	<b>46.5</b>	12.0
Movement in ECL provision (see note 11)	<b>(8.3)</b>	1.6
Foreign exchange differences	<b>7.9</b>	(4.3)
	<b>0.8</b>	(1.9)

The royalty financing represents borrowings entered into by the Company to finance the development of the Project. All interest expense incurred in each year in relation to the royalty financing has therefore been capitalised to property, plant and equipment as part of capital works in progress.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

## 6. Tax on loss

	2019 £m	2018 £m
Current tax	2.0	1.0
Deferred tax	8.3	-
<b>Total taxation recognised in the income statement</b>	<b>10.3</b>	<b>1.0</b>

The current tax credit is in relation to the HMRC Research and Development Expenditure Credit and enables the Company to realise tax losses on certain qualifying expenditure to be received immediately in cash rather than waiting for taxable profits to set them against in the future.

The tax credit for the year is higher (2018: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £m	2018 £m
Loss before taxation	(21.3)	(15.9)
Loss multiplied by the standard rate of corporation taxation in the UK of 19% (2018: 19%)	4.1	3.0
<i>Taxation effects of:</i>		
Income exempt from tax	-	0.3
Expenses not deductible for tax purposes	(1.6)	(0.2)
Recognition of previously unrecognised deductible differences	5.8	-
Trading losses not utilised	-	(3.1)
Research & Development tax credit	2.0	1.0
<b>Taxation for the year</b>	<b>10.3</b>	<b>1.0</b>

## 7. Property, plant and equipment

	Land £m	Plant and equipment £m	Capital works in progress £m	Total £m
<b>Net book value</b>				
At 1 January 2019	13.8	2.4	568.5	584.7
Additions	11.8	0.2	443.1	455.1
Depreciation for the year	-	(0.6)	-	(0.6)
Disposals	(1.9)	-	-	(1.9)
<b>At 31 December 2019</b>	<b>23.7</b>	<b>2.0</b>	<b>1,011.6</b>	<b>1,037.3</b>
- cost	23.7	3.8	1,011.6	1,039.1
- accumulated depreciation	-	(1.8)	-	(1.8)
 At 31 December 2018	 £m	 £m	 £m	 £m
- cost	13.8	3.6	568.5	585.9
- accumulated depreciation	-	(1.2)	-	(1.2)

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

## 8. Intangible assets

	Patent costs	POLY 4 Development	Process Development	Computer Software	Total
Net book value	£m	£m	£m	£m	£m
At 1 January 2019	0.3	9.5	8.5	0.2	18.5
Additions	-	4.2	2.0	0.3	6.5
Amortisation for the year	-	-	-	(0.1)	(0.1)
<b>At 31 December 2019</b>	<b>0.3</b>	<b>13.7</b>	<b>10.5</b>	<b>0.4</b>	<b>24.9</b>
- cost	0.3	13.7	10.5	0.6	25.1
- accumulated amortisation	-	-	-	(0.2)	(0.2)
At 31 December 2018	£m	£m	£m	£m	£m
- cost	0.3	9.5	8.5	0.3	18.6
- accumulated amortisation	-	-	-	(0.1)	(0.1)

## 9. Investments in associates

On 26 June 2019 the Company acquired 30% of the ordinary share capital of each of Cibrafertíl – Companhia Brasileira de Fertilizantes (Cibrafertíl) and Cibra Trading Inc (Cibra Trading) from a fellow group company. On this date it was judged that the Company had gained significant influence over the two companies and that they should be accounted for as associates under the equity method. Both associates are private companies for which there are no quoted market prices available for their shares. There are no contingent liabilities relating to the Company's interest in either associate.

Set out below is summarised financial information covering the period over which the Company had significant influence over the associates from 26 June to 31 December 2019 and as at 31 December 2019. All of Cibra Trading's revenues are in respect of sales made to Cibrafertíl.

	Cibrafertíl	Cibra Trading	2019 Total
	£m	£m	£m
Revenue – 100%	281.4	144.0	425.4
Loss after tax – 100%	(5.6)	(0.8)	(6.4)
<b>Loss from equity accounted investments – 30% share</b>	<b>(1.7)</b>	<b>(0.2)</b>	<b>(1.9)</b>
Current assets	145.9	168.0	313.9
Non-current assets	142.8	-	142.8
Current liabilities	(51.4)	(72.9)	(124.3)
Non-current liabilities	(177.0)	(82.9)	(259.9)
<b>Net assets – 100%</b>	<b>60.3</b>	<b>12.2</b>	<b>72.5</b>
<b>Carrying amounts if investments in associates – 30% share</b>	<b>19.0</b>	<b>3.4</b>	<b>22.4</b>

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****10. Other receivables**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
Prepayments	<b>10.0</b>	4.8
Other receivables	<b>4.7</b>	10.9
	<b>14.7</b>	15.7

**11. Loans to group companies**

The company has provided loans to other companies within the Group. The loans are unsecured, US dollar-denominated, interest-free and repayable upon demand.

At 31 December 2019 a loan was outstanding to a group company with an amortised cost of £193.9 million against which an ECL provision of £8.3 million was recognised and charged to net finance income/(costs) in 2019.

**12. Called up share capital**

At both 31 December 2019 and 31 December 2018, the Company had in issuance 50,001 ordinary shares of £1 each. All outstanding ordinary shares are authorised, allotted called up and fully paid.

On 19 September 2018 the Company issued to Hancock British Holdings Ltd 1 non-voting share with a par value of £1 which has no rights associated with it, other than to receive notice of the occurrence of an insolvency event impacting the Company.

**13. Preference shares**

On 18 July 2019 the Company issued to York Potash Intermediate Holdings Ltd 250 million preferences shares, each with a nominal value of USD \$0.01 at an issuance price of \$1 per share. The shares have been accounted for as liabilities on the statement of financial position as they are repayable upon demand at their issuance price. The preference shares are unsecured and do not carry a fixed annual dividend payment.

**14. Provisions**

	<b>2019</b>	<b>2018</b>
	<b>£m</b>	<b>£m</b>
At 1 January	5.1	2.8
Amounts (released)/capitalised as part of property, plant and equipment	(1.0)	2.2
Charged to the income statement	-	0.1
<b>At 31 December</b>	<b>4.1</b>	<b>5.1</b>

The Company's development work on the Project gives rise to the future need to undertake restoration activities in order to maintain compliance with relevant planning consents. The Company's obligation is to undertake restoration activities at the end of the Project's life in order to restore sites to their previous character.

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****14. Provisions (continued)**

In order to estimate the value of the provision, the Company has relied upon valuations which were undertaken for the purposes of determining the value of local security requirements that are held in restricted cash at the end of the year. These amounts were valued by third parties based on the estimated present-day cost that would be required to remediate the disruption caused by the Company's activities by the end of the year. These costs, which the Company does not plan to be incurred for in excess of 50 years, have been discounted at a real risk-free rate of 2% per annum, based on an estimate of the long-term, risk-free, cost of borrowing.

In 2019 the value of the gross restoration cost estimated by third party surveyors reduced compared to the level estimated in 2018. As such, the present value of the amounts previously over-provided for in 2018 have been released during 2019, with a corresponding deduction made to the value of property, plant and equipment reported as part of additions during 2019.

**15. Royalty financing**

On 19 September 2018, Hancock British Holdings Limited (Hancock) paid the Company US\$250 million in return for future royalty payments amounting to 5% of gross revenues on the first 13 million tonnes of product sold in each calendar year and a further 1% of gross revenues on sales in excess of 13 million tonnes, for the life of the Project. There is no minimum or maximum limit for future royalty payments, although if the Company were to go into administration before the completion of the Project's construction then Hancock could request immediate repayment of the US\$250 million that was originally paid.

On receipt of the US\$250 million cash, a corresponding host US Dollar-denominated royalty liability of the same amount was recognised in respect of the present value of future royalty payments that the Company expects to pay Hancock over the Project's life. As a US Dollar denominated liability, the host royalty liability will give rise to foreign exchange volatility in respect of foreign exchange fluctuations that arise in each period from translating the underlying liability back into the Company's functional currency of Sterling based on the Sterling/US Dollar exchange rate prevailing at the period-end date compared to the exchange rate at the start of each period.

On the drawdown date, the Company designated the royalty's embedded derivative as a hedging instrument in a cash flow hedge relationship against the Company's future revenues which are deemed to be highly probable (see the significant accounting judgments section of note 1 for further details). This is on the basis that any changes in the value of expected future royalty payments will be wholly offset by changes in the Company's revenues compared to the original drawdown-date expectation. As such, it is expected that a perfect hedge should be maintained across the life of the royalty financing, with the Company only being exposed to the risk of bad debts. Therefore all fair value gains or losses upon periodic re-measurement of the derivative will be recorded through the statement of comprehensive income (instead of finance costs within the income statement) and accumulated within the cash flow hedge reserve within equity. The accumulated fair value differences will subsequently be recycled out of the cash flow hedge reserve through the income statement in the same periods as differences occur between royalty payments anticipated on the drawdown date and royalty payments actually due.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)

## 15. Royalty Financing (continued)

The royalty financing has moved as follows in each period:

	2019			2018		
	Host instrument £m	Embedded derivative £m	Total £m	Host instrument £m	Embedded derivative £m	Total £m
At 1 January	208.5	-	208.5	-	-	-
Drawdown in the year	-	-	-	190.1	-	190.1
Interest charge	46.5	-	46.5	12.0	-	12.0
Fair value remeasurement	-	(49.2)	(49.2)	-	-	-
Foreign exchange movements	(8.6)	-	(8.6)	6.4	-	6.4
<b>At 31 December</b>	<b>246.4</b>	<b>(49.2)</b>	<b>197.2</b>	<b>208.5</b>	<b>-</b>	<b>208.5</b>

## 16. Lease liabilities

As explained in note 1, 2019 was the first year that the Company applied the new lease standard, IFRS 16, in its accounting for leases. On transition to this new standard on 1 January 2019 the Company took advantage of the practical expedient available in IFRS 16 to not restate any information relating to leases which ended during 2019, as virtually all of the lease commitments which it disclosed as outstanding at 31 December 2018 were released as the Company exercised certain purchase options over the underlying assets.

During 2019 the Company entered into a 30-year lease of land which it plans to use for storage of finished product adjacent to the Redcar Bulk Terminal port facility. This lease represents the majority of the balance of reported lease liabilities outstanding as at 31 December 2019 and depreciation will not commence on it until the storage facilities planned to be constructed on it are ready for use. Balances arising from the Company's lease transactions have moved as follows during the year:

	2019 £m	2018 £m
<b>Assets</b>		
On 1 January	-	-
Additions	9.3	-
Depreciation	-	-
<b>At 31 December</b>	<b>9.3</b>	<b>-</b>
<b>Liabilities</b>		
On 1 January	-	-
Additions	9.3	-
Interest	0.2	-
Payments made	(0.3)	-
<b>At 31 December</b>	<b>9.2</b>	<b>-</b>
- classified as non-current liabilities	8.8	-
- classified as current liabilities (included within trade and other payables)	0.4	-

**NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2019 (continued)****16. Lease liabilities (continued)**

The future aggregate minimum lease payments under lease agreements are:

	<b>2019</b>	2018
	<b>£m</b>	£m
No later than 1 year	<b>0.4</b>	0.3
Later than 1 year and no later than 5 years	<b>1.7</b>	1.9
Later than 5 years	<b>13.8</b>	1.4
	<b>15.9</b>	3.6

**17. Trade and other payables**

	<b>2019</b>	2018
	<b>£m</b>	£m
Trade payables	<b>2.2</b>	13.1
Accruals and other payables	<b>13.5</b>	26.4
	<b>15.7</b>	39.5

**18. Loans from group companies**

Loans from group companies are interest-free, unsecured and repayable on demand. Included within the balance of loans from other group companies at 31 December 2019 are liabilities of US\$250 million in respect of redeemable preference shares issued in 2019 as disclosed further in note 13.

**19. Share based payments**

Certain employees of the Company along with other Group employees have been granted options and awards over ordinary shares in Anglo American Woodsmith Limited. The options are granted with a fixed exercise price, are exercisable 1-3 years after the grant date and generally expire 10 years after the date of grant. The timing of share awards are dependent on the occurrence of the achievement of key business milestones.

The Company recognises a share-based payment expense based on the fair value of the option/award granted and an equivalent credit directly in equity as a capital contribution. During the year no options were exercised by employees of the Company. As at 31 December 2018 the range of expiry prices for outstanding options was 10.1p to 33.8p (2018: 10.2p to 34.0p) and the weighted average remaining contractual life of share options was 2.6 years (2018: 3.7 years).

**20. Ultimate parent undertaking and controlling party and subsequent events**

The immediate parent undertaking is York Potash Intermediate Holdings Plc, a company domiciled in England. Anglo American Woodsmith Limited is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2019 and its financial statements are available from Companies House.

On 17 March 2020 100% of the ordinary shares of Anglo American Woodsmith Limited were acquired by means of court-sanctioned scheme of arrangement by a subsidiary of Anglo American Plc, which is now the ultimate controlling party of the Company.