York Potash Ltd

Annual report and financial statements

for the year ended 31 December 2020

Company number: 07251600

Contents

STRATEGIC REPORT for the year ended 31 December 2020

The Directors present their strategic report on York Potash Ltd (the "Company" or "York Potash") for the year ended 31 December 2020.

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 $699.8 million (2019: $14.0 million).
As at 31 December 2020 net liabilities were $344.7 million (2019: net liabilities of $12.6 million).

Business review

The Company is focussed on the development of the Woodsmith Project, a polyhalite mine and associated infrastructure located in North Yorkshire and Teesside in the north east of England, and the promotion and selling of its polyhalite ore based product, POLY4, to the global fertiliser market.

POLY4 will address an unmet global agricultural need for more balanced crop fertilization, which is necessary in order to achieve the higher crop yields required to feed a rapidly expanding global population. Because polyhalite naturally contains four of the six nutrients required by plants to grow (potassium, sulphur, magnesium and calcium) farmers can provide their crops with a wider range of nutrients from a single source. By adding POLY4 to their fertiliser regime, farmers can improve the yield of their crops, the efficiency of their farms and the health of their soil in a more effective way than is currently achieved with traditional fertiliser products and practices.

The Project will access the world's largest known deposit of polyhalite, located under the North Yorkshire coast. The Woodsmith Mine is being constructed approximately 3 km south of Whitby, where polyhalite ore will be extracted via two 1.6 km deep mine shafts and transported to the port at Teesside on an underground conveyor belt system in a 37 km tunnel, thereby minimising impact on the surface above. It will then be granulated at a materials handling facility to produce the POLY4 fertiliser product, that will be exported to a network of customers overseas from a dedicated port.

As a result of the highly efficient mine and conveyor design and the minimal processing requirements of the polyhalite ore, the POLY4 product will benefit from an extremely low carbon footprint, as well as being certified for organic use. Aside from the world class nature of the orebody and the quality of the operation we are developing, the addition of POLY4 to Anglo American's product range aligns well with its portfolio trajectory towards those products that support a low carbon economy and global consumer demand – in this case, for food.

Following the completion of the acquisition of Sirius Minerals Plc on 17 March 2020, the development of the project continued at pace during 2020. By the end of the year, the excavation of the conveyor tunnel had reached almost 10 km and continued to progress well. At the mine site, the first shaft-boring machine has been assembled within the service shaft and was being commissioned, while progress was also being made on the production shaft in advance of further

STRATEGIC REPORT for the year ended 31 December 2020 (continued)

shaft sinking. The presence of Covid-19 has restricted some areas of the Project's development principally relating to the efficiency of movement of people to and around sites. A range of appropriate health and safety measures have been deployed as part of the company's Covid-19 control measures.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject t o a number of risks. The main risks and uncertainties are as follows:

- Underground and shaft excavations failure – An underground structural failure within the Project's shafts or tunnel could cause potential fatalities/injuries and/or, environmental damages, significant business interruption and financial losses;
- Underground fire & explosion - a fire incident including an underground explosion or exposure of personnel to an irrespirable atmosphere within the Project's infrastructure could cause potential fatalities/injuries and/or significant business interruption and property damage;
- Cyber security – A breach of the Company's cyber security defences could cause loss or harm related to our technical infrastructure and the use of technology within the organization;
- Safety performance – A failure to achieve safety targets and maintain safe working practices during the Project's construction operations could cause injuries and fatalities to the workforce;
- Unplanned construction delays - Unforeseen issues could arise which may cause unplanned construction delays to the Project, risking the Company's ability to meet the existing construction timetable, as well as potentially meaning that higher construction costs may be incurred as a result of the delays.
- Construction cost overrun - Unforeseen technical issues or scope changes compared to the Project's existing budget may occur, resulting in additional costs if the total overruns' value exceeds the budgeted contingency
- Corruption - Bribery or other forms of corruption committed or perceived to have been committed by an employee or agent of Anglo American could cause reputational and financial loss to the Company.
- Insufficient funding for Project execution – Not having sufficient funding to pursue the Project's construction programme on its currently budgeted timeline may impact project continuity resulting in the project being delivered with quality or structural integrity issues, impacting operational phases, or even project stoppage in an ultimate case
- Failure to deliver Project completion to adequate technical standards - Failure to complete successful construction of the Project's necessary facilities would threaten the Company's ability to operate.
- Delays due to contractors and supplier's underperformance - Due to the outsourced nature of most of the construction activities of the Project, 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

STRATEGIC REPORT for the year ended 31 December 2020 (continued)

- Environmental damages – the Project requires significant environmental controls to mitigate the risk of underground and/ or surface water contamination, impacts in wildlife and ecology, dust and noise emissions, among others. Failure to mitigate these can result in loss of Project's licenses and permits, license to operate, financial losses and reputational damage
- Inaccurate reserves and resources estimate - There are inherent uncertainties with respect to estimating the Project's polyhalite mineral resources and ore reserves.
- COVID-19 – The disruption caused by the COVID-19 global outbreak may have wide-ranging impact on the Company's ability to operate and these impacts may change in unpredictable ways as the pandemic develops.
- Foreign exchange fluctuations – 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). A strengthening of non-US Dollar currencies, without offsetting improvement in US Dollar-denominated polyhalite prices, could adversely affect the Project's profitability.

On behalf of the Board

R B

RJB Price
Director
24 September 2021

DIRECTORS' REPORT for the year ended 31 December 2020

The Directors present the Annual report and audited financial statements of the Company for the year ended 31 December 2020.

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
J Flynn (appointed 16 July 2021)
CJ Lockett (appointed 14 July 2021)
TJ Staley (resigned 16 July 2021)
NA King (resigned 31 May 2020)
RJB Price (appointed 4 Dec 2020)
DG Wanblad (appointed 4 Dec 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
During the year the Directors paid a final dividend of $245.5 million (2019: $nil).

GOING CONCERN
The Board of Directors have received confirmation from Anglo American Services (UK) Limited ("AAS") that the companies within the Group are part of the Anglo American group and that AAS will 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 financial statements for the year ended 31 December 2020. This confirmation from AAS 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 AAS 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 AAS, or any obligations or liability at law or otherwise on the part of AAS 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, AAS and Anglo American) the Board of Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

STRATEGIC REPORT for the year ended 31 December 2020 (continued)

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 2020 (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 financial statements available from Companies House.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as independent auditors to the company pursuant to section 485-488 of the Companies Act 2006. Appropriate arrangements have been put in place for them to be deemed reappointed in the absence of an Annual General Meeting.

On behalf of the Board

R.B

RJB Price
Director
24 September 2021

Independent auditors' report to the members of York Potash Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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 2020; the statement of comprehensive income and 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.

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.

Conclusions relating to going concern

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2020 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, 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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, UK employment laws and health and safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to related to management bias to manipulate financial reporting. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding and evaluating management's controls that are designed to prevent and deter irregularities in the control environment;
- Identifying and testing journal entries using a risk based targeting approach for unexpected account combinations, unusual users and unusual words;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular, the impairment assessment and the royalty calculation; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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. 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.

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 obtained 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

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24 September 2021

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2020

	Note	2020 $m	2019 $m
Operating costs	3	(101.7)	(25.8)
Impairment loss	7 & 8	(620.1)	-
Share of profit/(loss) from equity accounted investments	9	3.3	(2.4)
Operating loss	3	**(718.5)**	**(28.2)**
Net finance (costs)/income	5	(34.3)	1.0
Loss before taxation		**(752.8)**	**(27.2)**
Tax on loss	6	53.0	13.2
Loss for the financial year		**(699.8)**	**(14.0)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedging movement		214.6	62.6
Deferred tax impact of the above		(53.0)	(10.7)
Other comprehensive income for the year		**161.6**	**51.9**
Total comprehensive (expense)/income for the year attributable to the owner of the Company		**(538.2)**	**37.9**

All activities relate to continuing operations.

STATEMENT OF FINANCIAL POSITION as at 31 December 2020

	Note	2020 $m	2019 $m
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,138.6	1,367.7
Intangible assets	8	27.5	32.9
Investments in associates	9	30.9	29.6
Restricted cash		36.9	53.7
		1,233.9	**1,483.9**
Current assets			
Other receivables	10	9.4	19.2
Loans to group companies	11	-	244.7
Cash and cash equivalents		1.0	52.2
		10.4	**316.1**
TOTAL ASSETS		**1,244.3**	**1,800.0**
EQUITY AND LIABILITIES			
Equity			
Called up share capital	12	0.1	0.1
Share premium account		0.2	0.2
Capital contribution reserve		206.5	9.3
Cash flow hedge reserve		211.3	53.8
Accumulated losses		(762.8)	(76.0)
TOTAL EQUITY		**(344.7)**	**(12.6)**
Non-current liabilities			
Provisions	14	18.4	5.4
Royalty financing	15	119.4	260.0
Lease liabilities	16	12.0	11.6
Loans from group companies	17	1,370.2	-
		1,520.0	**277.0**
Current liabilities			
Trade and other payables	18	69.0	20.8
Loans from group companies	17	-	1,514.8
		69.0	**1,535.6**
TOTAL LIABILITIES		**1,589.0**	**1,812.6**
TOTAL EQUITY AND LIABILITIES		**1,244.3**	**1,800.0**

The financial statements on pages 11 to 29 were issued and approved by the Board of Directors on 24 September 2021 and were signed on its behalf by:

RJB Price
Director

Company Registration Number 07251600

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2020

	Called up share capital $m	Share premium account $m	Capital contribution reserve $m	Cash flow hedge reserve $m	Accumulated losses $m	Total Equity $m
At 1 January 2019	**0.1**	**0.2**	**8.3**	**(0.1)**	**(59.4)**	**(50.9)**
Total comprehensive income	-	-	-	52.0	(14.0)	38.0
Transferred to non-current assets	-	-	-	0.1	-	0.1
Share-based payments	-	-	0.7	-	-	0.7
Translation adjustment	-	-	0.3	1.8	(2.6)	(0.5)
At 31 December 2019	**0.1**	**0.2**	**9.3**	**53.8**	**(76.0)**	**(12.6)**
Total comprehensive expense	-	-	-	161.6	(699.8)	(538.2)
Share issuance	0.3	249.7	-	-	-	250.0
Share capital reduction	(0.3)	(249.7)	-	-	250.0	-
Share-based payments	-	-	52.3	-	-	52.3
Capital contribution	-	-	145.0	-	-	145.0
Distribution to shareholder	-	-	-	-	(245.5)	(245.5)
Translation adjustment	-	-	(0.1)	(4.1)	8.5	4.3
At 31 December 2020	**0.1**	**0.2**	**206.5**	**211.3**	**(762.8)**	**(344.7)**

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 both share based payments made on the Company's behalf by an intermediate parent company in relation to employees of the Company who participate in share based payment schemes which provided employees with shares in the intermediate parent company for their services to the Company as well as liabilities forgiven by a parent of 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 2020

1.Accounting policies

Basis of preparation

York Potash Ltd (the "Company") is a private limited company, limited by shares, which is incorporated and domiciled in England. The address of its registered office is 17 Charterhouse Street, London, London, United Kingdom, EC1N 6RA. 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 (except with regard to certain financial instruments which are stated at fair value) in US Dollars (rounded to the nearest million), which has been the functional currency of the Company since 17 March 2020 (see further explanation below). The principal accounting policies set out below have been consistently applied to all periods presented.

Change in functional and presentational currency

On 17 March 2020 the Company's ultimate parent company became Anglo American Plc following its acquisition of the Company's previous ultimate parent company, Sirius Minerals Plc (whose legal name has since changed to Anglo American Woodsmith Limited). The functional currency of the majority of Anglo American Plc's subsidiaries (including those that provide ongoing funding to the Company) is US Dollars. Therefore from the acquisition date of 17 March 2020 it was determined that the currency of the primary economic environment in which the Company operates had become US Dollars and so the functional currency was accordingly changed on this date from Sterling to US Dollars with prospective effect based at the prevailing exchange rate on that date of £1:$1.23.

Due to the change in functional currency of the Company from Sterling to US Dollars, the Company has also elected to present its financial statements in US Dollars. In order to present the effect of transactions during the periods while the Company's functional currency was Sterling (i.e. the entire comparative 2019 period and the period within 2020 from 1 January to 16 March) the Company has retrospectively applied the requirements of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, translating all transactions in the relevant periods at average exchange rates and period-end balances at the spot rate prevailing at the relevant period-end date. All amounts referred to as 'translation adjustments' in these financial statements therefore solely represent the effect of applying IAS 21's prescribed translation method.

Going concern

These financial statements have been prepared on a going concern basis. 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 for a number of years. Therefore, its ability to continue as a going concern for the time being is dependent upon it continuing to receive funding from the wider Anglo American Plc Group, of which it became a member on 17 March 2020 following its acquisition of 100% of the ordinary share capital of the Company by means of a court-sanctioned scheme of arrangement. Anglo American 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

The Board of Directors have received confirmation from Anglo American Services (UK) Limited ("AAS") that the companies within the Group are part of the Anglo American group and that AAS will 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 2020. This confirmation from AAS 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 AAS 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 AAS, or any obligations or liability at law or otherwise on the part of AAS 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, AAS and Anglo American) the Board of Directors consider it appropriate to adopt the going concern basis of accounting in preparing these financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

1 Accounting policies (continued)

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 2020 that have had a material impact on the Company.

New International Financial Reporting Standards not yet adopted
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 2021, 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.

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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

Intangible assets – Process development costs (continued)

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.

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 since 17 March 2020 is US Dollars. Transactions denominated in a foreign currency are translated into US Dollars 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 participated in equity-settled award schemes operated by what was previously 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.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

1. Accounting policies (continued)

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.

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 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.

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 2020 (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)/income

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 2020 (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 15 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 15). 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' fair value , calculated as the net present value of the cash flows attributable to them. As the Group has only one cash-generating-unit (the Project) all assets have been tested in aggregate and any impairments are charged as necessary.

Ahead of the finalisation of the Project's cost and schedule estimate by the ultimate parent, the Project's fair value less costs of disposal have been performed by taking conservative estimates around some key variables such as the minimum mine life estimate of 30 years and a production output up to a minimum of 10mtpa. The pricing assumptions are in line with the ultimate parent's base case forecast, which is consistent with the methodology upon acquisition of the Group on 17 March 2020.

The resulting estimated cash flows have been discounted back to their present value at 31 December 2020 using an annual risk-adjusted discount rate of 9.6% (2019 :22.67%) which is consistent with the rate used by the parent upon acquisition of the group of which this Company is a subsidiary.

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 derecognised in a future year if events were to occur that significantly changed these estimates.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

3. Operating loss

	2020	2019
Operating loss is stated after charging:	$m	$m
Audit fees payable to the Company's auditors	-	0.1
Depreciation	0.7	0.8
Disposal of PPE	67.2	-
Amortisation	0.2	0.1
Share-based payments	17.5	0.1

No audit fees have been charged to operating loss in the current year as such costs have been capitalised as part of additions to property, plant and equipment in the year. The total value of costs charged which have been capitalised in 2020 is $0.1 million.

4. Staff numbers and costs

	2020	2019
	Number	Number
Average monthly number of staff	245	114

Total staff costs during the year were:	2020	2019
	$m	$m
Wages and salaries	17.6	15.8
Social security costs	5.2	1.9
Other pension costs	0.7	0.3
Share-based payments	52.3	0.7
	75.8	**18.7**

Of the above total costs, $75.5 million (2019: $18.7 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 (costs)/income

	2020	2019
	$m	$m
Interest income	0.1	1.6
Interest expense	(108.5)	(59.2)
Less: Interest expense capitalised	108.4	59.2
Movement in ECL provision (see note 11)	-	(11.0)
Foreign exchange (losses)/gains	(34.3)	10.4
	(34.3)	**1.0**

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 2020 (continued)

6. Tax on loss

	2020 $m	2019 $m
Current tax	-	2.5
Deferred tax	53.0	10.7
Total tax credit for the year	**53.0**	**13.2**

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 lower (2019: higher) than the standard rate of corporation tax in the UK for the year ended 31 December 2020 of 19% (2019: 19%). The differences are explained below:

	2020 $m	2019 $m
Loss before taxation	(752.8)	(27.2)
Loss multiplied by the standard rate of corporation taxation in the UK of 19% (2019: 19%)	143.0	5.2
Taxation effects of:	-	-
Income exempt from tax	2.9	-
Expenses not deductible for tax purposes	(16.2)	(2.0)
FX on change in currency	16.5	-
Recognition of previously unrecognised deductible differences	-	7.5
Trading losses not utilised	(93.2)	-
Research & Development tax credit	-	2.5
Tax (credit) / charge for the year	**53.0**	**13.2**

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. The March 2021 Budget announced an increase in the UK standard rate of corporation tax to 25% from 1 April 2023. The legislation was not enacted during the year so deferred tax has been provided using the enacted rate of 19%.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

7. Property, plant and equipment

Net book value	Land $m	Plant and equipment $m	Capital works in progress $m	Total $m
At 1 January 2020	31.2	2.6	1,333.9	1,367.7
Additions	0.9	0.4	530.4	531.7
Depreciation for the year	-	(0.7)	-	(0.7)
Impairment loss	(10.2)	(0.7)	(594.9)	(605.8)
Disposals	-	(0.1)	(67.2)	(67.3)
Translation adjustment	(2.2)	-	(84.8)	(87.0)
At 31 December 2020	**19.7**	**1.5**	**1,117.4**	**1,138.6**
- cost	19.7	4.5	1,117.4	1,141.6
- accumulated depreciation	-	(3.0)	-	(3.0)
At 31 December 2019				
- cost	31.2	5.0	1,333.9	1,370.1
- accumulated depreciation	-	(2.4)	-	(2.4)

Impairment testing

Following changes in the ownership of the group on 17 March 2020, impairment tests performed on 31 December 2020 in accordance with IAS 36 have resulted in an impairment charge of $605.8 million based on fair value less costs to dispose at the current discount rate of 9.6% (2019: 22.67%), the fair value assessment was based on the discounted cash flows from the latest mine life estimate and productions outputs.

8. Intangible assets

Net book value	Patent costs $m	POLY 4 Development $m	Process Development $m	Computer Software $m	Total $m
At 1 January 2020	0.4	18.1	13.9	0.5	32.9
Additions	-	4.8	6.5	-	11.3
Impairment loss	-	(7.3)	(6.9)	(0.1)	(14.3)
Amortisation for the year	-	-	-	(0.1)	(0.1)
Translation Adjustment	-	(1.2)	(1.1)	0.0	(2.3)
At 31 December 2020	**0.4**	**14.4**	**12.4**	**0.3**	**27.5**
- cost	0.4	14.4	12.4	0.6	27.8
- accumulated amortisation	-	-	-	(0.3)	(0.3)
At 31 December 2019					
- cost	0.4	18.1	13.9	0.7	33.1
- accumulated amortisation	-	-	-	(0.2)	(0.2)

Impairment testing

Following changes in the ownership of the group on 17 March 2020, impairment tests performed on 31 December 2020 in accordance with IAS 36 have resulted in an impairment charge of $14.3 million based on fair value less costs to dispose at the current discount rate of 9.6% (2019: 22.67%), the fair value assessment was based on the discounted cash flows from the latest mine life estimate and productions outputs.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

9. Investments in associates

On 26 June 2019 the Company acquired 30% of the ordinary share capital of each of Cibrafertil – Companhia Brasileira de Fertilizantes (Cibrafertil) 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 of the investees (the prior comparative period covers 26 June 2019 – 31 December 2019 once the Company gained significant control). All of Cibra Trading's revenues are in respect of sales made to Cibrafertil.

			2020			**2019**
	Cibrafertil	**Cibra Trading**	**Total**	**Cibrafertil**	**Cibra Trading**	**Total**
	$m	$m	$m	$m	$m	$m
Revenue – 100%	374.3	291.1	665.4	358.5	183.5	542.0
Profit/(loss) after tax – 100%	10.0	0.9	10.9	(7.1)	(1.0)	(8.1)
Profit/(loss) from equity accounted investments – 30% share	**3.0**	**0.3**	**3.3**	**(2.1)**	**(0.3)**	**(2.4)**
Current assets	104.4	138.0	242.4	192.4	221.5	413.9
Non-current assets	138.2	-	138.2	188.3	-	188.3
Current liabilities	(65.8)	(49.1)	(114.9)	(67.8)	(96.1)	(163.9)
Non-current liabilities	(88.8)	(71.9)	(160.7)	(233.3)	(109.4)	(342.7)
Net assets – 100%	**88.0**	**17.0**	**105.0**	**79.6**	**16.0**	**95.6**
Carrying amounts of investments in associates – 30% share	**26.4**	**4.5**	**30.9**	**25.0**	**4.6**	**29.6**

The following table sets out information concerning the investments in associates that is required by the Companies Act 2006.

Name	**Country of incorporation**	**Activity**	**Registered address**
Cibrafertil – Companhia Brasileira de Fertilizantes	Brazil	Fertilizer production and distributor	1428 Rua Alfa, Polo Petroquimico, Camacari, Bahia, Brazil
Cibra Trading Inc	Panama	Fertilizer purchasing	2nd Floor, MMG Tower, East 53rd Street, Marbella, Panama City, 0807, Panama

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

10. Other receivables

	2020	**2019**
	$m	$m
Prepayments	3.0	13.0
Other receivables	6.4	6.2
	9.4	**19.2**

11. Loans to group companies

The Company historically provided loans to other companies within the Group. The loans were unsecured, US dollar-denominated, interest-free and repayable upon demand. During 2020 the loan was settled in full at book value.

At 31 December 2019 a loan was outstanding to a group company with an amortised cost of $255.7 million against which an ECL provision of $11.0 million was recognised and charged to net finance income/(costs) in 2019.

12. Called up share capital

At 31 December 2020 the Company had in issuance 50,001 (2019: 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 preference shares, each with a nominal value of USD $0.01 at an issuance price of $1 per share. As detailed in note 17, the shares were accounted for as liabilities (within the loans from group companies category) on the statement of financial position as they are repayable upon demand at their issuance price. The preference shares were unsecured and do not carry a fixed annual dividend payment. During 2020 these preference shares were converted into Ordinary shares in the company.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

14. Provisions

	2020 $m	2019 $m
At 1 January	5.4	6.5
Amounts capitalised/(released) as part of property, plant and equipment	3.6	(1.3)
Translation adjustment	1.0	0.2
Charged to the income statement	8.4	-
At 31 December	**18.4**	**5.4**

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.

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 to meet ongoing planning permission requirements and secured by a bond provided by a financial institution to the favour of the local authorities. 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 0% per annum (2019: 2% per annum), based on an estimate of the long-term, risk-free, cost of borrowing, with the change of discount rate made in 2020 leading to the $8.4m charged to the income statement which has been recognised within net finance costs/(income) in the year.

15. Royalty financing

On 19 September 2018, Hancock British Holdings Limited (Hancock) paid the Company $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 $250 million that was originally paid.

On receipt of the $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. Prior to the Company's change of functional currency from Sterling to US Dollars on 16 March 2020, the host royalty liability gave rise to foreign exchange volatility in respect of foreign exchange fluctuations that arose in each period from translating the underlying liability back into the 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

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

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.

The royalty financing has moved as follows in each year:

			2020			**2019**
	Host instrument	**Embedded derivative**	**Total**	**Host instrument**	**Embedded derivative**	**Total**
	$m	$m	$m	$m	$m	$m
At 1 January	324.8	(64.8)	260.0	265.5	-	265.5
Interest charge	73.8	-	73.8	59.3	-	59.3
Fair value remeasurement	-	(214.6)	(214.6)	-	(62.6)	(62.6)
Foreign exchange movements	23.9	(4.7)	19.2	(11.0)	-	(11.0)
Translation adjustment	(23.9)	4.9	(19.0)	11.0	(2.2)	8.8
At 31 December	**398.6**	**(279.2)**	**119.4**	**324.8**	**(64.8)**	**260.0**

16. Lease liabilities

Balances arising from the Company's lease transactions have moved as follows during the year:

	2020	**2019**
	$m	$m
Assets		
On 1 January	12.2	-
Additions	-	11.8
Translation adjustment	(0.8)	0.4
At 31 December	**11.4**	**12.2**
Liabilities		
On 1 January	12.1	-
Additions	-	11.8
Interest	0.5	0.3
Payments made	(0.5)	(0.4)
Foreign exchange losses	1.2	-
Translation Adjustment	(0.8)	0.4
At 31 December	**12.5**	**12.1**
- classified as non-current liabilities	12.0	11.6
– classified as current liabilities (included within trade and other payables)	0.5	0.5

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. Depreciation will not commence on it until the storage facilities planned to be constructed on it are ready for use.

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

16. Lease liabilities (continued)

The future aggregate minimum lease payments under lease agreements are:

	2020 $m	2019 $m
No later than 1 year	0.5	0.5
Later than 1 year and no later than 5 years	2.5	2.2
Later than 5 years	18.1	18.3
	21.1	**21.0**

17. Loans from group companies

Loans from group companies are repayable in 2025 (2019: repayable upon demand), carry a variable market rate of interest (2019: interest-free) and are unsecured. Included within the balance of loans from other group companies at 31 December 2019 were liabilities of $250 million in respect of redeemable preference shares issued in 2019 as disclosed further in note 13.

18. Trade and other payables

	2020 $m	2019 $m
Trade payables	11.9	3.0
Accruals and other payables	57.1	17.8
	69.0	**20.8**

19. Share based payments

Certain employees of the Company were historically granted options and awards over ordinary shares in Anglo American Woodsmith Limited. The options were 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 recognised 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.

Following the acquisition of Anglo American Woodsmith by Anglo American Plc in the year the expiry of all share options accelerated and so no options remain in existence at 31 December 2020 (31 December 2019: weighted average remaining contractual life of share options was 2.6 years with range of expiry prices for outstanding options was 10.1p to 33.8p).

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2020 (continued)

20. Ultimate parent undertaking and controlling party

The immediate parent company is York Potash Intermediate Holdings Plc, a company incorporated in the United Kingdom and registered in England and Wales. The ultimate parent company and controlling entity is Anglo American plc, a company incorporated in the United Kingdom and registered in England and Wales. Anglo American plc is the parent undertaking of the largest group which includes the Company and for which group financial statements are prepared. Anglo American Woodsmith Limited is the parent undertaking of the smallest group which includes the Company and for which group financial statements are prepared The financial statements of both Anglo American Plc and Anglo American Woodsmith Limited may be obtained from the Company Secretary at its registered office of 17 Charterhouse Street, London, EC1N 6RA.

21. Subsequent events

On 1 April 2021 the Company restructured its shareholding arrangements in relation to Cibrafertil and Cibra Trading, reducing its shareholding from 30% down to 10% in return for receiving 2 option agreements to acquire additional shareholdings in the future. The Company expects to recognise a $4.7 million charge in its 2021 financial statements in relation to the disposal of its existing shareholding although will continue equity accounting for these investments.

There have been no other subsequent events impacting the Company since 31 December 2020 which require disclosure in these financial statements.